

BOOK REVIEWS

The Money Trap: Escaping the Grip of Global Finance

Robert Pringle

Basingstoke, UK: Palgrave Macmillan, 2012, 328 pp.

To read Robert Pringle's new book, *The Money Trap*, is to experience the slow joy of recognizing that someone out there in the world of intellectual propriety and academic correctness is willing to state the case that the global financial crisis can be traced in large part to the lack of an orderly international monetary system.

Pringle has done a great service in bringing to the debate over the causes of what is now called “the worst recession since the Great Depression” the notion that the global exchange rate regime matters; we cannot ignore the damaging impact of chaotic exchange rates among leading currencies if we are to identify what brought on the financial meltdown that has since devastated real economies around the world. But even more important, Pringle's careful analysis and assiduous tracing of events leading to the crisis provide the reader with a template for evaluating potential paths to meaningful international monetary reform. In this, he has done a service to mankind—for as Pringle notes repeatedly throughout this work, the achievement of monetary and financial stability should be pursued as a “global public good.”

It is important to note the unique credentials of the author—unique in that one would not normally expect the chairman of Central Banking Publications and the founder of the *Central Banking Journal* to be making the argument that fundamental reform of international monetary arrangements is needed. Pringle

occupies a prestigious position among those who closely follow developments affecting international money and capital markets, having served in a senior capacity at *The Economist* and *The Banker* (as editor) as well as becoming first executive director of the Group of 30, an influential think tank. His experience in advising leading commercial banks and governments on economic policy issues has brought him into the highest circles of high finance. One wonders whether Pringle will find himself less welcome at the same watering holes as a result of delivering this stinging critique of status quo global monetary and financial arrangements.

Not that he is totally alone in advancing such doubts about the wisdom of our current monetary non-system. A special bonus contained in *The Money Trap* is the foreword written by Robert Skidelsky—yes, Lord Skidelsky, the eminent biographer of economist John Maynard Keynes—who sets the tone for the book from the outset with his declaration that “this seemingly never-ending crisis demands a more radical reform of the world monetary and banking systems than anything yet attempted or even imagined by governments.” Most people consider Keynes as having been the ultimate promoter of economic “stimulus” programs through government intervention, both fiscal and monetary. Yet it was also Keynes who wrote, in his 1923 work *A Tract on Monetary Reform*, that “what is raised by printing notes is just as much taken from the public as is a beer-duty or an income-tax.” And it was Keynes, too, who noted in the same publication: “The metal *gold* might not possess all the theoretical advantages of an artificially regulated standard, but it could not be tampered with and had proved reliable in practice.”

The very mention of “gold” and “standard” within the context of a contemporary book addressing the foibles of a global monetary and financial system that has no international standard—no unit of account to serve as a benchmark for economic value—would be a daring act indeed. But Pringle comes close with his acknowledgment that at the center of fundamental reform “should be the construction of a credible world monetary standard.” He traces through recent monetary history starting with Keynes’s conception of *bancor* (combining the French words for “bank” and “gold”) as the new international money unit for settling international payments imbalances. A section is devoted to the Triffin dilemma—referring to the fatal flaw of the Bretton Woods agreement, which relied on a single national currency, the U.S. dollar, to serve as the

only money convertible into gold—and suggestions to turn the International Monetary Bank into a global central bank.

But one discerns a more than nostalgic appreciation for the views of French economist Jacques Rueff, who championed the classical gold standard in the last century as the key to maintaining a broad liberal order based on democratic values, social cohesion, and the economic welfare of citizens. Rueff believed floating exchange rates were anathema to monetary discipline; such a lawless regime would encourage protectionism and an uncertain trade and investment climate, ultimately leading to recession and unemployment. “If I defended tirelessly for half a century the principle of monetary convertibility,” Rueff is quoted, “it is not by any attachment to an orthodoxy that, in money matters, would make no sense, but because I love liberty and because I am convinced it is not a free gift.”

Pringle clearly recognizes that the problems caused by the global financial crisis are, to an alarming degree, fulfilling Rueff’s dire prophecy. In Pringle’s view, it makes no sense to separate the topic of monetary reform from an analysis of banking, finance, and financial markets; they must all be integrated if we are to break out of “the money trap” that now threatens economic and political stability around the world. He considers it a grave sin of omission that a whole generation of economists has failed to build an environment of rules-based monetary relations, or create an international currency, to preserve the benefits of free trade and enhance the productive flow of financial capital. Instead, in the wake of economic collapse, governments are all too eager to embrace a “back to business as usual” approach that neglects to address the underlying cause of the global financial crisis: lack of a coherent monetary system. Central banks have been complicit in this dereliction of duty, likewise failing to propose radical changes to the existing non-system of exchange rates among currencies.

If we do not create a new monetary regime as a mechanism to hold central banks accountable for maintaining a standard—if we do not “enshrine society’s long-term interest in sound money,” as Pringle states—the world is destined to fall back into another disastrous boom-and-bust cycle facilitated by overly accommodative monetary policy and exacerbated by the banking and financial industry’s pursuit of profits through arbitraging differential interest rates among major central banks. It’s a frightening scenario, and one

that comports with my own fears. The next money meltdown is likely to unleash anti-government and anti-banking social protests that will make the “occupy Wall Street” movement appear rather quaint.

How can we avoid such a calamitous future? Herein lies the essential value of Pringle’s book. He dares to explore potential ways to escape “the money trap”—to transcend monetary nationalism in favor of building a truly international monetary order based on a common standard of value. “Let us start by looking at what might be the ideal features of a currency standard,” Pringle suggests, “and then see how close the world could get to such an idea.” He continues:

It should mimic the classical gold standard in enabling monetary, commercial and economic unification to take place without requiring political integration. It should rest on consent. The supranational element should be kept to a minimum; certainly it should be able to function without a world government or central bank. Countries should be free to remain fully sovereign if they wished, while also being able to share or pool sovereignty through various political institutions as they saw fit. Thus they should be able to opt out of the world currency standard, just as they could (and did) suspend the gold standard in emergencies, though the attractions and prestige of being a full member of the club would mean that few would wish to do so (few, if any, countries ever left the gold standard voluntarily, before its collapse in the 1930s). At the international as at the national levels, peoples would embrace order to increase practical liberty. It would be a rule of laws and norms rather than of men.

Pringle has given us a beautiful statement of purpose juxtaposed against a background of current failings. For those seeking meaningful reform, too, there’s reason to feel a twinge of optimism as one of the most respected American political leaders on fiscal and monetary issues, Congressman Paul Ryan, sounds the remarkably similar theme that our monetary policy can be characterized as “rule of man versus rule of law” and likewise deems the restoration of sound money as a primary requirement for civil society.

It’s obvious by now that this book comes with my highest recommendation. For those who have long sensed that the global crash

and its damaging effects on the real economy are strongly linked to our dysfunctional monetary regime, it will be a most gratifying read. *The Money Trap* provides a superb explanation of how we got in this mess (Part I); what we need to understand in order to properly evaluate various potential approaches to finding our way out (Part II); the four key issues that will drive the discussion on future monetary reform (Part III); and how we can apply the genius of past great economic thinkers—from Fisher through Keynes, Rueff to Hayek and Triffin—toward the goal of profoundly changing existing monetary arrangements (Part IV). Contemporary economists are invoked as well, with the author’s assessment of different proposals. Readers will find themselves brought quickly up to speed on recent developments and innovative ideas; they may also be quite intrigued with Pringle’s concept for defining the currency unit as a fraction of the total of tradable equity claims on real assets in the global economy.

Citing the wisdom of James Buchanan, the Nobel Prize-winning economist and a founder of the public choice school, who has noted that “the market will not work effectively with monetary anarchy,” Pringle concludes *The Money Trap* with his personal observations on how we can realistically make the leap to a new monetary order in tandem with his own thoughts on the emerging global financial system. He stresses the need to bind banking to the real economy and to reduce the ability of the financial industry to exploit its power over regulatory authorities. Pringle also emphasizes the importance of turning away from using mountains of foreign reserves as a cushion against future currency shocks, a practice he finds irrational. And he criticizes the euro-dollar seesaw, which punishes all those countries that are fixed to either currency, yet trade with both the dollar and euro regions.

Finally, Pringle adjures the world to put into place a wholly voluntary system wherein the supply of money would be self-regulating. “Such a monetary standard,” he writes, “could be developed using the technology available as a result of the progressive globalization of capital markets.” As Pringle elaborates:

The key step is for major governments to agree not on a common currency but on a common monetary unit of account in which citizens can have confidence. Further steps would be needed to realize the potential of such a reform, but it would

open up the prospect of bringing the public good of international monetary stability back to the world economy for the first time in 100 years.

Yes, indeed. And the sooner the better.

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The Partnership: Five Cold Warriors and the Quest to Ban the Bomb

Philip Taubman

New York: Harper, 2012, 496 pp.

Can four former Cold War policymakers and a prominent physicist of the era change the world through sheer force of personality? Former *New York Times* columnist Philip Taubman certainly thinks so, and in his new book he attempts to be the first to tell their story. *The Partnership* is the chronicle of how George Shultz, Sam Nunn, Henry Kissinger, William Perry, and Sidney Drell decided to take up the cause of nuclear abolition.

Unfortunately, *The Partnership* is a weak argument for nuclear abolition, and its analysis of how to achieve disarmament obscures far more than it illuminates. To start, terrorism is cited as the main justification to abolish these weapons. Taubman rehashes frightening stories of poor security at civilian nuclear facilities in various corners of the world and conveys how criminal or terrorist organizations might acquire enriched uranium. These are legitimate concerns but wholly separate from whether the world's nuclear arsenals should be abolished. Such stories deal with civilian nuclear facilities, not nuclear arsenals maintained for military purposes.

This confusion appears early on when Taubman raises the specter of the catastrophe at the Fukushima Daiichi Nuclear Power Plant following the March 2011 earthquake and tsunami off the coast of Japan to highlight the dangers radiation can pose to civilian populations. While what happened in Japan was obviously tragic, the existence of nuclear weapons is a separate matter entirely. Taubman also fails to engage any scholars who question whether terrorists could easily construct and deliver a functional nuclear weapon and whether terrorist organizations such as al Qaeda are determined to acquire