



## IL BANCOR

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Bancor is the name of a supranational money proposed by Keynes in his plan (hereafter KP) at the conference of Bretton Woods (USA) in 1943-44. The former idea can be found in Keynes' *Treatise on Money* (1930), in which he argued that the ideal solution for the IMS is the constitution of a supranational bank of national central banks. Keynes was conscious of the impossibility of constituting a world central bank with the sovereignty of issuing world money. Consequently he based his plan on five fundamental principles: gradualism, banking approach, symmetric responsibility of adjustment, complementarity, multilateralism.

The gradualism principle satisfies the need of accepting lower degrees of supranational management to make it more politically acceptable, but leaving the road open to future improvements: "Is the system of supranational currency management of the future to be born ready-made or gradually evolved? Probably the latter" (Keynes 1930, p.354). To realize the best compromise on this ground the K.P. proposes the International Clearing Union (ICU), that activates a supranational settlement system for the payments between national central banks. The balance sheet of the  $i_{th}$  central bank expressed in its own currency is therefore:

$$(1) \quad D + \text{Bancor} + G + OR = B + OD$$

On the asset side  $D$  represents domestic assets and the international reserves include bancor, gold  $G$  and other reserves  $OR$ . Each central bank can open a deposit in bancor at the ICU in exchange of gold, at a fixed but adjustable exchange rate. The convertibility rule is only one way, from gold to bancor. Hence the bancor system favours the gradual demonetization of gold, leaving the total amount of international reserves remains unchanged. On the liability side,  $B$  denotes the monetary base and  $OD$  overdraft facilities obtained by ICU when a central bank has depleted its stock of bancor. This credit opportunity introduces the principle of the banking approach in the ICU operations. The aggregate balance sheet of ICU is therefore:

$$(2) \quad G_{icu} + \sum OD = \sum \text{bancor}$$

where the liability side registers the total amount  $\sum \text{bancor}$  accounted to the participating central banks.<sup>1</sup> The asset side shows the two channels of bancor creation: gold substitution  $G_{icu}$  and the total overdraft ( $\sum OD$ ) of bancor borrowed from the ICU.

The overdraft channel has important consequences. First, the total amount of international reserves increases as much as central banks of deficit countries use  $OD$  facilities to pay central banks of surplus countries, whose bancor deposits increases. Secondly, bancors are created endogenously, depending on the evolution of international imbalances that could determine  $OD$  increases or repayments. This feature characterizes the ICU as an institution less powerful than a supranational central bank that controls exogenously the amount of international liquidity.

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<sup>1</sup> For simplicity, we suppose equal to one all the exchange rates between bancor, gold and national currencies.

The endogeneity of bancor, on request of debtor central banks, has been seen by opponents of the KP as a potential risk of inflationary bias. Such risk is minimized by the assignment to ICU of the surveillance on the application of rules of game. The main rule is founded on the principle of symmetric burden of adjustment as “*a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the inevitable concomitant of the other*” (Keynes 1943, p. 23).

In the KP, excessive positive and negative bancor balances that deviate from established quotas are discouraged by penalty interest rates. However, the participation of creditor countries in the adjustment process poses the greatest challenge.<sup>2</sup> They must be convinced to accept bancors in the short run, but not to hoard them in the long run. In stressing the need of sharing the burden of adjustment, Keynes trusted on the “*miracle*” of an informal “*collective responsibility*” to obtain the best compromise between domestic full employment and international stability. In his view “*the simultaneous pursuit of these policies by all countries together which is capable of restoring economic health and strength internationally*” (Keynes 1936, p. 349).

However, the KP recommends no blind application of the rules of the game. Their timing should be managed with flexibility. The shared responsibility of adjustment does not necessarily mean contemporaneous adjustment. The sequence and timing of the adjustment must be dictated by the need “*to offset deflationary or inflationary tendencies in effective world demand*” (Keynes 1943, p. 20). Even the sterilization of monetary base  $B$ , through the compensation of undesired changes in bancor deposits with domestic assets  $D$  in the central bank’s balance sheet, could be acceptable in the short run to allow enough time for the adjustment process.

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<sup>2</sup> See Kindleberger (1979) .

According to the complementarity principle, in the KP national currencies retain their function of international reserve assets for intervention in the exchange markets. However, complementarity must be matched with multilateralism, which is the fifth principle stated in the KP. While international reserves held in national currencies imply bilateral credits vis-a-vis debits of the issuing foreign countries, bancor is a multilateral asset vis-à-vis the ICU. Multilateralism has two stabilizing outcomes. First, central banks gain one degree of freedom in their reserve allocation. For example, they can substitute dollar-denominated reserves, selling US T-bills, with bancor. Secondly, the key-currency country face an external balance constraint related to the deterioration of its bancor position. In our example, the ICU registers more bancors to the creditor-country central banks and fewer bancors (or more *OD*) to the FED. The FED could sterilize its bancor constraint with more domestic asset *D*. But in this case monetary sterilization would be a deliberate non-cooperative action, while in the dollar standard system the sterilization is an automatic “exorbitant privilege”. This is a key result of the K.P. that has been undervalued (Alessandrini and Fratianni 2009) .

The bancor was not adopted at the Bretton Woods conference, because the US dollar was the currency of the dominant country, which at the time was the large net creditor of the rest of the world. Since then the situation has completely changed, with new emerging creditors and the United States as the largest debtor country. In the current polycentric world, a supranational management of the international monetary system appears increasingly necessary and the principles of bancor in the KP are still crucial in this regard.

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