

GREAT ECONOMIC THINKERS

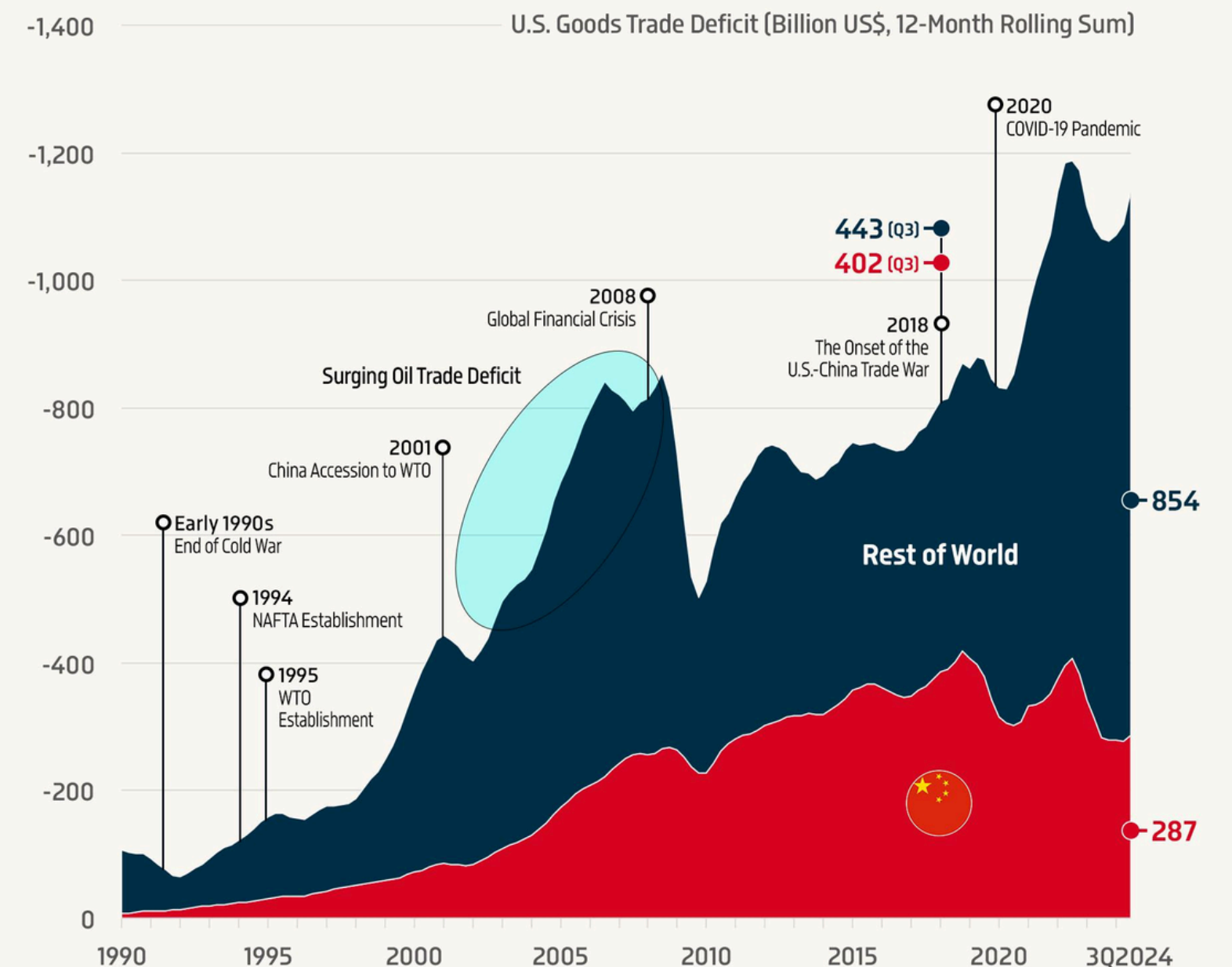
Could Keynes Solve Trade Imbalances by Introducing the Bancor?

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INTRODUCTION : THE \$1.2 TRILLION QUESTION

- US goods trade deficit in 2025: \$1.24 trillion
- China trade surplus: \$400B+ / Germany: largest eurozone surplus
- Consequences: tariff wars, currency tensions, job displacement
- 1944, Bretton Woods: Keynes proposes **the Bancor** : a supranational currency designed to make chronic imbalances structurally impossible
- The world rejected it. **Was that a mistake ?**

U.S. Trade Deficit Shifts: 28% Decline with China but 96% Surge with Rest of World



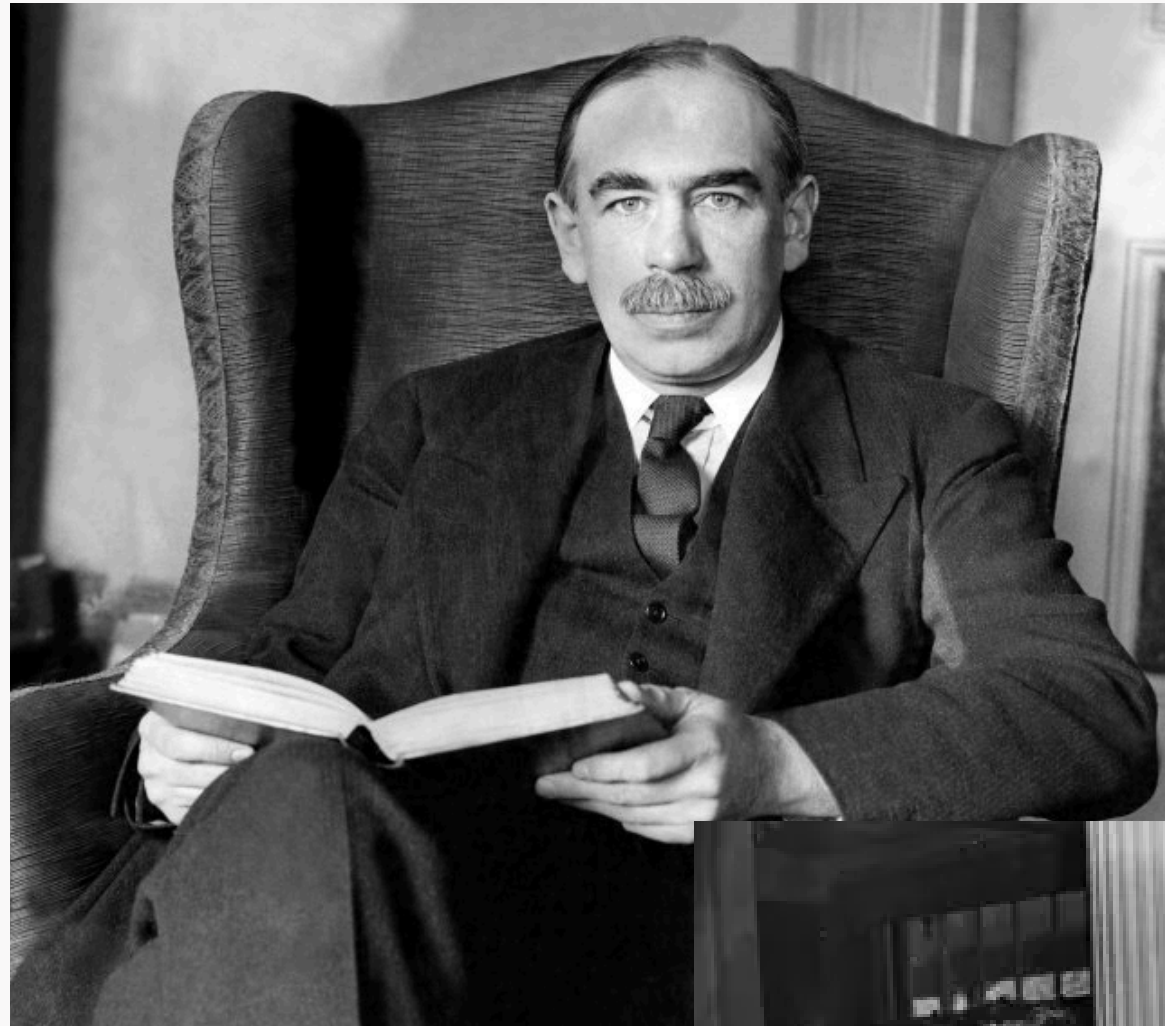
Source of Primary Data: U.S. Census

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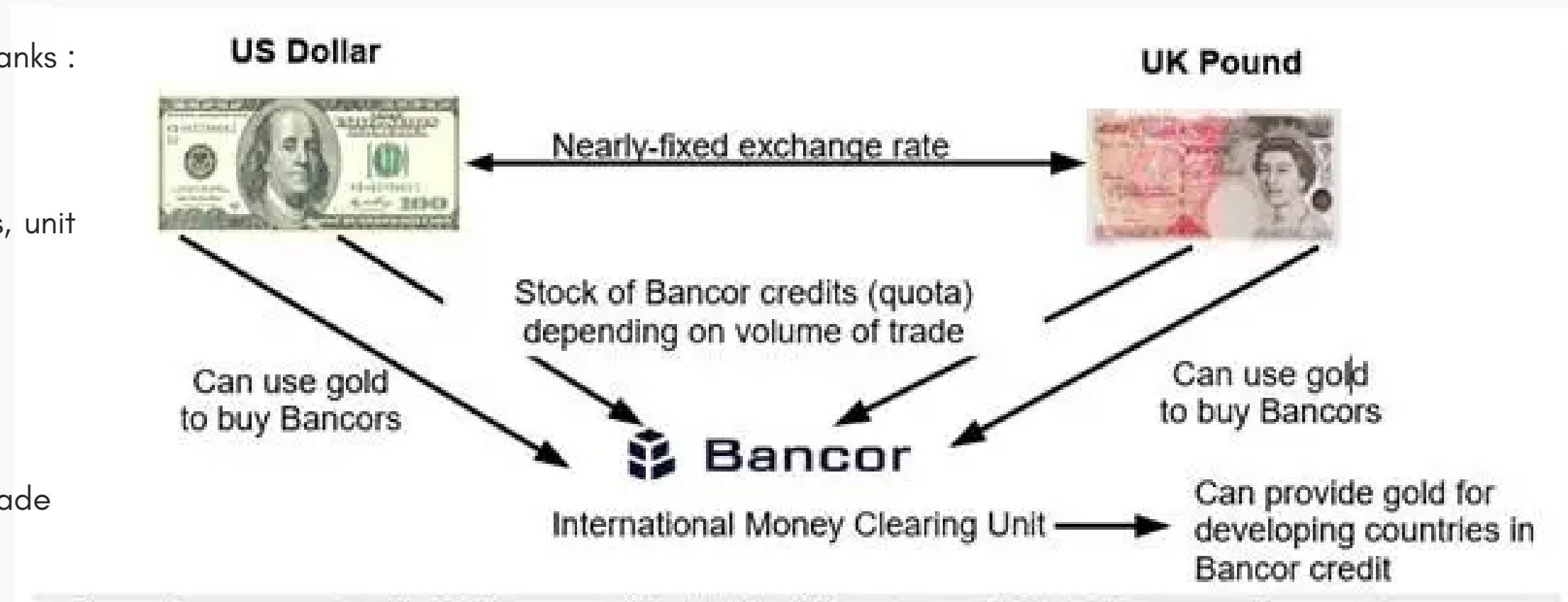
II. SETTING THE SCENE: BRETTON WOODS, 1944 : TWO VISIONS FOR THE WORLD



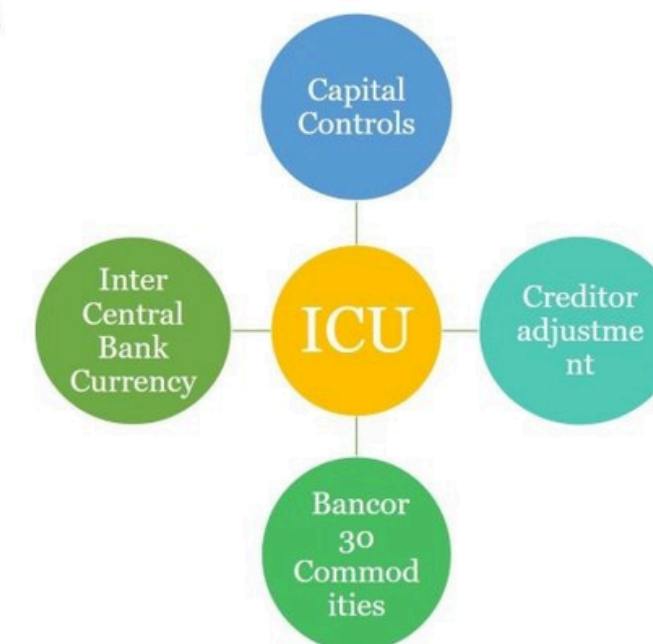
- Post-Great Depression: "beggar-thy-neighbour" policies → global trade collapsed -65% (1929-1934)
- July 1944: 730 delegates, 44 nations, Mount Washington Hotel, New Hampshire
- Keynes (UK): International Clearing Union + Bancor → symmetric system, penalises both surplus and deficit countries
- White (US): dollar-centric system, backed by gold → IMF with limited power, burden on deficit countries only
- US held 70% of world gold → White wins, Keynes has no leverage
- Result: dollar = world reserve currency, pegged to gold at \$35/oz

III. THE BANCOR SYSTEM: HOW IT WAS SUPPOSED TO WORK

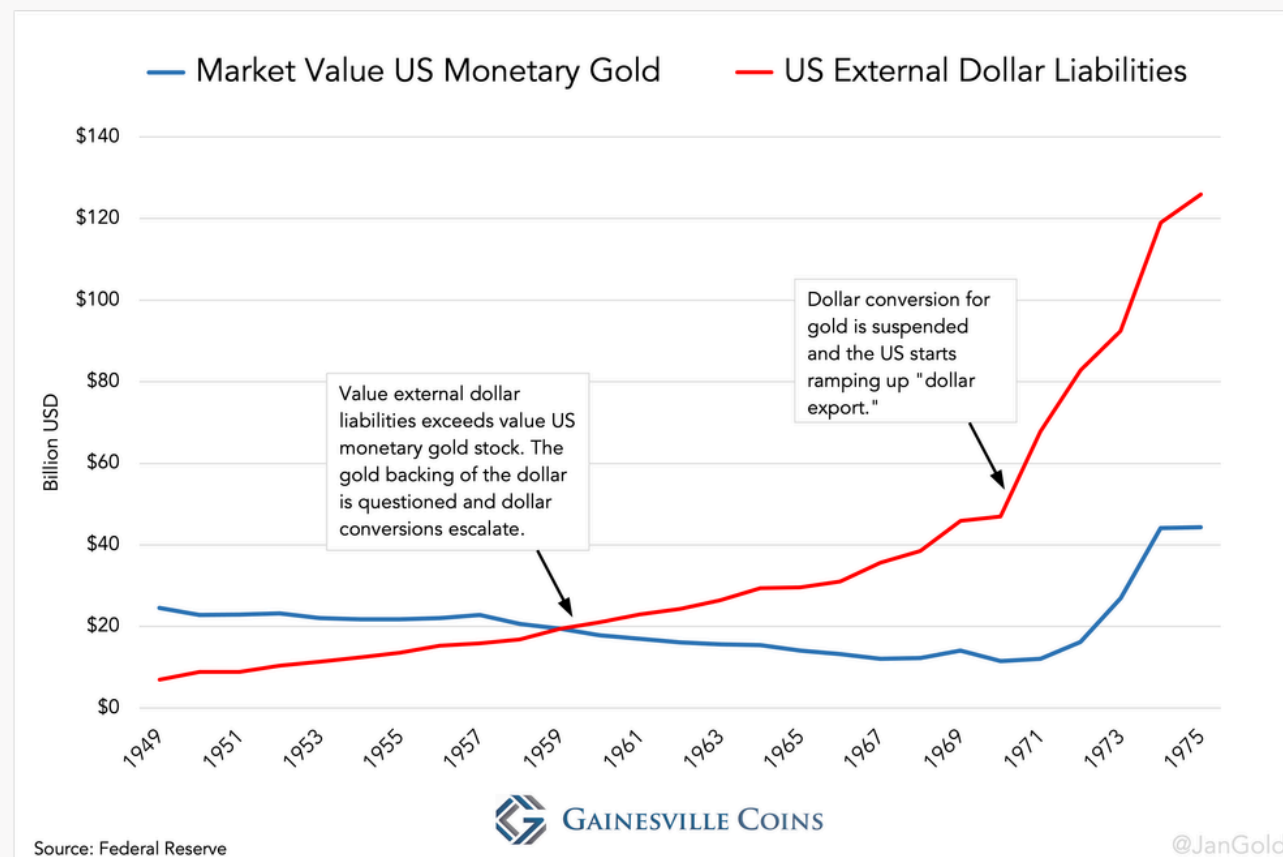
- **International Clearing Union (ICU):** a central bank for central banks : every nation holds an account
- **Bancor:** supranational currency (banque + or), not for individuals, unit of account between nations only
- Pegged to a basket of 30 commodities (including gold)
- Each country receives a quota proportional to its share of world trade
- Exports → Bancor credited / Imports → Bancor debited
- THE KEY MECHANISM : symmetric penalties: Deficit > 50% of quota → interest charges + forced devaluation
- Surplus > 50% of quota → interest charges + forced revaluation + possible confiscation of excess
- **Bancor cannot be hoarded, cannot be converted into gold or national currencies**



Keynes' Original Bretton Woods Proposals



IV. THE PROBLEM THE BANCOR WAS DESIGNED TO SOLVE: THE TRIFFIN DILEMMA



- **Triffin Dilemma (1960):** when one national currency = world reserve → structural contradiction
- The US must run trade deficits to supply dollars to the world → but persistent deficits erode confidence in the dollar
- Stop deficits → global liquidity crisis / Keep deficits → currency credibility collapse
- **Proof it happened:** US gold reserves couldn't back outstanding dollars → de Gaulle sent a warship to collect France's gold → Nixon Shock (1971), dollar no longer convertible to gold → Bretton Woods collapses
- Today, same problem, bigger scale: US trade deficit: \$1.24T (2025)
- China surplus: \$400B+ / Germany: \$267B (2024)
- 150 out of 181 countries run a deficit with China
- No mechanism forces surplus countries to adjust

V. COULD THE BANCOR ACTUALLY SOLVE TODAY'S TRADE IMBALANCES?

THE CASE FOR:

- **Eliminates the Triffin Dilemma:** no national currency as global reserve → no structural deficit needed
- Symmetric adjustment forces surplus countries (China, Germany) to rebalance, not just deficit countries
- Zhou Xiaochuan (2009): Governor of People's Bank of China explicitly called Keynes's Bancor "farsighted" → proposed expanded SDRs as supranational reserve
- Supported by Stiglitz (Nobel), BRICS nations, Varoufakis, multiple IMF economists

THE CASE AGAINST:

- **Sovereignty:** no major nation will submit to a supranational monetary authority, especially not the US
- **Exorbitant privilege:** US loses the ability to borrow cheaply, print the world's reserve currency, finance deficits at will
- **Governance:** who controls the ICU? 195 sovereign nations, competing interests, the IMF already struggles with legitimacy
- **Blind spot:** Keynes designed for trade in goods, today, speculative financial flows (\$7.5T/day in forex) dwarf trade flows

VI. CONCLUSION : THE VISIONARY WHO WAS TOO EARLY

