

# A supranational currency in the spirit of Keynes – China (with Russia and Latin America) could create a much better international financial system<sup>1</sup>

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Bretton Woods USA, 1944 – a conference about what sort of world financial system after the war. The famous macroeconomist John Maynard Keynes represented the UK. He proposed *The International Clearing Union (ICU)*, issuing a global currency, the *bancor*. Keynes lost against the US, who wanted – and got – the US dollar as the “global reserve currency”. This was the start of The World Bank and IMF. Keynes could not continue the fight, and he died in 1946.

Being an engineer with a main research interest in macroeconomics and modern monetary systems, I would describe Keynes’ ICU/bancor proposal as a *stabilizing control systems solution*. His purpose was to ensure growth and employment in all countries with balanced trade between them, and avoid economic and financial polarization between countries. This resembles the way engineers approach the running of process plants, nuclear power stations and other complex dynamical systems. The main point is to ensure that they run stably, the second point is that they are run in an optimal way. Keynes had a deep understanding of stability and dynamics of economic systems.

So how was his proposed global financial system supposed to work?

All international trade should be in bancor, but – important! – countries should keep their national currencies.

Exchange rates should be set and adjusted by the ICU. They were not to be volatile. This would ensure a predictable international financial system, and largely eliminate destabilizing speculative financial flows.

All countries’ Central Banks would have account(s) at the ICU.

Deficits and surpluses were to be treated symmetrically:

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*First control rule;* Interest was to be paid by a country both on deficits (bancor loans) and surpluses (which is very counterintuitive, based on what depositors are used to!)

*Second control rule:* If a large long-term surplus, the ICU implements revaluation of the country's national currency. If a large long-term deficit: the ICU implements devaluation. Keynes' point was to keep the two in balance so that at the end of the year a country's accounts with the ICU would be neither in surplus nor in deficit but cleared close to zero. Every country's currency would be assigned a fixed but adjustable exchange rate by the ICU, relative to the bancor.

[Susan George explains](#) in more detail:

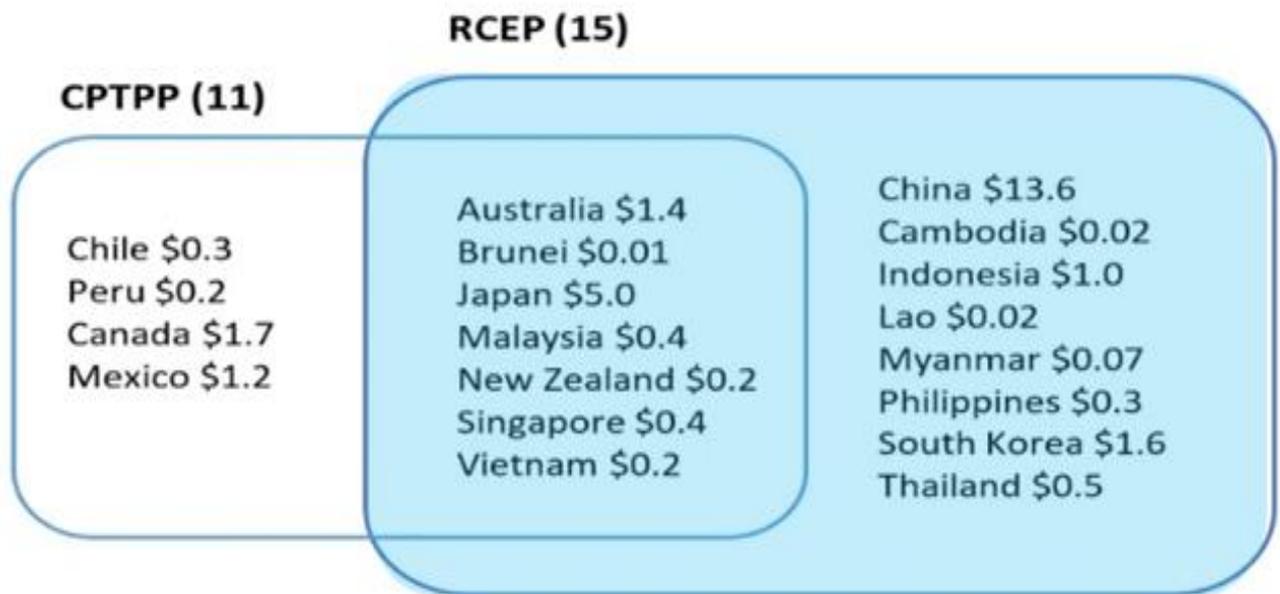
*The ICU, in its role as central bank and issuer of bancors, would allow each country an overdraft facility, just as ordinary banks do for customers. The authorized overdraft would equal half the average value of the country's trade over the preceding five years. Any country exceeding its overdraft would be charged interest on the difference. Debtors would be charged on their deficits, but the real novelty was that creditor countries with trade surpluses would be charged interest on their surpluses. The greater the deficit or surplus, the higher would be the interest rate. Countries in deficit would be obliged to devalue their currencies to make their exports cheaper and more attractive. Countries in surplus would have to revalue their currencies to make their exports more expensive and less attractive. If a trade-surplus country did not reduce its surplus, the ICU would confiscate everything above the allowed overdraft amount and put it in a reserve fund.*

## But why not start with a *region*?

Keynes wanted to establish this system for the entire world, and he didn't succeed. But why not start with *a part* of the world?

And is there a region where conditions are especially good for starting up such a system, and where there is a country with the potential to be the pioneer?

– I have followed China's economic and technical progress over the recent years and am very impressed. Now let us consider the new big free trade area, *The Regional Comprehensive Economic Partnership* (RCEP) – signed on in November last year. See figure (numbers give 2018 GDP in trillions of USD). The RCEP may be seen as a second and very expanded step after *The Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP). The CPTPP entered into force in December 2018. To the left is shown the CPTPP countries that remains outside the RCEP.



[Figure source](#)

The RCEP could be the point of departure for a “Regional Bancor System” (from now on “RBS”. I use “bancor” here just as a working term for the currency.)

## Robustness and stability

As mentioned, all trade between RBS members is in bancor. The RBS countries would also trade with the rest of the world using bancor. This would make the bancor a candidate to overtake the USD as the world main trading and reserve currency.

An RBS is rule-based (in fact, a control system), not based on power politics and struggle – so the RBS is very predictable and safe for all participants – big, medium and small. This means robustness and stability – which is also enhanced by cross-border speculative financial flows being drastically curbed – simply due to the properties of the system.

## Poorer countries

Since an RBS “underdog” country with a long-term export deficit implies predictable and gradual rule-based reduction of the nation’s currency exchange rate with the bancor, this not only enhances export competitiveness and import substitution (as per Keynes), it also makes the country more attractive for foreign

direct investment from RBS partners.

## Russia should join

In today's geopolitical situation with all sorts of US sanctions against "adversaries", it would be attractive for Russia to join such an RBS. Furthermore, the political conditions for expanding friendly cooperation between China and Russia are excellent today. It would also be very advantageous for China and the other participants to have a large and resource-rich power like Russia on board from the start.

## ... and progressive Latin America countries

There is a precedent for thinking along similar lines in Latin America. Hugo Chavez launched the idea of Banco del Sur in 1998. In the following years, there were various proposals regarding the institution's design and function. The Ecuadorian proposal for the Banco del Sur was similar to the above proposal - based on Keynes's idea of having a supranational currency that would be used in international trade and only convertible to national currencies in a regional ICU. All countries could keep their currencies, but a new regional currency would be issued in exchanges with countries outside of the region. This would offer a layer of protection from the vagaries of international finance, as well as allowing for an environment of regional financial stability conducive to the growth and development of the region.

On 26 September 2009, the presidents of Argentina, Brazil, Paraguay, Uruguay, Ecuador, Bolivia and Venezuela signed an agreement establishing the Banco del Sur with an initial capital of US\$ 20 billion. But US sanctions, political setbacks and later hostile governments in some of the initially participating countries has as of today stalled the project.

It is however probable that a supranational RBS currency region with China and Russia as main initial drivers would move at least some of the current governments in Latin America to join.

A tipping point may be reached in the process which will turn self-reinforcing, such that the bancor will overtake the USD as the world main trading and reserve currency. This big region bancor would then be the seed for a *world* currency (thus fulfilling Keynes' dream).

## Power asymmetry in the RBS?

Enormous China versus smaller and/or less developed economies – a challenge!

But:

- Negotiations and voting can take place in a permanent RBS “assembly”. The basic rules for economic functioning: exchange adjustment, bancor credit etc. should be like a “constitution”, which is difficult to change.
- The same should be the case with the rules for the functioning of the RBS assembly.
- The number of votes per country could favor the smaller participants. There could also be rules about qualified majority for important decisions, and/or veto rules.
- Headquarters with assembly and RBS bank could even be outside China.

Summing up: the power asymmetry issue is perfectly solvable!

## The time is ripe

Today’s Internet and computer-mediated systems makes this technically easy to implement. China’s very advanced transaction solutions can be offered to all RBS members.

An RBS will be a positive beacon for a world fed up with financial crises, economic sanctions, instability, speculative activity and depressed economies.

Carpe diem, China (and Russia, Latin America)!