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Triffin's Dilemma – Now Trump's

Over the past seventeen months the American people have been subjected to a barrage of attacks on President Trump's personal life, academic abilities, character, personal and business associates. All of these attacks are designed to remove him from office because his enemies cannot stop his achievements. They keep attacking his foreign policy because they cannot figure out what he is planning or they refuse to understand his knowledge of the world situation.

Our opinion is more optimistic based on our studying of the world financial system. This system was put into place by our leaders back in 1948 known as the Bretton Woods agreement. We refer our readers to Judy Shelton's excellent book *Money Meltdown* **Restoring Order to the Global Currency System** and Jim Rickards' following article published by Agora Financial LLC in 2015. In this article Mr. Rickards did the best explanation of how the international leaders of the day planned and executed the international banking system. His explanation, if carefully read, may shed some light on President Trump's real reason for visiting China, Japan, European Union and now his published meeting with Russia's Vladimir Putin.

According to both publications there is a built-in flaw in the Bretton Woods agreement. This flaw would cause jobs to leave the United States and go overseas and the United States would have to contend with ever larger deficit spending until our currency would collapse as the Roman and British currencies did before us.

Robert Triffin was a Belgian economist and Yale University professor who lived from 1911-1993. He was regarded as one of the leading authorities on gold, currencies and the international monetary system during his career. He made many notable contributions to international economics, but his most famous was the articulation of what became known as "Triffin's dilemma."

The paradox of Triffin's dilemma was pointed out in the early 1960s, yet its implications are just now coming into full view. Far from a relic of the past, Triffin's dilemma is the key to understanding the future of the international monetary system.

Triffin's dilemma arose from the Bretton Woods system established in 1944. Under that system, the dollar was pegged to gold at $35.00 per ounce. Other major currencies were pegged to the dollar at fixed exchange rates. The architects of the system knew that these other exchange rates

might have to be devalued from time to time, mostly because of trade deficits, but the devaluation process was designed to be slow and cumbersome.

A country that wanted to devalue (for example, the U.K. in 1967) first had to consult with the International Monetary Fund, IMF. The IMF would typically recommend structural changes to fiscal policy, tax policy and other areas designed to cure the trade deficit.

The IMF also stood ready to offer bridge loans of hard currency to help the deficit-hit country withstand temporary stresses while the structural changes were implemented. Only if the structural changes failed and the trade deficits were persistent would the IMF allow devaluation.

That was the process for countries other than the U. S. As far as the U.S. was concerned, the link between gold and the dollar was fixed for all time and could never be changed. The dollar/gold link was the anchor of the entire system.

This fixed link between the dollar and gold made the dollar the most prized reserve currency in the world. That was the hidden agenda of Bretton Woods. With the dollar as the main reserve currency, U. K. pounds sterling, a competing reserve currency, would eventually fall by the wayside.

The U.K. relied on Imperial Preference among its trading partners in the British Commonwealth to gain trade surpluses, and also relied on the willingness of those Commonwealth partners to hold sterling in their reserves. The Bank of England assumed Commonwealth members would not ask to convert the sterling to gold. Imperial Preference came under attack by the General Agreement on Tariffs and Trade, the GATT, which was also part of Bretton Woods. (Today, GATT is known as the World Trade Organization, WTO.)

Bretton Woods was a one-two combination punch designed by the U.S. to destroy the British empire. GATT undermined lmperial Preference. The dollar-gold link undermined sterling. It worked. The U.K.'s trade deficits persisted, and the Commonwealth partners demanded their gold. Eventually, the pound sterling was devalued, and the empire dissolved. It was replaced by a new age of U.S. empire and King Dollar.

There was only one problem, and Robert Triffin pointed this out. If the dollar was the lead reserve currency, then the entire world needed dollars to finance world trade. In order to supply these dollars, the U.S. had to run trade deficits.

The U.S. sold a lot of goods abroad, but Americans quickly developed an appetite for Japanese electronics, German cars, French vacations and other foreign goods and services. Today, China has replaced Japan as the main source of exports to the U.S.; still, Americans have not lost their appetite for imports financed by printing dollars.

So, the U.S. ran trade deficits, the world got dollars and global trade flourished. But if you run deficits long enough, you go broke. That was Triffin's dilemma. Any system based on dollars would eventually cause the dollar to collapse because there would either be too many dollars or not enough gold at fixed prices to keep the game going. This paradox between dollar deficits and dollar confidence was unsustainable.

This system did break down in the 1970s. The solution then was to abolish the dollar-gold peg in 1971 and demonetize gold in 1974. But there was a third leg of the stool invented in 1969 - the IMF's Special Drawing Right, SDR.

The SDR was a new kind of world money printed by the IMF. The idea was that it could be used as a reserve currency side by side with the dollar. This meant that if the U.S. cured its trade deficit, and supplied fewer dollars to the world, any shortfall in reserves could be made up by printing SDRs.

In fact, SDRs were printed and handed out repeatedly during the dollar crisis from 1969-1980. But then a new King Dollar age was started by Paul Volcker and Ronald Reagan, with some help from Henry Kissinger, the king of Saudi Arabia and private bankers like my old boss Walter Wriston at Citibank.

Under the new King Dollar system, U.S. interest rates would be high enough to make the dollar an attractive reserve asset even without gold backing. Remember those 20% interest rates of the early 1980s?

Henry Kissinger also persuaded Saudi Arabia to keep pricing oil in dollars. This "petrodollar deal" meant that countries that wanted oil needed dollars to pay for it whether they liked the dollar or not.

The Arabs deposited the dollars they received in Citibank, Chase and the other big banks of the day. The bankers, led by Wriston at Citibank and David Rockefeller at Chase, then loaned the money to Asia, South America and Africa.

From there, the dollars were used to buy U.S. exports like aircraft, heavy equipment and agricultural produce. Suddenly, the game started up again, this time without gold. This new Age of King Dollar lasted from 1980-2010.

Still, it was all based on confidence in the dollar. Triffin's dilemma never went away; it was just in the background waiting to re-emerge while the world binged on new dollar creation and forgot about gold. The U.S. ran persistent large trade deficits during this entire 3O-year period as Triffin predicted. The world gorged on dollar reserves with China leading the way in the 1990s and early 2000s.

The new game ended in 2010 with the start of a currency war in the aftermath of the Panic of 2008. Trading partners are again jockeying for position as they did in the early 1970s. A new systemic collapse is waiting in the wings.

The weak dollar of 2011 was designed to stimulate U.S. growth and keep the world from sinking into a new depression. It worked in the short run, but now the tables are turned. Today, the dollar is strong, and the euro and yen have weakened. This gives Japan and Europe some relief, but it comes at the expense of the U.S., where growth has slowed down again.

The new dollar-yuan peg with China has also contributed to a slowdown in China. There's just not enough global growth to go around. The major trading and finance powers are cannibalizing

each other with weak currencies. Soon the U.S. and China may devalue relative to Europe and Japan, but that just moves the global weakness back to them.

Is there no way to escape the room? Is there no way out of Triffin's dilemma?

A new gold standard might be one way to solve the problem, but it would require a gold price of $10,000 per ounce in order to be nondeflationary. No central banker in the world wants that, because it limits their ability to print money and be central economic planners.

Is there an alternative to gold? There is one other way out. That's our old friend, the SDR. The brilliance of the SDR solution is that it solves Triffin's dilemma.

Recall the paradox is that the reserve currency issuer has to run trade deficits, but if you run deficits long enough, you go broke. But SDRs are issued by the IMF. The IMF is not a country and does not have a *trade deficit*. In theory, the IMF can print SDRs forever and never go broke. The SDRs just go around and round among the IMF members in a closed circuit.

Individuals won't have SDRs. Only countries will have them in their reserves. These countries have no desire to break the new SDR system, because they're all in it together. The U.S. is no longer the boss. Instead, you have the "Five Families" consisting of China, Japan, the U.S., Europe and Russia operating through the IMF.

The only losers are the citizens of the IMF member countries - people like you and I - who will suffer local currency inflation. I'm preparing with gold and hard assets, but most people will be caught unaware, like the Greeks who lined up at empty ATMs last month.

This SDR system is so little understood that people won't know where the inflation is coming from. Elected officials will blame the IMF, but the IMF is unaccountable. That's the beauty of SDRs – Triffin's dilemma is solved; debt problems are inflated away and no one is accountable. That's the global elite plan in a nutshell.

We plan to be in Lima, Peru, (2015) at the IMF annual meeting to have a front-row seat on these developments for our readers. This story has longer to run, but the endgame is already in sight.

Our conclusion: In order to avoid a global currency crisis, Triffin's Dilemma, President Trump is trying to make Free, Fair and Reciprocal trade agreements with the various countries. Tariffs are an attempt to convince the "Five Families" that new fairer agreements are preferable to raiding the "piggy" bank. In conclusion, the "Five Families" have to come to an agreement in order to avoid a global currency crisis or WORSE.

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