Yes, McKinnon is right, again.

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Since the demise of the Bretton Woods system, the world has operated under what Ron McKinnon dubs "the unloved dollar standard." McKinnon argues that there are good reasons why the world can't kick the dollar standard, and he then shows us why we should, and how we can, learn to love a greenback standard. Yes, McKinnon is right, again.

That said, he is swimming against a strong current of wrong-headed thinking emanating from Washington. Let's take a look at where the contra-McKinnon illuminati stance on the dollar's role has led us.

The United States has recorded a trade deficit every year since 1975. This is not surprising because savings in the United States has been less than investment. The trade deficit can be reduced by some combination of lower government consumption, lower private consumption, or lower private domestic investment. But you wouldn't know it from listening to the counterproductive trade and currency warmongering coming out of Washington.

From the early 1970s until 1995, Japan was the enemy. The mercantilists in Washington asserted that a weak yen was at the root of the U.S. bilateral trade deficit with Japan and that it could be reduced if the yen appreciated against the dollar.

Washington even tried to convince Tokyo that an ever-appreciating yen would be good for Japan. Unfortunately, the Japanese complied, and the yen moved from ¥360 to the greenback (1971) to ¥80 (1995). The yen's great appreciation caused the Japanese economy to sink into a deflationary quagmire. In consequence, the United States stopped arm-twisting the Japanese government. But it was too late—even today, Japan continues to suffer from the mess created by the yen's appreciation.

What about the U.S. trade deficit? As the yen appreciated against the greenback, Japan's exports to the United States surged and so did its contribution to the U.S. trade deficit. Indeed, from 1978 to 1991, when Japan's contribution to the U.S. trade deficit peaked, the yen appreciated by 74 percent against the dollar, and the Japanese contribution to the trade deficit moved from 27 percent to almost 60 percent.

Did this fantastic failure of American-induced "currency manipulation" stop the Washington illuminati? Hardly. Once China started to overtake Japan as the biggest contributor to the U.S. trade deficit, China and the yuan became Washington's favorite whipping boys.

What to do? Here I differ in detail, but not spirit, from McKinnon. The world's two most important currencies—the dollar and the euro—should, via formal agreement, trade in a zone ($1.20–$1.40 to the euro, for example). The European Central Bank would be obliged to maintain this zone of stability by defending a weak dollar and the Fed would be obliged to defend a weak euro.

The East Asian dollar bloc, which was torpedoed during the 2003 Dubai Summit, should then return—with the yuan and other Asian currencies tightly linked to the greenback. As for other countries (Brazil, for example), they should adopt currency boards, linked to either the dollar or euro.

Let's put an end to the "currency wars." When it comes to exchange rates, stability might not be everything, but everything is nothing without stability.