THE WALL STREET JOURNAL.

http://www.wsj.com/articles/fixed-rates-ballast-interest-rates-and-commodity-prices-1462292464

OPINION | LETTERS

Fixed Rates Ballast Interest Rates and Commodity Prices

The price level in dollars is also affected by the total demand for dollars and for specific commodities (like crude oil) which are priced in dollars.

May 3, 2016 12:21 p.m. ET

In his letter of April 28 Prof. Robert Blohm concedes the main point of our April 20 op-ed "Monetary Reform or Trade War," noting that when it was suspended, the Bretton Woods gold-exchange system "was already unsustainable because of the 'duplicating credit' the authors mention." He raises two important secondary points: first, that under the world paper dollar system, the price level in dollars is also affected by the total demand for dollars and for specific commodities (like crude oil) which are priced in dollars; and second, that under floating exchange rates, commodity-price swings in dollars induce destabilizing swings in exchange rates for nonreserve countries.

Though Prof. Blohm doesn't seem to have tested the theory empirically, we can attest, having done so by forecasting for nearly three decades, that both secondary points are indeed helpful in forecasting commodity and financial asset prices, in both U.S. and foreign markets. But these secondary concerns make little practical difference in setting economic policy. As Prof. Blohm rightly notes, "commodity prices and interest rates were all boringly stable before President Nixon ended the gold-convertibility of the U.S. dollar."

Lewis E. Lehrman

Greenwich, Conn.

John D. Mueller

Washington