**Contrasting two monetary economists**

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Distinctions between monetary, financial and economic theories are not often made, perhaps due to the fact that only 1% of economists concentrate on monetary economics. Two economists that focus on monetary matters deserve some special attention, also due to their divergent approaches to monetary policies. The ascendancy of one over the other will influence the shape of future monetary institutions. The following is a first draft of contrasting their views.

### Frederic Mishkin

Perhaps one of the most enlightening of recent treatises on monetary economics is Frederic S. Mishkin’s 2007 Monetary Policy Strategy. In this 549 page anthology he presents his three-decades-long engagement as a monetary economist, first as an academic, and later as the director of research for the NY Federal Reserve Bank.

One of the important concepts in monetary policy strategy is the choice of the proper nominal anchor. It is generally agreed among monetary practitioners that the inflation nominal anchor is the favored one. This means the central bank’s major thrust is to control inflation, measured in terms the average level and volatility of inflation and the volatility of economic output. He discusses the role of central banks in great depth, particularly their choices in choosing an aggregate, inflation or an exchange peg monetary strategy. He also often considers the importance of central banks’ efforts to communicate with citizens and business in setting their inflation targets. However, a central bank’s ownership and the control of other financial institutions are hardly mentioned. Asset prices fluctuations are also not given due attention. He believes that chairman Greenspan did an excellent job in keeping inflation low, though the Chairman did not pay attention to the housing bubble, which became one of the more immediate causes of the global economic crisis. Fleckenstein 2009 shows in great detail how he also missed other asset bubbles too.

[[ at least up till the IMF research conference discussed in the previous section,

Mishkin studied those monetary policy strategies on a nation-to-nation basis which was mostly directed towards strategies in the developed nations and, to some extent, in Latin American nations. Besides an insufficient focus on the international dimension of monetary relations and monetary economics Mishkin spent little attention to the political context of both international and national monetary policy development. Little reference is made (not even in the keyword section) to the WTO and the role of transnational corporations, particularly financial corporations, that have such great influence on the international and national monetary and financial systems. Hopefully, his new textbook that he mentioned as part of the interview for the revealing documentary “Inside Job” in early 2011will consider the political economy of monetary policies in greater depth.

### Korkut Erturk

Korkut Erturk, an associate professor of economics at the University of Utah, is a monetary economist who takes a global view on the present global economic crisis and its monetary implications. In his two recent commentaries in the Carnegie Council’s Policy Innovations—“The central address for a fairer globalization”—Erturk deals with the choices of the Obama Administration in respect to the dollar. Is the policy going to be one of fighting inflation, reduction of deficits or one of quantative easing that would continue to stimulate the economy? The choice is of great importance internationally because the US dollar is not only a national currency but also the major international reserve and vehicle currency—the policy dilemma already pointed to by professor Triffin in the 1960s and called thereafter the Triffin Dilemma. Whatever monetary policy is chosen for national purposes, it generally will have undesirable impacts on the international monetary system because American domestic monetary policies are generally not made with an eye on the stability of the international system. The US dollar policy, therefore, is the monetary underpinning of keeping the economic status quo which is, unfortunately, still considered to be in the national interest.

Erturk points out that the value of the dollar is raised by fighting inflation. Raising interest rates will keep inflation under control, but at the same time it will further constrict the already constrained credit system and will lead to greater unemployment, more housing foreclosures, and more businesses shutting down. Externally, it means the purchasing power of the US consumer and business is lowered, the exact opposite effect to get an export system going. Domestically, the raising of the interest rate will cause capital to flow into the US by making US securities more attractive. The consequence of that capital infusion will raise the value of the dollar, making US exports more expensive. This reduction of exports will, in turn, increase current account debt and put a strain on the revival of the US economy.

Continuing and increasing the present stimulus package by going into greater debt will put pressure on the downward trend on the dollar and a shift to investments in oil and commodities and even in gold. The reserves of other nations’ dollars loose value and they are forced to look for firmer reserve currencies. The meeting of the G20 finance ministers in Scotland on November 6th and 7th of 2009 was fractious because the dollar’s decline had significantly strengthened other currencies raising concerns of declining exports by other G20 members. Bob Chapman refers to “bleating” by some nations in [www.globalresearch.ca/index.php?context=va&aid=15838](http://rs6.net/tn.jsp?et=1102789733973&s=25037&e=0010SiQpEwvf4MqMin7pyJVxuf019GwKmDZHBFkYgAYUW37a92n8okIs1i4oaI8alxCfSAK4vWd65VevpuQvzI0BzoU7Q6ucZsbMuB32fwhADMMOpyM_dWVSIkcZTY6qhyvbWyQVJn5Egvpb_hEG2breO3S5O_sQg6GHcciv_Hbv8s=). All in all the present economic crisis lays bare the unsustainability of having one nation’s currency become the global reserve and transactional currency. It is this basic monetary predicament together with some other related financial misadventures, both systemic and corporate, that keeps the present economic system malfunctioning.

It seems that the global and political approach as exemplified by Erturk may have more influence than the less global and political approach exemplified by Mishkin. One piece of evidence is his invitation to conduct a workshop on reserve currency reform by the UN DESA, the result of which is included in its 2010 WESP Report.