



# Was Keynes Right to Oppose Tying Currencies to the Dollar ?

*The Bretton Woods Debate - 1944*

# The World in 1944 : Why a New System Was Needed

## Post-WWII Context

- Europe in ruins, trade collapsed
- Interwar chaos : devaluations, Depression
- Gold standard seen as brutal & deflationary

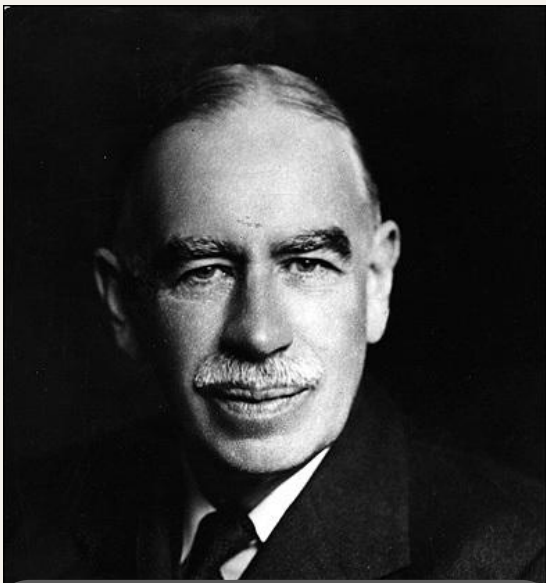
## The Opportunity

- US holds approx. 2/3 of world gold reserves
- Dollar is the undisputed strongest currency
- Historic chance to build a new world order



*Mount Washington Hotel, Bretton Woods, NH*

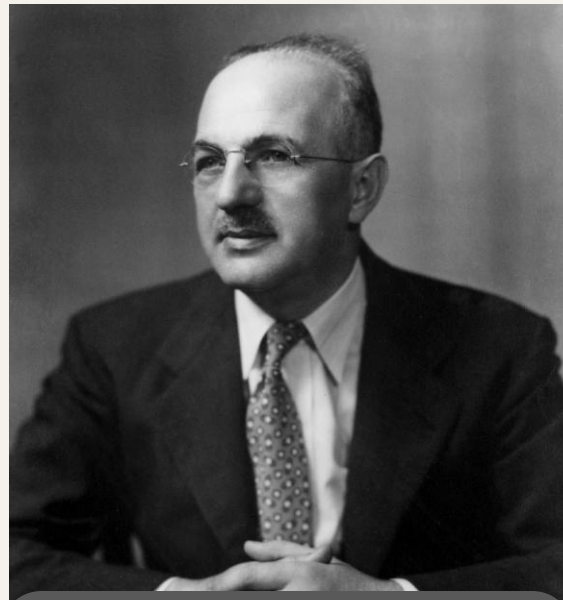
# Two Visions at Bretton Woods : Keynes vs White



**KEYNES - UNITED KINGDOM**  
**Bancor**

Supranational reserve currency  
Shared adjustment burden  
International Clearing Union

**VS**



**HARRY DEXTER WHITE - USA**  
**Dollar Standard**

Dollar pegged to gold (\$35/oz)  
All currencies pegged to \$  
Limited IMF with US in control

# Keynes's Proposal : The Bancor & the Clearing Union

1

## Unit of Account

Used between central banks only and not a physical currency

2

## Bancor Quotas

Each country gets a quota based on their trade volume

3

## Trade Imbalances

Deficits overdraw the Bancor account and surpluses accumulate credits

4

## Symmetric Pressure

Both surplus AND deficit countries are charged interest, there are no free ride

5

## Automatic Adjustment

Excess credits are confiscated with the goal of preventing permanent imbalances

★ *Key innovation : no single national currency at the centre*

# Why Keynes Opposed the Dollar Standard : 3 Arguments

## 01 The Triffin Dilemma

To supply the world with dollars, the US must run persistent deficits. But deficits erode confidence in the dollar. A structural contradiction that was identified by Keynes in 1941.

## 02 Asymmetric Adjustment

Under White's plan, only deficit countries bear the burden of adjustment : austerity, deflation, unemployment. Surplus nations (the US) face zero pressure. Keynes called this “a cruel dilemma”.

## 03 Exorbitant Privilege

The reserve currency issuer borrows cheaply, runs deficits without punishment, and charges the world an implicit seigniorage tax. No nation should hold this unchecked power.

# Why White Won : Power, Not Reason



*Keynes & White at the inaugural IMF/World Bank meeting, 1946*

## US held two third of world gold

Unmatched economic dominance in 1944

## Britain was bankrupt

UK depended on American loans to finish the war

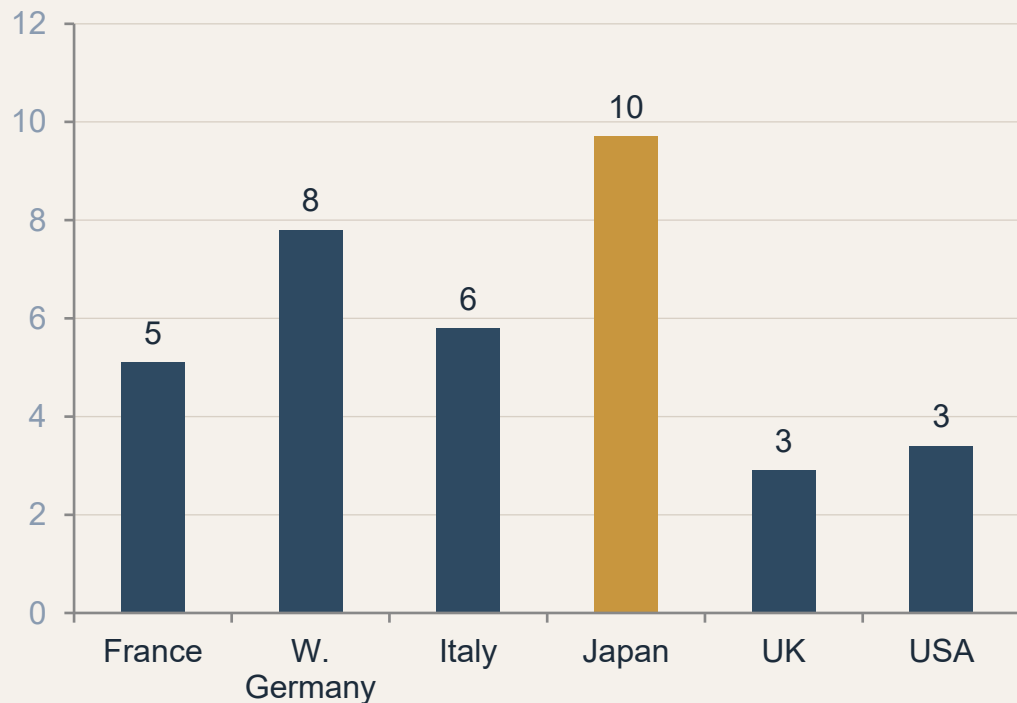
## Congress veto

No supranational institution would pass US ratification

## Result

A pale IMF : underfunded, dollar-centric, US-controlled

# The System Works for a while (1945–1965)



*Average annual GDP growth, 1950–1965*

**25+**

Years of uninterrupted  
stable exchange rates

**"Trente  
Glorieuses"**

Three decades of growth  
in Western Europe

**\$13B**

Marshall Plan funds  
channeled via dollars

# The Triffin's Warning (1960)

**1958**

European currencies return to convertibility, the pressure on dollar begins

**1960**

Triffin publishes 'Gold and the Dollar Crisis' -> the structural flaw is formalized

**1965**

De Gaulle demands gold for French dollar reserves 'exorbitant privilege'

**1968**

Gold pool collapses : two-tier gold market created

**1969- 1971**

US runs record deficits (Vietnam + Great Society). Fort Knox drains and the Dollar becomes overvalued.



*August 15, 1971*

# Nixon Shock

President Nixon suspends dollar-gold convertibility.  
The Bretton Woods system collapses.

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*Keynes's structural warnings, written 30 years earlier, had just come true.*

# But Was the Bancor Realistic ? The Limits of Keynes's Solution

## Keynes Was RIGHT On...

- The diagnosis: Triffin Dilemma
- Asymmetric adjustment is inherently unstable
- No single currency should anchor the world
- Nixon 1971 proved him empirically correct

## But the Bancor Was...

- Politically unworkable in 1944
- Who enforces surplus penalties?
- Requires sovereignty cession no state accepted
- The US would never ratify it as it didn't favor their position as World Leaders.

# Modern Echoes : How Keynes's Ideas Live On

**1969**

## IMF Special Drawing Rights

A synthetic reserve asset : a pale but recognizable descendant of the Bancor, designed to supplement dollar reserves.

**2009**

## Zhou Xiaochuan's Paper

China's PBoC governor explicitly cited Keynes's ICU, calling for a reformed reserve system not built on a single national currency.

**2011**

## Eichengreen : "Exorbitant Privilege"

Landmark study concluding the dollar's reserve status creates both American advantage and systemic global instability.

**Today**

## The Dollar Still Dominates

~60 % of global reserves in USD.  
The structural contradiction Keynes identified remains unresolved and debated.

# Conclusion

## *Was Keynes Right?*

### ✓ RIGHT ON THE DIAGNOSIS

The Triffin Dilemma, asymmetric adjustment, the structural instability of a single-currency reserve system. Keynes identified these flaws in 1941 and Nixon, in 1971, confirmed them.

### ✓ RIGHT ON THE PRINCIPLE

A global monetary system should not depend on the domestic policy choices of one nation but on symmetric rules and shared governance. This remains unachieved today.

### ⚠ AHEAD OF HIS TIME ON THE SOLUTION

The Bancor required supranational trust that didn't exist in 1944 and barely exists today. Keynes saw further than his contemporaries, but the world wasn't ready.

*The tragedy of Bretton Woods : Keynes saw the flaw, but the world needed 27 years to believe him.*