The Keynes Plan

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The Keynes Plan is an ambitious scheme of international reform devised by the British economist John Maynard Keynes and proposed as a basis for the negotiations of the Bretton Woods post-war order. The scheme aimed at organizing a new international payments system that, by forcing creditor countries to recognize their responsibilities for solving trade imbalances, could remedy the failures of the inter-war gold standard and revamp free and multilateral global trade. The first draft of the plan dates back to September 1941, when Keynes's memorandum on "Post-war currency policy", followed by a shorter document entitled "Proposals for an International Currency Union", was circulated within the British Treasury.

In general, Keynes believed that the "intensive laboratory experiment" of the inter-war period had offered unsatisfactory approaches to the "secular international problem" (Keynes, 1971–80, vol. CW XXV, p. 21) of disequilibria in the balance of payments, which only the reasonableness of Britain as world creditor and leader had succeeded in solving during the harmonious pre-war gold standard. In Keynes's view, there had been only one successful attempt, after the First World War, to get rid of those "laissez-faire currency arrangements whereby a country could be bankrupted, not because it lacked exportable goods, but merely because it lacked gold" (Keynes, 1971–80, vol.*CW* XXV, p. 12). Keynes had in mind the system of bilateral payments agreements with capital controls established by Hjalmar Schacht, Hitler's Minister of economic affairs between 1934 and 1937, with European and Latin American countries, to conduct trade without foreign exchange, as an international barter centred on Berlin. What Keynes found revolutionary in the "Schachtian system", admittedly a source of inspiration for his own plans, was the clearing principle on which it rested.

In Keynes's scheme, the International Clearing Union (ICU) multilateralizes international imbalances. The ICU issues a newly created bank money (bancor) as the new international unit of account destined to serve as the ultimate reserve asset of the system. Bancor can be held only by the central banks of participating member countries and be exchanged between national central banks and the ICU itself (so that individuals cannot hoard it as a store of value). Member countries therefore keep therefore their national currencies domestically, but are assigned a current account denominated in the new standard, without having to previously subscribe capital to the institution. The idea behind the plan is to apply to the international level an essential principle of banking, which applies domestically;, that is, "the necessary equality of credits and debits, of assets and liabilities. If no credits are removed outside the banking system but only transferred within it, the Bank *itself* can never be in difficulties" (Keynes, 1971–80, vol.*CW* XXV, p. 44). Each nation can draw up to its own bancor quota, equal to half the average value of its total trade for the last five pre-war years. Deficits and surpluses are settled through centralized clearing accounts: the ICU grants credit in the form of overdraft facilities that finance trade deficits and thereby help global trade to expand on multilateral bases. The ICU can thus create reserves in such an amount as to accommodate the needs of international trade from surplus to deficit countries.

Ultimately, however, the plan aimed at reabsorbing imbalances (Fantacci, 2013). This required that creditors should share the adjustment burden with debtor countries, as the only possibility to “make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces" (Keynes, 1971–80, vol. CW XXV, p. 449). Therefore, the scheme allows and, the case being, requires creditor countries to revalue their currencies and unblock foreign investments. Credits exceeding in amount a quarter of their quota in amount are charged rising interest rates; those exceeding the quota itself at the end of a year would have been directly transferred to the ICU. Symmetrically, debtor countries are allowed or asked to devalue their currencies, to sell gold and to prohibit capital exports; their excessive debts are charged interests, though lower than those applied to creditors’ excessive balances. The proposal therefore envisages therefore fixed but adjustable exchange rates.

As Keynes himself observed, everything in his plan was ancillary to the re-establishment of multilateralism. To secure this result, Keynes believed it necessary to prevent *rentier*-like forms of behaviour, by making the possession of capital of little, if any, importance. Creditors were asked to use, or make available to deficit countries for purposes of adjustment, those resources that they may otherwise leave idle. But they would be free to choose how to employ surpluses – expansion of credit and domestic demand, wages increases, abatement of trade restrictions or foreign lending for development – and would gain access to wider markets, while exerting “an expansionist, in place of a contractionist, pressure on world trade” (Keynes, 1971–80, vol.*CW* XXV, p. 74; see also Davidson, 2009).

The holistic approach to the problems of international economic relations developed by Keynes throughout his work is responsible for his ambition to endow the world with a veritable “global macro-manager” (Skidelsky, 2005, p. 21). The ICU scheme included a series of ancillary international institutions engaged in combating the evils of the trade cycle, to be financed by extra overdraft facilities, transfers from the Reserve Fund of the ICU, and by direct contributions by surplus countries. Keynes envisaged a Relief and Reconstruction authority, a Board for International Investment or Development Corporation, a Super-national policing body, and a scheme for commodity stabilization (*Commod Control*). Firmly convinced that the new order “should not wander from the international *terrain*” (Keynes, 1971–80, vol. CW XXV, p. 234), and be “consistent with widely different conceptions of domestic policy” (Keynes, 1971–80, vol. *CW* XXV, p. 621), Keynes supported capital controls as an essential feature of the desired new system, and wanted the mandate of Bretton Woods institutions to be technical rather than political.

The plan finally adopted at Bretton Woods (the International Monetary Fund, with its principle of subscribed capital, as guardian of global monetary stability) resembled the reform scheme elaborated by the US representative to the negotiations, Harry Dexter White. Keynes’s plan was vetoed because of its seemingly inflationist character and the threats to American supremacy represented by the bancor and the principle of creditors’ involvement in international adjustment. Keynes’s ideas and proposals, however, were the main driving forces that shaped the consensus on the “embedded liberalism” of the Bretton Woods order, and Paul Davidson’s proposal to change the current international payments system along (although updated) Keynes’s lines (although updated) demonstrates the continuing relevance, at an epoch of global imbalances and crisis, of the still untested “Keynes Pplan” (see for instance Davidson, 2009).

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<a>**See also:**

Bancor; Bank money; Bretton Woods regime; Capital controls; International Monetary Fund; International settlement institution; Keynes as monetary advisor; Keynes as monetary theorist; Schacht, Hjalmar Horace Greeley; White, Harry Dexter.

<a>**References**

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