

John Maynard Keynes:

Would the Bancor and International Clearing Union
Resolve Today's Global Balance-of-Payments Problems?

Modern Economic Thought Series

Historical Context: The 1944 Bretton Woods Conference

Keynes's Proposal

- International Clearing Union (ICU)
- Bancor: supranational reserve currency
- Automatic adjustment mechanism
- Symmetrical pressure on surplus and deficit nations

What Actually Happened

- US-backed White Plan adopted
- US dollar as reserve currency
- IMF created with limited scope
- Gold-dollar standard (until 1971)

Key Features of Keynes's Bancor System

Supranational Currency

Bancor pegged to gold but not convertible

Used only for international settlements

No single nation dominates

Clearing Mechanism

Countries hold bancor accounts at ICU

Trade imbalances settled in bancor

Automatic credits and debits

Symmetrical Adjustment

Penalties on both surplus and deficit nations

Forces adjustment from creditor countries too

Prevents persistent imbalances

Today's Global Balance-of-Payments Problems

Triffin Dilemma

The US must run deficits to supply global liquidity, undermining confidence in the dollar as a stable reserve currency.

Persistent Global Imbalances

China, Germany, and others run large surpluses while the US runs deficits, with no automatic correction mechanism.

Currency Wars & Volatility

Competitive devaluations and exchange rate manipulation create instability and harm international cooperation.

Asymmetric Adjustment Burden

Deficit countries face austerity and recession, while surplus countries face no pressure to adjust.

Emerging Market Crises

Developing nations vulnerable to capital flight and sudden stops when dollar strengthens or US tightens policy.

Inadequate Global Safety Net

IMF resources limited; countries accumulate costly reserves or face crises with insufficient international support.

How the Bancor System Would Address These Problems

1

Eliminates Triffin Dilemma

No single nation's currency serves as reserve, removing inherent conflict between domestic and international monetary policy.

2

Forces Surplus Adjustment

Penalties and potential confiscation of excess bancor balances incentivize surplus nations to increase imports or investment.

3

Provides Automatic Liquidity

ICU overdraft facilities provide countries with breathing room during temporary imbalances without accumulating dollar reserves.

4

Reduces Currency Volatility

Stable bancor peg reduces incentive for competitive devaluations and provides predictable international price system.

Arguments FOR Implementation Today

Economic Benefits

- Symmetrical adjustment promotes global demand and prevents deflationary bias
- Reduces need for costly reserve accumulation, freeing capital for development
- Automatic stabilization prevents prolonged imbalances and financial crises
- Greater policy autonomy for all nations without external constraints

Political & Equity Benefits

- Removes US hegemonic privilege, creating more equitable system
- Prevents weaponization of reserve currency for geopolitical goals
- Emerging markets gain voice and protection from external shocks
- Aligns with current multipolar world order

Arguments AGAINST Implementation

Today

Political Infeasibility

The US would never cede dollar privilege. China and surplus nations resist adjustment obligations. Requires unprecedented global cooperation and sovereignty transfer.

Governance Challenges

Who controls the ICU? How to prevent political manipulation? Setting quotas and penalty rates becomes source of international conflict. Enforcement mechanisms unclear.

Economic Rigidity

Automatic adjustment may force procyclical policies. Penalties on surpluses could punish competitive advantage and productivity. Less flexible than current system for diverse economies.

Transition Risks

Massive disruption to existing financial architecture. Dollar holders face losses. Uncertain how markets and institutions would adapt. Potential for crisis during transition period.

Alternative Solutions Available

Incremental reforms to IMF, expanded swap lines, regional monetary cooperation, or strengthened SDRs could address problems without radical overhaul.

Modern Alternatives to Full Bancor Implementation

Expanded SDRs

Increase issuance and usage of IMF Special Drawing Rights as quasi-bancor. More modest reform, builds on existing infrastructure, but lacks automatic adjustment mechanism.

Feasibility: Medium

Currency Basket Reserve

Diversify reserves across dollar, euro, yuan, yen. Reduces single currency dominance. Already happening organically, but doesn't solve adjustment problem or provide sufficient liquidity.

Feasibility: High

Regional Monetary Unions

ASEAN, African Union, or BRICS develop regional clearing unions. Intermediate step toward global system. Politically easier within regions but fragments rather than unifies global system.

Feasibility: Medium

Reformed IMF with Teeth

Grant IMF power to sanction persistent surplus countries, expand lending facilities, strengthen surveillance. Captures spirit of bancor symmetry without new currency. Politically challenging.

Feasibility: Low-Medium

Conclusion: A Vision Ahead of Its Time?

The Verdict

Theoretically sound: The Bancor/ICU system would indeed address many contemporary balance-of-payments problems, especially the Triffin dilemma, asymmetric adjustment, and persistent imbalances.

Practically implausible: Political obstacles are insurmountable in current geopolitical environment. No major power would accept necessary sovereignty transfer and automatic constraints.

Partial solutions more realistic: Incremental reforms, expanded SDRs, diversified reserves, reformed IMF, can capture some benefits without requiring revolutionary change.

Keynes's insight remains relevant: The fundamental principle, that creditor nations must share adjustment burden, is still the missing piece in global monetary architecture. Any serious reform must grapple with this.

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