A regional version of the Keynes Bretton Woods (1944) world currency proposal can solve the eurozone crisis

- History: a conference in 1944 about what sort of world financial system after the war.
- John Maynard Keynes represented the UK: “International clearing union (ICU)”, issuing a global currency, the “bancor”.
- He lost against the US, who got the US $ as the “global reserve currency”. This was the start of The World Bank and IMF.
- Keynes couldn’t continue the fight, died in 1946.

How was it supposed to work?
– A stabilising **control systems solution**!

- All international trade in bancor, keep national currencies
- Exchange rates set by the ICU
- All countries have account(s) at the ICU. **Target: Long run trade balance.**
- Deficits and surpluses treated **symmetrically**. **Control rule**; Interest paid by a country **both** on deficits (bancor loans) and **surpluses(!)** (bancor deposits)
- **Second control rule**: Strong long-term surplus -> revaluation (think today's Germany, China)
- Strong long-term deficit -> devaluation (think today's Greece, Italy, Portugal etc.)

Leading to ...

- Less exports from surplus countries ("Germany")
- More exports from deficit countries ("Greece")
- Larger share of GDP from domestic producers in deficit countries = import substitution
- => less need of protectionist measures like tariffs
- No accumulation of large financial surpluses, like
  - Norway's pension fund (whoa!!)
  - China's stash of US government bonds
- More foreign (= surplus country) investment in production in deficit countries
- Better control with cross-border financial flows, since all flows pass though the ICU

Let us now imagine the euro as a bancor, and the ECB as an ICU … not for the world, but for the EU:

- Eurozone countries can freely issue their own currencies again => strong unemployment reduction possible.
- Indebted countries achieve power in negotiaton with creditors, not helpless in the face of “Troika” blackmail like today.
- Crisis-suffering EU countries can and will revive their economies, as already argued on the previous slide.
- But what about the EU apparatus and the europhile political class and europhile media commentariat? Why should they accept such an idea?

Why should they accept such an idea?

- They have not been able to solve the current crisis for close to 10 years. The EU as such is crumbling (Italy is latest acute problem).
- Anti-euro and anti-EU parties are on the rise.
- Probably at least some in the EU elite are starting to recognise that "more union" will not fix things, at least within the required shortish time frame.
- And a bonus: **they get to keep their beloved euro and European Central Bank (ECB)!**
- So this might be seen as a win-win solution for both "europhiles" and "europhobes".

I have by this presented a rational and easy to understand proposal

- But it probably won't be adopted, because the EU colossus and its powerful supporters are hell-bent on "more union".
- Any proposal that seems to propose "going one step back", like allowing national currencies, is for them **unthinkable** – it is comparable to reintroducing the death penalty or removing women's right to vote – shudder!
- So what remains then for a crisis-suffering country, is to **unilaterally do something that Brussels can't stop**: for instance leave the euro …
- … or more politically possible and much more elegant: **stay with the euro but introduce a parallel national currency**, best implemented in electronic mobile-phone-mediated form.
- But that is another topic, so I stop here!