This Is What They Don't Tell You About Money And Gold | Prof. Randall Wray

Gold, Crypto, or Tulips? Which one should you buy to be "save"? Or how about Foreign Currency? Would that help? Well, let's put it this way: It's hard to beat the FED. In today's episode, we are going to do a deep-dive into monetary theory and the intricate workings of fiscal policy. My guest today is Dr. Randall Wray, a Professor of Economics at Bard College and a Senior Scholar at the Levy Economics Institute. Professor Wray is a great authority on Modern Monetary Theory and the financial system. Which is what we (again) want to talk about today. Professor Wray, welcome. Professor Wray's Articles: https://www.levyinstitute.org/publications/l-randall-wray

#M3

Some of the commentators say, no, no, no, gold prices only go up. It's been true for the last decade or so. But if you had bought gold at a previous peak around 1980 and you held on to it, today, even after this big speculative bubble that we've had, you're back at the 1980 price, inflation-adjusted. Because, of course, we've had inflation over this period, but you have just broken even in terms of inflation.

#M2

Hello, everybody. This is Pascal from Neutrality Studies. And today I have with me for the second time Prof. Randall Wray, who's a professor of economics at Bard College and a senior scholar at the Levy Economics Institute. Prof. Wray is a great authority on modern monetary theory and the intricate workings of the financial system, which is what we want to talk about again today. So, Prof. Wray, welcome.

#M3

Good to be back.

#M2

I was recently at an interesting conference, a resource investment conference, and there I heard again, like so many times before, people talking about the issue that only gold and minerals are real assets, are real money, because printed money that the central bank issues is just the government trying to control us all. And I hear that narrative quite a lot. Could we maybe talk a little bit about gold? You made an interesting argument about why buying gold might not be the best strategy after all. Could you maybe expand on that a bit?

#M3

Yeah, sure. So what I had claimed last time I was on is that the price of gold goes up and it goes down. And some of the commentators said, no, no, no, gold prices only go up. It's been true for the last decade or so. But if you had bought gold at a previous peak around 1980 and you held on to it, today, even after this big speculative bubble that we've had, you're back at the 1980 price, inflation-adjusted. Because, of course, we've had inflation over this period, but you have just broken even in terms of inflation.

And this is sort of funny because people think, well, gold is a very good inflation hedge. You protect yourself if you hold gold. But if you had held gold, you only would have maintained a constant value relative to the dollar, inflation-adjusted. OK, what if instead you had done what most investment advisors would tell you to do, which is buy an index of stocks, say the Dow? If you had bought the Dow approximately at the same time, inflation-adjusted, it is worth way over 10 times as much as it was in 1980. You would be more than 10 times better off if you had bought stocks.

Now, stocks, of course, go up and down too, but historically, over longer periods of time, stocks beat inflation by quite a bit. Over a fairly long period of time, since 1980—I don't know how old you are, but probably many of the people listening to this weren't even born—gold has only managed to recover its inflation-adjusted value. Another thing that people say is, well, if you're on a gold standard, that will keep the value of your currency constant. And then maybe if they looked on the internet, they saw that the price level in the United States in 1800 was approximately the same as the price level in 1900. And they say, see, we were on a gold standard.

It kept the value of the dollar constant. But the reality is, if you look in between, the price was going up, it was going down, it was going up, it was going down. I mean, the price level taken as a whole. Because typically what it would do is go up when we had a war, and then the price level would go down when we had a depression. And we had six depressions in that period, and so those depressions wiped out the price level. And that's why at the end, if you take those two endpoints, you just happen to find that the price level is the same. If you were taking different endpoints, you wouldn't have found that. Okay.

So anyway, now I would agree with part of the statement you started with. Gold is a real asset. The key word there is real. It's not a monetary asset; it's a real asset. And gold has some nice uses, you know, your finger, your nose, your teeth. But it has industrial uses too. And it's shiny, and people like it. And so it's a real asset. It has a real value, and I doubt the price will ever go to zero. It's probably always going to be positive. And on top of that, we have the speculators who are speculating that it will go up, that other people will buy it because they think it's going to go up, including the gold bugs who say it's a good inflation hedge.

We just had some inflation. The price of gold goes up because some people will buy gold, thinking that's a good hedge. And so, you know, we can jump on that bandwagon, and we can help push it

up. And if governments start buying it, which they used to do under gold standards, that will help to push it up. You know, the reality is if governments around the world release their gold stock, the value of gold would collapse because they're holding a lot of gold. So it's a real asset, but it's not a monetary asset. That's the key point.

#M2

Can you explain the difference? So, a monetary asset, what is that?

#M3

It doesn't have a real form. It's not a real asset. It's a monetary asset. So there are several characteristics of them. The first one is that we have a money of account, and the money assets are denominated in that money of account. So in the United States, our money of account is the dollar. In Britain, the money of account is the pound, and so on. OK, every country has a money of account. And this is interesting because when a new country is formed, they almost always choose their own money of account. And we typically find every nation has its own individual money of account. Now, the Euro area today, they all abandoned their own monies of account and agreed to all adopt the Euro. We can come back to that later if you want. Very unusual. That almost never happens.

OK, so there's a link between the state and its money of account. And then the second thing is that monetary debts are denominated in that money of account. So in the United States, you know, all of my debts are denominated in U.S. dollars. I could get into debt in euros if I wanted to. There are opportunities for me to do that. I don't do it. Most people don't do it. So our debts are denominated in the national money of account, typically. OK? Those are two very important characteristics. Now, a lot of mainstream economists and just average everyday people will say, oh, money is also a medium of exchange. I can use it to buy stuff. So we make exchanges using money. And I can also hold funds.

Financial wealth in money form. I can hold money as a store of value. Okay. So it also has that characteristic typically. Now, when we get down to the brass tacks, what are we willing to call an asset that has at least some of those characteristics to a greater or lesser degree? Okay, so I think everyone would say cash qualifies for all of those things: medium of exchange, store of value—not a great store of value because you earn no interest on it, but you can hold it. And clearly, as a medium of exchange, it qualifies for all of those. How about a demand deposit? You know, your checking account at the bank. Well, yeah, it pretty much qualifies for all of those things. What about a savings account?

Well, there's a little bit of a problem. In the old days in the United States, you couldn't write checks against your savings account. Now, typically you can, up to some number per month. But it's a little bit less convenient as a medium of exchange. You probably use it much less than that. You can go

to Certificates of Deposit, but there's a penalty if you try to get your money out of the CD before the 90 days is up. So what I'm getting to is things have different liquidities. That is, how quickly can you get the value out of that financial asset and use it as a medium of exchange.

#M2

And may I just interject here? It's really important to realize that we need to differentiate between these different ways of holding some form of value, right? Because when you talk about cash, you literally only mean bills and coins, right? Currency in circulation. When you say cash, you don't mean what's in your deposit in your account, right? And these have different functions. They work differently in the economy. And even, I think, bills and coins are actually under different regulations in the United States, right, regarding who mints them. And all of that matters when it comes to the way the system interacts.

#M3

You know, we can get into the details of all those things. And also, people who work in financial markets will often broaden that definition of cash to liquid assets, right? Including treasury bills. I'm not talking about the paper notes. I mean bills, 30-day bills. They'll say, oh, well, that's cash. It's as good as cash, right? I got to wait 30 days, but we can do that. So anyway, the terms are used sort of loosely. But what I'm getting at is what I think are the two key characteristics for our discussion: it is always denominated in a money account, and they are always a debt. Always a debt. Now, this won't be obvious to all listeners, but the little silver is not really made of silver. The silver coin is, in the United States, the debt of the treasury. So our treasury issues coins, and those coins are the treasury's debt. Our central bank issues the paper notes. Our treasury used to, but they stopped, and I think I've seen some, but they're very rare.

All of our paper money now is issued by the Fed, so that is a debt of the Fed. Okay. And so for me to consider something as being money, it has to have those two characteristics: it has to be someone's debt, and it has to be denominated in a money of account. So what about your bank deposits? Well, that's the debt of the bank. It's the liability of the bank. Your home mortgage loan is your debt denominated in the money of account, and it's the bank's asset. So every financial debt is somebody's financial asset. If I'm holding a coin, that's my asset; it's the Treasury's debt. If I'm holding a bank deposit, that's my asset; it's the bank's debt.

So then, you know, we can look at gold. Whose debt is that? Nobody's debt. And you denominate it in dollars. Well, yes, I could say gold is worth $32 an ounce, which it was for a very long time. But it's denominated in a money of account, yet it's nobody's debt.

#M2

This is where a lot of people then argue that gold has intrinsic value. And that's what makes it, well, not only a real asset, but that's what makes it so much better than government debts and bills. Ever since the gold standard, since this hard connection between a dollar and an ounce of gold was severed, the government is basically just playing with money as a control mechanism. But this fundamentally misunderstands the issue that money itself, in order to be considered money, is always basically just a way to name a unit in which you count, which is inherently fictional.

#M3

Well, yeah, it has to be. It's a measuring unit. It's the same thing. I know the Europeans don't use inches, but this distance is an inch. Okay? It's a measuring unit. Can you hold an inch? No. You use it to measure. Can you hold a dollar? No. We use it as a measuring unit. Now, I know in the United States, we colloquially always call our paper notes dollars. Okay. But if you take Britain, the pound was never minted or printed on paper until relatively recently. It was only a measuring unit. The shillings were the coins. So in the United States, we make it confusing because we use this term dollar to indicate two different things. One is a printed record of a debt. That's the paper note. And the other is our money of account. That's the measuring unit.

#M2

Right, because in this sense, the printed record of debt is no different from a ticket that any kind of company could give you and say, like, "Oh, I hereby give you the value of one of these tickets in order to redeem something." You earn the right to redeem because it's somebody's debt.

#M3

Free pizza coupon from your local pizzeria is their debt. And when you go submit it, redeem it for a pizza, they're no longer in debt. And of course, they just tear it up and throw it away.

#M2

Airline miles. There is a lot of this private money circulating or being used by companies, but the point is they're not allowed to call it money, right? They're not allowed to think of it as, or to advertise it as, money. They can say it has the same value, but they need to say it's something else. So they give it different names.

#M3

Well, I'm not sure about that. They couldn't try to replicate a U.S. paper note; that would be called counterfeiting. So, I don't know the law on that, whether they could call it money, but it is their debt, and they do redeem it for miles.

#M2

And now you also argue that Bitcoins are not money. And in general, not just Bitcoins, but all forms of, what are they called? Cryptocurrency. It's called currency, but it's not actually money. Can you explain that one?

#M3

Okay. So we can use Bitcoin as an example because it's the best known. Bitcoin really is a speculative currency, a non-monetary asset. It's speculative. The main reason people hold it is because they think it will go up in value. It's not monetary because it's nobody's debt, and there's very little alternative use for it other than holding it. Now, in the beginning, Bitcoin was sold as an alternative you could use to go shopping, and that, unlike the dollar, it wouldn't go down in value when there's inflation. So, again, it was an inflation hedge. That was the idea in the beginning. The reality is it's not being used in transactions very frequently. And the reason is because, look, so right now Bitcoin is going up, thanks to our new president. So the value of Bitcoin relative to the dollar and all the other currencies is going up.

Okay, who's going to go to the grocery store now and spend their Bitcoins? Only an insane person, because you believe it's going to go up in value. You're going to hold on to it. What if it's going down in value? No sane person is going to accept it for payment because it's going down in value. And so the problem is that it is highly volatile, and when it's going up, nobody wants to spend it. When it's going down, nobody wants to accept it. Now, I'm exaggerating slightly because it could be going down, and you say, I believe it's going to turn around, okay? So you, as a speculative position, start buying something that's going down because you think it's reached the bottom. You don't know for sure. You're taking a speculative position.

You could turn out to be right, very lucky, and make a lot of money. But the point is, again, that you're going to be holding it. You're not taking it because you want to spend it. You're taking it because you want to hold it, because you think it's going to turn around and go up. So it's a speculative asset. That's what it is.

#M2

And like all assets, it depends on how many people want it and how many people want to get rid of it. Just because somebody calls it a coin doesn't necessarily make it money. There's this distrust toward government-controlled stores of value or government-controlled money that, at will, you know, can be increased. So that's what the Fed does, right? That's what any central bank around the world does. It controls the money supply. Or can you correct me on that?

#M3

Okay. Yeah, no. Central banks... Milton Friedman, beginning in the late '50s, managed to convince a lot of the economic profession and then all the people out there who read his books—he was a best-selling author—that central banks can and do control the money supply and that it is the money supply that determines the inflation rate. So if the money supply is growing, you're going to get inflation. Okay. Inflation is always and everywhere a monetary phenomenon, and it's always the central bank's fault.

#M2

You can call this the standard consensus among almost everybody who ever went into an economics class or even didn't. It's like the amen in church. This is dogma.

#M3

He pretty much, I would say, won by the early '70s. Okay. But his winning was very short-lived. Because in 1979, in the United States, we had high inflation. We actually had what was called stagflation: high inflation and high unemployment at the same time. President Carter was in office and didn't know what to do. And so he brought in Volcker. Volcker said, I'm going to adopt Friedman's policy, which is we're going to control the rate of growth of the money supply. It had been growing fairly rapidly. We're going to bring it down, like Friedman says, to 4%, and that is going to eliminate inflation. So the Fed had its targets. It was never able to hit them. The rate of growth in the money supply went up to 16% per year, and inflation came down. So it moved in the opposite direction. And by the late '80s, the Fed gave up monetary targets.

They still had to report them because Congress required it. In the '90s, they gave it up. And I can tell you, no central banker in any of the major developed economies believes this anymore at all. None of them target the money supply. None of them believe they can affect the money supply. None of them believe that the money supply is closely related to inflation. They've all given it up.

#M2

But, Randy, I just want to challenge you so that you explain it here, because the Fed prints money, right? So it can increase the money supply at will, right? It presses a button and creates a lot. Can you explain why that's not the case? Why do they not control the money supply?

#M3

The Fed does not do that. So, first, the Fed certainly does not just print up notes and put them into the economy. The way it actually works is you go to your ATM and withdraw from your deposit account, and the machine spits out the dollar bills. The bank contracts with some company, calls them up, and says, "We need more," and they come and fill it up. What the Fed does is it debits your bank's reserves dollar for dollar for every dollar that is spit out of the ATM. So it's not increasing

the money supply at all. It is changing the form from bank reserves to paper notes. Now, let's go back to the global financial crisis when central banks adopted what Ben Bernanke, who became the head of the Fed, called quantitative easing. Many people got the idea that what the central banks were doing was increasing the money supply. That isn't true. What they did was they went to banks and bought government bonds and mortgage-backed securities from the banks. The Fed then holds those as assets.

#M2

Which are the debts of these banks.

#M3

No, no, no. Government bonds and mortgage-backed securities, which are like my debt—my mortgage has been packaged into a security. Mortgage-backed securities, of course, are a private debt. Government bonds are the government's debt. That's what the Fed was buying. The ECB did the same thing. The Japanese did the same thing. They're all doing quantitative easing. All it did was change bank portfolios. Instead of holding a government bond, they're holding a deposit at the Fed. One is the Treasury's debt. The other is the Fed's debt. That's all that happened. They're holding Fed debt instead of Treasury debt.

And the Fed pays interest on the debt, so they still earn a bit of interest, but they're earning less than they were when they were holding Treasury bonds. Those reserves cannot get into the economy. They never got into the economy. They cannot. They're on the bank's balance sheet as an asset, and it is the Fed's liability, but it cannot leave the bank. There is no way the bank can give that to you. There's no mechanism. You don't have an account at the Fed. Only banks have accounts at the Fed, not just American banks. Foreign banks and foreign central banks can too. But the public can't get those. Firms cannot get those. None of that money got into the economy. It can't be done. Now, how can money get into the economy?

Well, in the COVID crisis, first President Trump and then President Biden both engaged in fiscal relief. What did they do? They sent checks to everybody. If you could fog a mirror, you got a check. Okay. And what did you do with the check? You deposited it at your bank. Your deposit went up. That's Treasury spending. Treasury spending puts money into the economy. Okay. Central banks can't do it. The Treasury can do it. And it's called fiscal policy. It's the closest thing to what Friedman imagined as a helicopter drop.

#M2

Helicopter money.

#M3

Yeah. So he had said, this is what central banks do. And he said, really? Never seen one of those helicopters. Okay. They do not do that.

#M2

Now, in this sense, what the central banks do is they offer assets to the real economy for businesses to store and maybe increase their assets a bit, right? But they don't, no?

#M3

The central banks deal with banks. They are the banker to the banks. They lend reserves to banks, or they can buy assets from banks, like buying government bonds, and that will increase bank reserves. So they can increase and lower bank reserves, but normally, they only do it because the banks want it.

#M2

So because there's a demand for money, there's a demand for an exchangeable good to deal with others.

#M3

Only to deal with other banks. Yeah, other banks among each other. Reserves can only move between banks. Why do banks need reserves? It's because if you write me a check and I take it to my bank and deposit it, my bank wants to get paid by your bank. And the way your bank pays is by transferring reserves at the Fed from their account to my bank's account.

So that's what reserves are used for. If a bank is short, first they try to borrow in the overnight market. In the U.S., it's called the Fed funds market, where banks lend reserves to each other. But if there aren't enough extra reserves in the system, they go to the Fed and borrow the reserves from the Fed, or the Fed buys a bond and credits their account.

#M2

How do you explain to yourself that there's so much worry among the general public and among a lot of the media as well about government debt? You see these counters that count how many trillions the government owes and say things like, "This is unsustainable. This will collapse. I mean, it must collapse because we will never be able to repay the debt." Could you speak to that?

#M3

Well, of course, governments do not, and do not need to, ever repay the debt. They do not repay the debt.

#M2

This is counterintuitive. If they don't repay the debt, then somebody is going to go broke because they don't get their money back.

#M3

No, no, no, no. What they do is they pay interest. Okay. So the other day I bought some government bonds. We can do it on our computer, buy them directly from the Treasury. I don't have to go through a middleman. You just go to treasurydirect.gov. So you buy some government bonds, okay?

And they debit your bank account and they debit your bank's reserves. And now I own a bond. Okay, why do I do that? Interest. So I'm earning interest, and it's the safest asset there is. Okay, there's no chance—let's put a little star there. We can come back to the possible chance that the government's going to default on this. So why am I holding the bond? Because I want them to pay me back? No, because I want to earn interest. Now, I've been buying four-week bonds. So at the end of four weeks, they do credit back my account plus the interest. I buy them at a discount, and then they give me the full price. But it's the same thing. So anyway, what do they do then?

They just sell another one. Okay, so the bonds are never really repaid. They're rolled into another bond. If you don't want it, your neighbor wants it. Okay, so they're continually just rolling over the debt. And that's why the debt goes up. If you watch the debt, it's been rising since 1789 in the United States. And there was no default. Yeah, they've never defaulted. And we only repaid the debt one time, in 1837, under President Jackson. And we got our first depression after that. And we never paid down the debt again. I mean, we never retired all the debt again. Do we ever retire any debt? I mean, don't just roll it into new debt, but actually pay some of it off. Yes, we do.

But only when there's a budget surplus. The only significant budget surplus we've had since the Great Depression was two and a half years under President Clinton. That's the only significant surplus we had. And in those two and a half years, they did reduce the debt. They paid some back. But otherwise, the debt is always growing. It's been growing at about a 2% pace faster than GDP grew since 1789. So what that means is it's not just that the debt is going up; the debt ratio, the ratio of government debt to the size of our economy, has been going up at a 2% pace since 1789. That's almost 250 years. The debt ratio has been rising. Is it sustainable? I would say if something has been going on for 250 years, it can go on. And I believe it will go on. It's going to continue rising.

#M2

The common-sense reply to that is, anything that goes up must come down. Why is it not the case in this sense for money? Because there's no reason. I mean, it's not physical. It's not a real height. There's no gravity pulling it down.

#M3

You know, can GDP rise forever? Can our measure of the money supply, so we have a particular measure. We decide let's count all the paper notes, all the coins, all the demand deposits, and most of the savings deposits. We'll call that money supply. That goes up too, all the time. Does private debt rise all the time? Yes, it does. It's always growing too. Okay. Does that mean your debt can increase forever? No. You're going to die. Somebody's going to want to get paid. Maybe on your deathbed, they're going to take everything you've got. Okay?

If your government disappears, the debt will disappear, right? Probably a default, okay? But as long as the United States exists as a nation, I believe the debt ratio will go up, and the outstanding debt will increase forever if the country survives forever.

#M2

Yeah, and in theory, it doesn't even matter how high the debt is, especially debt to GDP. That's a measure that we often use, but that's just something made up in order to wrap our heads around the debt issue, which itself is also a mental construct. Do you think that the size of the population has something to do with it? Because by the current estimates, we will reach peak global population somewhere in this century, and from there, the population might go down for the first time in a very, very long time. Could that be something that caps both GDP growth and debt growth?

#M3

Well, it could, but it need not. We will make choices. We could choose to continue to grow. And I mean, that's a great topic. We could do an hour on aging and the so-called challenges of aging and all that stuff later. Look, put it this way. The U.S. government, the federal government, has reached a debt ratio of 100% of GDP. Oh boy, that's scary. Japan, 250% of GDP. Even scarier. Think about this. My debt ratio is probably 300% of my income. Are you worried about me? I'm not worried. Okay? When you have debt, what do you have to do? You actually don't ever have to repay it, and your bank will be happy if you don't.

On your deathbed, yes. Or maybe your children will pay it. But as long as you can pay the interest, that's the only thing that matters to the bank. And it's the only thing that should matter to us about the federal government. Now, I could take on so much debt that I couldn't service the debt and pay the interest. In that case, I'm bankrupt. That's a problem. I'm going to default. What about the federal government? Cannot happen. The federal government can always make the payments as they come due because they are the issuer of the dollar. The U.S. Constitution says Congress alone

can issue the dollar. They can always issue the dollar, okay? And they do it through keystrokes. So as long as they can pay interest, and I'm telling you, they always can pay interest.

So we know that that's not a problem. But could paying a lot of interest be a problem? Yes, it could. Not that they won't be able to do it, but that there could be very bad consequences of it, and I would argue right now we're seeing that. And the reason is because not only do we have a high 100% debt ratio and the debt is growing, we have very high interest rates too because of the Fed's monetary policy. They decided to fight inflation by going from, you know, almost zero to four and a half percent. And so government interest payments now are a trillion a year. Can the government afford to do that? Yes. What's the problem with it? It's increasing inequality. Because who holds bonds? Who holds financial wealth? Who holds real wealth?

The top one percent. The top one-tenth of one percent. So government spending on interest could increase inequality. It could increase the spending by the recipients of the interest income, who tend to be higher income, of course. And so prices of luxury goods could be going up. Prices of luxury housing, yachts, and so on, vacations could be going up. So inflation could be a problem too, not just inequality. Inflation could be a problem. And in the case of the United States, the amount of our debt, federal government debt that's held abroad fluctuates depending on how the dollar is doing and other factors. So right now it's relatively low, but sometimes 40% of all federal government debt is held outside the U.S. We're paying interest to foreigners.

So it's worsening our balance of payments. Dollars are flowing out to the rest of the world, which may not be desirable. So I'm not saying we should run up the debt and run up the interest payments. I'm not saying that at all. I'm just saying I'm not worried about solvency. But there could be other things I am worried about, maybe impacts on the exchange rate, maybe impacts on inflation, maybe impacts on inequality. Those are all problems.

#M2

Japan is this interesting example in which quantitative easing took place, and actually, the monetary base of Japan, if you look it up, quadrupled between 2011 and a year or two ago—really four times up, really fantastic. During that time, the central bank had an inflation target of 2% and barely managed to reach it. Then something happened about two or three years ago: suddenly, the yen started going down, and inflation picked up. Although I do think they are not necessarily connected to the same phenomenon. The yen is now really tanking; it's going far down. People are saying, ha, finally, we told you. It just took a little bit more time. But in fact, what was explained to me is that it has more to do with the fact that you earn more interest on money in the US than you earn over here. So a lot of companies that hold this government debt are exchanging it on the money market in order to invest abroad, which then pushes down the prices. Do you agree with that analysis?

#M3

Hard to fight the Fed. If the Fed raises interest rates and your country is committed to keeping your rates down, then yes, this is the kind of problem you have. This is another reason I don't think the Fed should have raised rates, even for the U.S. economy, to benefit us. But it's a disaster abroad because if we go to four, Latin American countries have to go to 15 to keep the money in. Yeah, so, and you know, the dollar is the main international reserve currency.

There are competitors, and the dollar is declining in terms of global use, so it's gradually being somewhat replaced. But anyway, because we issue that, we need to consider the impacts on other countries. Raising rates has been very bad for developing countries because they have to compete with that, with much higher rates, because they are riskier than we are.

#M2

And the incentive then for the private economy in those foreign countries is to get rid of the local currency and buy US dollars and to invest in US-denominated debt, right? And then that does harm to these local currencies, right?

#M3

Yeah. And another thing that has gone on for the past transition, the past 40 or 50 years, is to open up your capital accounts. And so it becomes easy to get out of your own currency and into dollars. So it compounds the problem.

#M2

Something that we've seen in the way that monetary systems also work internationally, and I know you told me you're not working on that mainly, but I still need to ask this. One of the fundamentals was basically that debt held by foreign governments, at least in the US, was more or less safe. But that consensus seems to have eroded quite a lot. I mean, the US government seized assets of Afghanistan. It has now recently seized, or at least frozen, assets from Russia. And the European Union is doing the same. So now we are not in a world anymore where governments can hold each other's debt and be reasonably sure that they will continue through good and bad. How do you think that will impact the way that the international system works?

#M3

One of the reasons that the US dollar was accepted as the main international reserve currency is because there was trust in the court systems and in fair treatment, and that if there was a global financial crisis like we had in 2007 through 2009 or 2010, depending on whether we're talking about Europe or the United States, the Fed would step in. Well, the Fed did step in. We did the right thing

that time. The Fed lent dollars; about 40% of all of the Fed's response to the global financial crisis was to save the rest of the world. About 60% was to save the U.S. financial system. So that was the right behavior.

But if you start interfering in the international payment system the way the U.S. has been doing, that is a crack in the trust of the U.S. dollar. And so rival currencies can come about. Since Britain and the U.S. usually work together, and the ECB maybe more or less, then the alternative will be BRICS. And increasingly, we see that the Chinese RMB can be a reserve currency for some of the developing countries. So I think that could be the response, that some group of nations, maybe under BRICS, will replace the dollar for those countries.

#M2

Is there something that... Donald Trump already announced that he wants to fight this. Is there a way to fight this other than trying to re-establish trust? Are there heavy-handed methods that you can imagine that could compel other states to continue using the U.S. dollar as the universal reserve currency? Like, let's say something like the petrodollar, forcing the Saudis to continue denominating oil in U.S. dollars, things like that.

#M3

Well, you know, we can choose what currency we will trade in, and the U.S. is the biggest economy in the world. So, yes, I think that is a way to protect at least a large part of the globe in terms of dollars. But if you're not trading with the U.S., you're not trying to sell to the U.S. or buy from the U.S., then I think you're much freer to say we're not going to use it. Right. You know, it's not easy to replace the dominant currency.

Remember, the pound remained the international reserve currency until the end of World War II. The U.S. economy was already bigger than the British economy by about the Civil War. So it took a long time for the dollar to displace the pound. The pound is still important, but we became the dominant one only at the end of World War II. And I suspect the dollar will hang in there for a long time at current rates of growth. I know China's been in sort of a slump, but I think they're going to restore growth. At current rates of growth, the Chinese economy is going to be much, much bigger than the United States. But do I believe the RMB will displace the dollar as the dominant currency? Not for a long time. You need to build up those relations. Other countries have to have trust in your court system, your laws, and in your central bank. Will their central bank come to your rescue when there's a global financial crisis? I think we're a long way off from that.

#M2

And that might then also be the test, like the next financial crisis, how these aspiring nations will react. We are nearing the one-hour mark, so instead of going into another subject, which will blow

us way out of that, I would like to thank you, Prof. Randall Wray. People who want to read from you, they should go to the Levy Institute, right?

#M3

Yeah, www.levy.org. And I should have a couple of new things up soon.

#M2

Everybody, check out Professor Wray's writings on levy.org. Professor Randall Wray, thank you very much for your time today.

#M3

Okay, thanks.