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Keynes and the international monetary system: Time for a tabular standard?

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1. Introduction and overview

John Maynard Keynes failed to have his international clearing union (ICU), Bancor, and Commod Controls (CCs) adopted after World War II. Instead the Bretton Woods world economic conference of June 1944 implemented a US dollar standard backed by gold, and left commodities to be sorted out at a later date. Six months later, Keynes publicly remarked in response to Frank Graham's advocacy for an international commodity reserve currency:

> I have no quarrel with a [commodity] tabular standard as being intrinsically more sensible than gold. My own sympathies have always fallen that way. *I hope the world will come to some version of it some time.* (Keynes 1944, CW XXVI, p. 39; emphasis added)

We argue that this quote should be taken at face value, indicating Keynes' long-standing support for the creation of an international reserve currency with a stable real-value target based on an international tabular standard (ITS) or index of globally traded commodities. This opinion is in contrast with the extant literature on Keynes and his ideal post-war vision for international monetary reform. Contemporary historians of economic thought for the most part ignore his advocacy for an ITS in the *Treatise* or

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assume that Keynes ultimately rejected his support for an ITS by omission, in his post-1933 publications.

After looking at the history of the ITS and explaining its mechanism, we make the case for a novel conjecture – that Keynes' ultimate *ideal* international monetary system would have included an ITS, even though it was not part of his original post-war Bretton Woods proposal. We argue that his original 1941 ICU plan with Bancor as the new international unit of account, and the lesser known 1942 CCs or commodity buffer stocks (see Hirai 2009), would have ideally been combined with an ITS to anchor a fixed (but adjustable) exchange rate regime to the real side of the economy. The reason for not promoting this comprehensive package was due to overwhelming political opposition to an ITS by British and American authorities that wanted, as much as possible, to maintain autonomy over their own key reserve currency, Sterling and US dollar.

The ITS was central in Keynes' first attempt at designing an ideal international monetary system at the end of his 1930 *Treatise*. At that time, Keynes proposed a supranational central bank (SCB) that would issue and manage an international reserve currency in accordance with ITS rules for the limited purpose of 'stability of money values' and stable exchange rates. In other words, the primary requirement of the SCB was to modify the supply of supranational bank money (SBM) to meet demand, through open market operations in sovereign bonds, with the primary goal of pegging the value of SBM – and thus of gold as the SBM was denominated in gold (see Section 3 for details) – in terms of a weighted index of international commodity prices (an ITS). This stabilisation of the real value of the unit of account for international trade would also offer automatic countercyclical monetary policy. The international business cycle would be smoothed as fluctuations in monetary demand or liquidity preference were automatically accommodated by an elastic supply of the international reserve.

While countries would retain their own sovereign currency there would be a great incentive to join the ITS regime of fixed (but when necessary adjustable) exchange rates. An ITS would be far more stabilising than the inflexible and increasingly pro-cyclical gold standard. The SCB could lend to debtor countries to offset fluctuations in output caused by the more rapid adjustment of the capital account over the slower adjustment of the trade account.[1] The temptation towards currency and trade wars by the key countries would be dampened. With SBM, whose value is stable in

1 In addition, capital movements were to be reduced by widening the gold points and central bank operations in the forward exchange markets to help them peg exchange rates.

terms of commodities, the external purchasing power of commodity-dependent developing countries would also be more stable. For Keynes an ITS would provide an important and viable monetary tool for the 'scientific management of the central controls of economic life' (Keynes 1930, CW VI, p. 302)[2] in the international arena.

The majority of modern monetary theorists either ignore or downplay Keynes' original proposal in the *Treatise* for an SCB with an ITS. An exception is Meltzer (1983, 1988) who does acknowledge Keynes' ITS as one of his more important proposals for fixing exchange rates and international monetary reform. However, Meltzer infers that the later 1941 ICU proposal which excluded the ITS rule was 'Keynes' mature view of the system he regarded as a workable, and possibly an ideal, monetary arrangement' (Meltzer 1988, p. 236). In contrast, we contend that Keynes continued to favour an ITS as an ingredient of an ideal international monetary regime from at least 1929 onwards (Keynes 1929, CW XIX), despite his vocal advocacy for this position waning post-1933 due to its lack of political viability.[3]

In contrast to Meltzer, Cesarano's (2006, p. 155) otherwise excellent book, *Monetary Theory and Bretton Woods,* hardly connects Keynes to an ITS at all, even though other important analyses and supporters are listed as representing the tabular standard view (e.g. Fisher, Marshall, and Hayek). In general, Cesarano lays emphasis on Keynes' opposition to the international gold standard, and by extension his opposition to every 'commodity standard'. Elsewhere, Cesarano (2003, p. 500) argues that Keynes' *Treatise* proposal for an SCB was taken from the 1922 Genoa conference conclusions and 'was anything but a break through'. This misses the critical point of why Keynes embraced an ITS in 1930 after being sceptical of its practicality in 1924 (Keynes 1924, CW XIX). The critical addition in 1930 by Keynes' that made the ITS palatable was an independent SCB that would issue its own currency, a design which would later instruct his 1941 ICU plus Bancor, and his 1942 CCs proposals.

Most economists have ignored the benefit of using an ITS as a non-discretionary method of managing international money. Kregel (1998, p. 215) points out that the first drafts of the *Treatise* in 1924 centred on the argument for a 'managed international standard of value'. However, Kregel goes on to describe the evolution of the *Treatise* as a discussion of *domestic* standards of value and ultimately concludes that Keynes drops the

2 In this paper, for convenience of reading, we reference all Keynes citations in the *Collected Writings of John Maynard Keynes* as CW with the volume in roman numerals.

3 Meltzer (1988, p. 239) does not consider Keynes' CCs or Bancor to be critical to Keynes' 1941 ICU proposal, while we see all three as important components of an ideal SCB plus ITS vision.

search for an ideal (domestic) standard of value, for the use of monetary management by the time he writes the *General Theory* (Kregel 1998, p. 219). While we agree that this may be true for domestic currencies, it ignores Keynes' enduring commitment to an *international* standard of value and for an international currency managed via non-discretionary means. More recently, Kregel (2015, p. 5) selectively used the *Treatise* (Chapter 36), listing Keynes' caveats to an international standard, as blanket opposition by Keynes to all international standards. This is misleading as it omits Keynes' reasons for choosing a managed ITS as the *ultimate* long-run ideal, as laid out in Chapter 38 of his *Treatise*.

Among the few economic historians that do mention an ITS in conjunction with Keynes, most cite Keynes' supposed rejection of it in the *Economic Journal* (Keynes 1943, CW XXVI) when he criticised Hayek's (1943) interpretation of Benjamin and Frank Graham's international commodity reserve currency proposal (see Cooper 1988, p. 318, Cesarano 2006, p. 155). We show in Section 4 why this is a mistaken interpretation since Keynes (Keynes 1944, CW XXVI, p. 39) later retracted or modified his critique of Hayek's ITS, modifying his comments with the quote above and offering full support for some version of his ITS as a long-run ideal goal.

While the SCB in the *Treatise* is recognised in the literature as the 'embryo' for Keynes' ICU (Bibow 2009, p. 152), the latter without an ITS is thought to represent Keynes' most fully formed vision – a 'culmination of his monetary thought as applied to institutional and policy design in the international sphere' (Bibow 2009, p. 163). Thus anything missing from the 1940's ICU architecture, such as the indexation of gold to a basket of internationally traded primary commodities (i.e. an ITS), is assumed to have been discarded for economic rather than political reasons. This paper will argue the opposite – that Keynes left the determination of gold up to Anglo-American decision-making due to his own political acquiescence.

Our paper is structured in the following manner. In Section 2, we give an overview of the origins of the tabular standard, noting which economists promoted it in the late nineteenth and early twentieth centuries, and how it was seen as a solution to removing gold price variability, and smoothing the international trade cycle through coordinated and rule-based monetary expansion and contraction. Section 3 sketches Keynes' initial scepticism and then adoption of an ITS culminating in three separate international currency proposals between 1930 and 1933. In the Section 4, we deal with Keynes' proposal for post-World War II international monetary reform which omitted a tabular standard but did include international commodity buffer stocks. We argue that by including the latter, Keynes shows a continuing commitment to stabilising the trade cycle in real terms from monetary shocks. By substituting CCs in place of the tabular standard, Keynes follows his own 1944 advice that commodity buffer stocks are the best way to approach the tabular standard and will accustom men's minds to this system of anchoring exchange rates and offering an international automatic stabiliser. We conclude that Keynes' ideal international monetary system would include an SCB or ICU, issuing SBM stabilised by the guidance of an ITS which is supported by individual commodity buffer stocks or CCs.

2. The origins of the tabular standard

Under a gold standard, the stabilisation of the purchasing power of paper money could be achieved in three ways – the indexation of deferred contracts for a change in the gold price of national goods and services; an adjustment in the exchange rate of a domestic currency relative to gold thereby stabilising the domestic currency price of commodities despite a change in the gold price of domestic commodities; or an adjustment of the international value of gold to stabilise the gold price of internationally traded commodities by adjusting the supply of gold or managing its demand. All three have made use of a tabular index, and their history is outlined below.

2.1 Indexation of deferred payments

The early proposals for stabilising the purchasing power of a currency, beyond controlling the quantity of gold and money in the system, were for a voluntary indexation of deferred debt contracts to reduce uncertainty and stabilise exchange rates. This was initiated by John Wheatley (1807 cited in Jones 1975, p. 2), a strong advocate of the quantity theory of money and what would later be known as absolute purchasing power parity. Joseph Lowe (1822) is thought to be the first to have given a detailed explanation of how to use indexation and a table of standardised consumption goods as a measure of value, based on a basket of household goods in proportion to their use (cited in Jevons 1876, p. 329). By indexing loan payments for consumer price inflation, debt contracts would have a stable real value in terms of purchasing power. G. Poulett Scrope (1833) independently came up with a similar plan based on 50 standardised commodities (also cited in Jevons 1876, p. 329). Jevons in 1875 reinvigorated the call for a tabular standard for deferred debt contracts in his widely read book *Money and the Mechanism of Exchange*. He argued for all debts greater than three months to have the option to be indexed to inflation in gold prices of goods – an index of 100 or more standardised commodities weighted in terms of their usage. A daily index of the gold price of a 'list of commodities' (a tabular standard) would be compiled and posted by an official permanent government commission. It would provide the calculation for daily indexation of Sterling debt face value and interest payments, to form the contract's deferred *unit of account* (for an example, see Jevons 1876, p. 323). It would be similar to how 'inflation-indexed bonds' are indexed today. Once such an option became better understood, Jevons believed that its popularity would increase and it would become the default for long-term contracts. Jevons argued for state promotion of the tabular standard which would be fairer for both debtors and creditors. It would remove uncertainty in business decisions, stabilise the financial system, and smooth the business cycle, as debtors during a credit crisis facing falling prices would now find that their nominal debts would also fall by the same ratio (Jevons 1876, p. 326).

Bagehot (1875) argued that such indexation would cause enormous confusion, since Jevons had separated the *unit of account* from the *medium of exchange*. He believed that tracking publicly the past variance of money values and modifying contracts retroactively would cause more uncertainty rather than less. Bagehot clearly placed importance on maintaining what Mirowski (1991, p. 580) has called the 'working fiction of a monetary invariant through time'. Jevons would have been impervious to this criticism since he wanted to remove uncertainty of the *real* rate of return, and separating the functions of money was exactly what he set out to do. Jevons described money as having four functions: (i) a medium of exchange, (ii) a store of value, (iii) a common measure of value for exchange, and (iv) a *standard of value* for borrowing and lending. The third function can be reframed as *unit of account* for spot transactions, and the fourth one as a, possibly different *unit of account* for deferred payments. He argued that, except for convenience, it was not always desirable for one substance to satisfy all the functions of money. He gave an example where a person may prefer to use gold as the medium of exchange, precious jewels as a store of value, pound sterling paper as the unit of account, and a list of goods and services as the standard of value for deferred contracts (Jevons 1876, p. 17).

Alfred Marshall was an enthusiastic supporter of Jevon's tabular standard for deferred contracts and stated that indexation meant:

> the borrower would not be at one time impatient to start ill considered enterprises in order to gain by the expected rise in general prices, and at another afraid of borrowing for legitimate business for fear of being caught by a general fall in prices … Salaries and wages … could be fixed in units, their real value would then no longer fluctuate constantly in the wrong direction … It's introduction would be a powerful remedy for the great evil [inflation and price uncertainty]. (Marshall 1887, pp. 198–9)

2.2 Indexation of paper currency

Anuerin Williams in 1892 might be said to have directly addressed Bagehot's critique by extending indexation to currency itself, what Keynes would later refer to as *managed money*. Although heavily criticised, Williams argued that by changing the state's exchange rate between gold and paper money, the purchasing power of money could be stabilised. Since most transactions and deferred settlements were in representative paper money, he proposed to withdraw gold and silver coins altogether and only have paper money convertible into bullion at the Mint. The Mint as the monopoly price setter would adjust the rate of conversion, their buy/sell rate of bullion, in accordance with the gold price of consumer goods. Williams would still require 100% gold backing of all currencies issued.

Irving Fisher, beginning in 1911, came up with a similar proposal for the United States (1912, p. 331, 1920) which he called the 'compensated dollar'. If a price index in dollars should increase by 1%, then increasing the gold content of a dollar by 1% would restore the purchasing power of a dollar. Fisher would allow gold or silver coins to remain in circulation, full convertibility between dollar and gold, and a fractional reserve system of voluntary bank reserves (gold holdings) rather than the strict 100% gold backing. In effect, both men were advocating central bank open market operations between gold and currency to manage exchange rates in order to keep the real value of a domestic currency constant. This was already widely practised in Belgium, the Austro-Hungarian Empire, and France (Eichengreen and Flandreau 2014, p. 12), but not so by the gold standard countries like the UK and the United States.

Fisher extended his domestic tabular standard or compensated dollar proposal to an international monetary system. He argued that one country, he suggested Austria, keep a gold window open, have two-way convertibility, and buy and sell gold bullion, adjusting the Austrian gulden–gold exchange rate, and pegging the gulden to a basket of internationally traded primary commodities, weighted in terms of their volume of trade. The official index could be compiled and announced by a statistical office located in the Hague. All other countries wishing to join the commodity-based currency standard could peg their currency to the gulden, with open market operations in foreign currencies, thereby stabilising their own currency's purchasing power to the ITS (Fisher 1912, p. 343). 'Each nation would continue to use its old familiar currency, whether gold, silver or paper. The ordinary man would be unaware of any change' (Fisher 1912, p. 344).

In 1911, Keynes disagreed with Fisher on the ability or desire to stabilise domestic currency values through exchange rate manipulation with gold

(Keynes 1911, CW XI, p. 381). In contrast, he thought the other proposal by Fisher to stabilise an international reserve currency, combining both the tabular standard and the gold exchange standard, was admirable. Keynes' own thinking of 'proposals for an international currency' had begun at least as early as 1909 (Moggridge 1986, p. 56). His first published proposal for an ITS in 1930 may have been influenced by Fisher or his teacher Alfred Marshall. Six months before Marshall's death in December 1923, he wrote to Keynes suggesting that a new international currency, one stable in value, was required to fix currency maladies (Keynes 2013a, CW X, p. 195, f.n. 3). In 1924, Keynes began working on this topic as seen in the early drafts of his *Treatise on Money,* perhaps fulfilling Marshall's wish.

2.3 Indexation of gold

The idea that gold offered an independent standard of value, as Fisher had presumed, increasingly gave way with growing large swings in gold prices beginning in the twentieth century. The decline in the public's monetary demand for gold, as well as the maldistribution and uncoordinated dumping or hoarding of gold by central banks, was blamed for the 'violent' depreciation or appreciation of the value of gold in terms of goods and services (Hawtrey 1923, Cassel 1920, 1936).

Hawtrey, Cassel, and Keynes agreed that the large general rise or fall of international commodity prices, in the interwar period, was not due to the more popular explanation of periodical overproduction or periodical over confidence, but rather a consequence of falling or rising gold valuations due to fluctuations in 'monetary demand' for gold by central banks (see Hawtrey 1923, Keynes 1924, CW XIX, Keynes 1929, CW XIX, p. 775, Cassel 1930).[4] Since a gold standard fixes the nominal price of gold in terms of a country's currency, a rise or fall in the demand for gold will not adjust the fixed nominal price of gold but rather decrease or raise the nominal prices of all other goods.

According to this view, the decline in monetary demand for gold with the suspension of the gold standard and currency convertibility in 1914 by most countries, except the United States, caused a depreciation of gold in real terms and explained the rise in international commodity prices in terms of gold. Early on, Hawtrey and Cassel foresaw a serious risk for

4 The earliest policy to remedy this problem was by Walras in 1886 (cited in Hawtrey 1962, p. 191). Under the limping gold standard, Walras suggested that if a fall in prices was threatened by a scarcity of gold currency, then the authorities should increase the volume of silver coins (or silver notes) to supplement gold.

falling commodity prices and deflation as countries moved back to the gold standard, as this would mean a scramble for gold by central banks and a rise in the commodity price of gold.

Formal discussions regarding the establishment of a gold exchange standard at pre-war parities occurred at the 1922 Genoa monetary conference of mostly European nations (the United States did not attend). The resolution of the conference was to:

> …centralize and coordinate the demand for gold and so avoid those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. (Resolution 9 of the report, cited in Eichengreen and Flandreau 2014)

The British Treasury dominated the conference proceedings and Ralph Hawtrey, from the Treasury, was the primary author of the final document agreed to at Genoa. To economise on gold reserves, it was agreed that only the *key currency* or *key currencies* (US dollar and Sterling) would have two-way convertibility for gold bullion and hold sufficient (even idle) gold reserves. All other national currencies would be convertible into a key currency, and hold liquid assets in the *key currencies* as their reserves instead of gold.

Under an ITS, the national central banks would expand or contract credit, and vary interest rates to peg their exchange rate with the key currency. Key currency central banks, United States and UK, were to stabilise the price of gold by pegging it to an international basket of commodity prices. In order for the key central banks to manage the gold price, they would need to offer an elastic supply of gold – be willing to buy or sell at their respective fixed exchange rates: 'if the prescribed value [of the tabular standard] is above the existing market value of the unit [gold], credit must be contracted. If below, credit must be relaxed' (Hawtrey 1923, p. 134).

Unfortunately, agreement to such a gold-exchange standard, with the United States and UK offering a supposed unlimited or elastic supply of gold, made the precise choice of the tabular standard of great significance and so its specificity was left open to further discussions between the world's 'great' central banks. In practical terms, the only lists of data readily available on international prices suitable for a TS was that for traded primary commodities. Hawtrey argued that since primary producers, unlike manufactures, could not easily reduce production suddenly, their sensitive prices were ideally suited to indicating monetary shocks when there was co-movement across a large range of commodities. Hawtrey believed that the 'trade cycle is a *purely* monetary phenomenon' (Hawtrey 1923, p. 141) and that it could be smoothed under a *managed* gold standard by countering monetary demand shocks with coordinated central bank action (Hawtrey 1939, pp. 114–7) using an ITS.

Despite Hawtrey and Cassel's warnings, the key central banks did not cooperate over the 1920s nor adopt a method to manage the real value of gold along the lines of an ITS. Hawtrey bemoaned that:

> Critics of the Genoa Resolution have for the most part either overlooked this recommendation [preventing undue fluctuations in the purchasing power of gold] altogether, or they have viewed it with misgiving and suspicion as an academic proposal of doubtful practicability. (Hawtrey 1923, p 137)

While countries did return to the gold standard and conserved gold by not reintroducing gold coinage into circulation, and increased the proportion of reserves held in key currency assets, they did not lower the legal reserve requirement of central banks for cover over their volume of notes in circulation. The size of British exchange reserves grew much faster than gold stocks in the British central bank. Retention of two-way convertibility between gold and the key currency only increased the probability of a run on gold at a key central bank as pointed out by Mlynarski (1929, cited in Eichengreen and Flandreau 2014),[5] which occurred for Sterling in 1931.

3. Keynes prior to Bretton Woods

In the 1923 *Tract*, Keynes rejected a Sterling exchange rate fixed to gold, especially given gold's mismanagement. While sympathetic in theory, he did not believe that an ITS rule for gold management along cooperative lines between the great central banks was feasible. He would later resolve this hurdle and embrace an ITS by proposing an independent SCB with its own currency, in his 1930 *Treatise*, reducing the need for central bank cooperation. Keynes followed this proposal up with two more ITS proposals: in November 1931, he circulated *Notes on the Currency Question* with officials at the Bank of England and the Treasury proposing a Sterling bloc with Sterling managed along ITS lines; and then in his 1933 *Means to Prosperity* which returns to an international paper gold proposal, he briefly mentions that its value would be managed along ITS lines. This section of our paper tracks this period from 1923 to 1933, discussing these three proposals and their connection to an ITS. The section ends with a summary of the primary

5 This is known in modern-day terms as the 'Triffin paradox' (Eichengreen and Flandreau 2014).

criticisms of these proposals by others at that time and why they were seen as not politically viable.

3.1 A tract on monetary reform

In his 1923 *Tract*, Keynes argued for independent discretionary national monetary policy and warned Britain about returning to the gold standard, especially if at a pre-war rate.[6] Central banks should focus on the stabilisation of internal prices, over the stabilisation of exchange rates to gold. While sympathetic to Fisher's ITS, his 1911 'compensated dollar' policy for a domestic tabular standard for the US currency was too 'cut and dried' (Keynes 1923, CW IV, p. 147). Instead central banks should use discretion to adjust the exchange rate or the interest rate depending on where the instability was coming from – external versus internal pressures, respectively. For example, if British gold was flowing outwards, and this was due to Sterling's decline in purchasing power (domestic inflation), then the appropriate policy would be to raise bank interest rates. If, on the other hand, it was due to gold appreciating in terms of commodities (international prices in terms of gold falling), then the appropriate policy would be to raise the gold buying price (devalue the currency) and align purchasing power parity in the long run. If, however, the gold flow was due to temporary or seasonal factors, then the central bank should let it continue and allow its reserves to fluctuate (Keynes 1923, CW IV, p. 150). Thus Keynes argued for regulated exchange rates closer to a crawling peg (Moggridge 1986, p. 64).

Keynes' method for targeting *both* an exchange rate and interest rate target was through a wide bid-ask spread at the gold window (1%) and capital controls. He argued that this gave a country some freedom to modify interest rates slightly while still maintaining a fixed exchange rate. Capital controls would be in effect to reduce short-term speculation on currency fluctuation between the gold points.

In the *Tract*, Keynes described the unmanaged gold standard as a 'barbarous relic' (Keynes 1923, CW IV, p. 138). He was at the same time clearly sympathetic to attempts by Hawtrey and Cassel to replace it with a managed 'commodity standard' (Keynes 1924, CW XIX, p. 210). In 1924, Keynes states that he would have even agreed with Hawtrey if it were not for

6 Great Britain was on floating exchange rates from 1914 to 1925. Britain returned to the Gold Standard at overvalued pre-war rates from 1925 to 1931. With sterling overvalued relative to the rest of the world, Great Britain suffered deflation and a decade of low growth. It was forced off gold in September 1931 and Sterling devalued.

two impracticalities: (i) the cost and absurdity of digging up gold only to bury it again in bank vaults and (ii) scepticism that central banks, even if only between the Bank of England and the US Federal Reserve, could agree to coordinate their monetary policy in a manner that stabilised the international commodity price of gold. Asking these 'great' central banks to agree to a binding tabular standard would weaken their own domestic policy (Keynes 1924, CW XIX, pp. 210–1). So at least up until 1924, Keynes argued, consistent with the *Tract*, that the best one could expect was for the UK and America to separately aim for internal price stability and have two blocs, a sterling bloc and a dollar bloc with fixed exchange rates within each bloc and voluntary membership. Non-key countries would run an exchange standard with their key currency choice, and the option to adjust their exchange rate if needs be. If the UK and United States did coordinate by sharing information and achieved the same inflation rate, then this would by definition stabilise sterling–dollar exchange rates, but this was of secondary importance (Keynes 1923, CW IV, pp. 158–60).

With a decrease in the monetary demand for gold under a gold *exchange* standard and the growing science of managing representative paper currencies without gold backing, in 1924, Keynes expected the fetishism over gold to moderate. Since the world's gold supply was expected to increase over time, the large gold inflows into the United States may lead to a decision to depreciate the dollar in terms of gold. If the US dollar depreciated by at least 10%, the pound could return to its former parity with the dollar. Thus, prior to the return to gold for Britain, Keynes thought that there was as good a chance for a falling commodity price of gold and inflation rather than deflation (Keynes 1924, CW XIX, pp. 210–4). Although he soon changed his mind on this.

After Britain returned to gold at pre-war rates in 1925, Keynes was warning Churchill of British deflation. The French policy of undervaluation also contributed to weak economic growth and unemployment in Britain.

While the recycling of credit instituted under the 1924 US Dawes plan – where private US loans to Germany supported German economic growth, enabling reparations from Germany to Britain and France, and enabling Britain and France to pay off war debts to the United States – promoted global credit and economic growth, it hid the potential global liquidity problem. The Franc was stabilised in 1926 to gold, at a historically low level, producing current account surpluses through the late 1920s. Indeed an accumulation of gold in French and US central banks was the primary source of growing global imbalances.[7] This cycle broke down in 1928 and

7 France's share of gold reserves soared from 7% to 27% between 1926 and 1932. In 1932, the United States and France together had over 60% of the world's gold between them.

contributed to the debt deleveraging spiral of the Great Depression (see Kindleberger 2005, p. 139). It was exactly the goal of the 1922 Genoa Monetary Conference to avoid just this sort of gold mismanagement and maldistribution that would become one of the leading causes of the Great Depression (Eichengreen 1992). Hence by 1929, if not earlier, Keynes conceded to Hawtrey and Cassel on their prediction for gold scarcity and the importance of managing and stabilising the real value of gold (Keynes 1929, CW XIX, pp. 775–80). Like Hawtrey, Keynes would now propose an ITS and use gold as camouflage for the new commodity standard. The second problem of cooperation under an ITS he would solve by proposing a new activist SCB with its own reserve currency, and clearing and settlement services between member central banks. This architecture would offer 'a solution which is reasonably compatible with separate national interests' (Keynes 1930, CW VI, p. 257) which was the goal of the *Tract*.

3.2 A Treatise on money

Keynes' 1930 *Treatise*, originally to be called *The Standard of Value* (Keynes 2013b, CW XIII, p. 15), evolved from 1924 to 1930. His original requirements for a suitable standard of value were (i) short-period adjustability to the fluctuations of real balances of credit, (ii) intrinsic value, (iii) long-period stability of intrinsic value, and (iv) universal acceptability (Keynes 2013b, CW XIII, p. 17). We note that all four are consistent with his proposed ITS. Keynes distinguished between an 'international standard' from a national 'consumer price standard' or a wage or 'earnings standard'. The latter two domestic standards would be different in different countries and even move in opposite directions.[8] There was by definition only one international standard. Keynes gave a rough example of an ITS by replicating a list of 62 of the most important traded primary commodities. An index of these commodities weighted in terms of their volume in world production could be a crude but useful target to manage the value of gold by a new SCB.

Keynes argued that an ITS had four main advantages. First, it would be a close (though far from perfect) approximation to wholesale prices in every country and therefore offer a valid anchor for fixing exchange rates. Second, by stabilising the long-term trend of the gold price in terms of wholesale commodities, a small amount of domestic consumer price inflation would be built in to all countries that fixed their exchange rates to this ITS, and this would allow for an automatic and sustainable rise in wages above productivity gains (Keynes 1930, CW VI, pp. 352–3). This is because

8 This view had changed from the *Tract* where convergence to the purchasing power equilibrium between countries at least over the long run was assumed.

Keynes believed that over the long run, primary commodity prices would fall slowly relative to retail prices given discovery and technical progress in the former, and the large component of services that do not witness great technological advancement in the latter.[9] Third, the allowance for a small amount of inflation in the earnings standard and ultimately consumer prices would give a slight advantage to debtors over creditors and promote long-term investment. Finally, given the sensitivity of a commodity index to short-period 'investment disequilibria', stabilising its long-period value would assist the SCB authorities in the right direction to manage short-term liquidity needs of member central banks over the business cycle (Keynes 1930, CW VI, pp. 353–4).

The introduction of an SCB to manage international liquidity was of great immediate importance given the lack of central bank cooperation over the 1920s. Interest rate coordination among the major economic centres would remain an issue under a regime of fixed exchange rates; however, Keynes while offering an objective anchor did also try to safeguard domestic autonomy by promoting fixed but adjustable exchange rates under his proposed ITS. Each country would have a wide central bank buy–sell margin of 2% (twice the spread in the *Tract*) for fixing their SBM exchange rate, offering some discretion in varying the domestic interest rates (and exchange rate within the corridor) while limiting capital flight. A variant on the gold point mechanism was for the central bank to control the exchange rate through control over the short-term forward exchange rate premium over spot rate, to attract or dissuade speculation or capital flows in the currency. This mechanism was previously advocated at Genoa.

For transitional and psychological purposes, gold remained central in Keynes' plan. The SBM would be denominated in gold, of a certain weight, and reckon equally with gold, with two-way convertibility between SCB and individual central banks, but only one-way convertibility in national markets – gold would be removed from domestic circulation. (Later, following the 1931 run on Sterling, Keynes designed the 1941 ICU regime with one-way convertibility between Bancor and gold, discouraging gold hoarding, gold bank runs, and circulation of gold even between central banks.) Gold's value would be pegged to the ITS by the SCB adjusting the supply of SBM and/or setting a discount window rate for central bank borrowing in accordance with the ITS target (Keynes 1930, CW VI, p. 359).

The SCB would act as a monopoly issuer of the new SBM, transplanting the national central bank and commercial interbank relationship to the international level. The SCB (like the later ICU) centralised reserves and

9 This might be seen as a forerunner to the Prebish–Singer hypothesis, and in contrast to most thinking at that time.

offered clearing house services to national central banks, reducing the stock of reserves needed by any single central bank. In addition, the SCB offered lender of last resort facilities via a discount window for member central banks to access short-term loans, it could set a short-term inter-central bank interest rate thereby adjusting the global supply and demand of SBM (central bank reserves), use open market operations to buy and sell government bonds issued in SBM when needed, and even set an adjustable reserve requirement for national central bank holdings of SBM reserves.

In the *Treatise*, Keynes' SCB would be independently run by a Committee of Central Banks, and restrained by the guiding principle to stabilise the real value of SBM in line with an ITS by primarily adjusting the supply of SBM in response to volatility in the demand for international reserves. Not only would this support fixed exchange rate policies, it would help smooth the trade cycle. This non-discretionary approach would have been complemented by adjustments of the SMB interest rate or reserve requirement in order to equilibrate investment and savings in the short run. In 1930, Keynes was still under the belief that interest rate setting by central banks could equilibrate investment and savings. (This would be dropped in future work that led to his *General Theory* (see Tily 2010), and we do not retain interest rate targeting as part of Keynes' post-war ideal SCB.)

Another important role of the SCB was to promote central bank member discussion and possible coordination of domestic monetary policy actions when appropriate. Unlike in his later 1940's ICU proposals, Keynes did not tax or penalise countries for holding excess reserves, instead he declared that he could not 'prevent individual [central] banks from making the situation difficult for their neighbours by absorbing and hoarding more than their reasonable share of the world's supply of gold; I see no way of doing that' (Keynes 1930, CW VI, p. 357). However, by economising on the need for reserves through multilateral clearing, offering a discount window lending facility to central banks, replacing gold with SBM, and making the provision of SBM elastic, Keynes thought there would be enough latitude to enable countries to manage short-period liquidity situations that 'were not of a uniform character the world over' (Keynes 1930, CW VI, p. 358).

While laying out what he thought at the time to be a good skeleton of the ideal architecture for a regime of fixed exchange rates, Keynes was sceptical about whether the world was ready for an international central bank controlling a new international reserve currency. He mused on whether flexible exchange rates were not a better initial first step that would safeguard domestic autonomy. But since the gold exchange standard and fixed exchange rates had been reintroduced by the UK, and the Bank for International Settlement (BIS) had been established in May 1930 (which might be a suitable SCB), Keynes, in his *Treatise*, took an optimistic view and advocated for what he called the 'end point' – an international central bank with its own managed international currency under the rule of an ITS. This would be 'the ideal currency of the immediate future' (Keynes 1930, CW VI, p. 348).

By creating a new *N*th currency, unassociated with a country, used to centralise, clear and settle inter-central bank accounts, the international monetary reform plan of the *Treatise* was very similar to the post-war Bancor and ICU proposals. A major difference was that the earlier *Treatise* instituted counter-cyclical liquidity management by adjusting the supply of reserves and thereby stabilising the real value of reserves in accordance with an ITS. Definitely after his 1936 *General Theory*, but even by 1933 as we shall see below, Keynes became more sceptical of monetary policy during a liquidity trap and advocated fiscal policy to fight deflation. By 1942 under the ICU, Keynes would institute international counter-cyclical policy by the addition of CCs, which combined both international fiscal and monetary policy. The second major difference was that his *Treatise* plan was a voluntary and cooperative regime of fixed (but adjustable) exchange rates, with an exogenous non-discretionary benchmark unconnected to another country's currency or gold holdings. It was believed that each country should retain domestic monetary sovereignty in contrast with the Bretton Woods proposal which was based on coercion and sanctions (see Graham 1943, pp. 12–4, for a contemporary critique of Keynes' Bretton Woods proposal), and one where Bancor was dependent on US determination of gold values or in other words US monetary policy.

3.3 Notes on the currency question

From 1928 to 1932 international commodity prices declined 34%. Cassel, Hawtrey, and Keynes held the minority view that directly blamed the rising value of gold for the aggregate decline in international commodity prices which in turn led to the Great Depression. Gold scarcity for trade-deficit countries meant potential runs on their currency, incentives for tariff barriers, retaliatory trade wars, a decline in world trade, and further downward pressure on prices.

In September 1931, a run on sterling forced Britain off the gold standard and onto a floating exchange rate. Convertibility into gold remained, but the pound devalued by around 25% to US$3.70.[10] Most countries in

10 Keynes would argue that it was "truer to say that gold went off sterling than that sterling went off gold" due to the antics of gold volatility (Keynes 1932a, CW XXI, p. 77).

the British Empire followed soon after, devaluing at different rates, and eventually pegging to sterling and adopting Imperial Preference – the raising of tariff barriers to outsiders of the British Empire in 1932.[11] Countries that stayed on the gold standard pursued deflationary policies and used exchange controls or tariffs to stem the outflow of gold. Within the sterling bloc, sterling commodity prices did not rise despite the devaluation as world trade was shrinking.

France and the United States were opposed to this mass departure from the gold standard. Expectations for the United States to also devalue led to their own gold outflow. France and the United States pressured the UK for 'currency stabilisation' – a return to the gold standard at higher sterling valuations.

As soon as Britain left the fixed exchange rate regime, there was broad discussion among British officials on the appropriate currency policy – whether the UK should return to the gold standard, and if so at what exchange rate. Keynes, who was in favour of the devaluation, responded to a request by the UK Treasury to advise them on options for currency policy and a possible international currency conference (Keynes 2013c, CW XXI). Keynes opined that such a conference was premature, as it would give France the opportunity to press Britain to prematurely return to the gold exchange standard and at a too high exchange rate.

In a longer paper entitled *Notes on the Currency Question*, sent to the Treasury and Bank of England two months after leaving the gold standard, Keynes discussed flexible versus fixed exchange rates, and again put his weight towards fixed but adjustable rates – adjusted rarely but unilaterally to equate efficiency wages across countries when periodically necessary, and to stabilise sterling commodity prices (Keynes 2013c, CW XXI, pp. 16–28). He advocated for an Imperial currency conference where Britain should put the case for a managed sterling bloc (Keynes 2013c, CW XXI, p. 26). Keynes suggested anchoring Sterling to a commodity tabular standard – an index of the most important traded primary commodities weighted by inter-imperial trade (Keynes 2013c, CW XXI, p. 19). Keynes suggested, to periodically adjust the sterling-to-gold buy and sell rate by the Bank of England as the gold price of commodities changed, thereby adjusting the supply of sterling and pegging its parity with the commodity basket (Keynes 2013c, CW XXI, p. 20), stabilising overall commodity prices in terms of sterling, while allowing it to vary against gold bloc countries.

Keynes argued that his scheme would allow the sterling bloc convergence to a future supranational bank solution as advocated in his *Treatise*

11 Australia devalued one month earlier than Britain in August 1931. Imperial Preference was also in response to the US 1930 Smoot–Hawley Tariffs Act.

where the international price of gold (and SBM) would be a managed international commodity standard, and all countries could return to fixed (but adjustable) exchange rates:

> It is not in any way incompatible with coming ultimately to an understanding with the gold standard countries. For the link with gold is retained and if hereafter some scheme can be worked out by international co-operation *for securing some reasonable measure of stability in the commodity value of gold*, then sterling will automatically recover a stable value in terms of gold as well as of prices. (Keynes 2013c, CW XXI, p. 21, emphasis added)

When discussing what level of exchange rate to target Keynes suggested indexing Sterling to 1929 commodity prices which would mean a devaluation of 1 sterling to US$3.50 and a rise in the terms of trade of commodities over manufactured goods. This was seen as a 'necessary condition' for the revival of British exports that would come from the improvement of foreign colonial incomes and their demand for British imports. In addition, this would improve incomes on British foreign investments in the colonies that were dependent on the price level of commodities (Keynes 2013c, CW XXI, p. 26). Thus Keynes was doing more than just stabilising imperial exchange rates, stabilising pound prices of commodities, and anchoring the purchasing power of wholesale goods in inter-imperial trade – his intention was to raise and stabilise the terms of trade between imperial primary commodity producers and manufactures, and thereby raise demand for UK manufactures by alleviating balance of payment-constrained colonies.

While an imperial sterling bloc did quickly come about by 1932, and an imperial monetary conference agreed to implement 'Imperial Preference' (lowering tariffs between the UK and its colonies while raising them for other countries), the UK officials were staunchly against suggestions that the administration of sterling might somehow be internationalised. Keynes' suggestion for an Empire Sterling Standard was seen as 'politically disastrous' and died almost instantly – 'consigned to the same wastepaper basket that was to receive so many schemes for Empire monetary solidarity' (Drummond 1981, pp. 21–3).

3.4 The means to prosperity

As the Great Depression became more entrenched and deflation and falling commodity prices continued, world coordination between France, UK, and the United States became paramount and an international currency conference was finally held in London in June 1933. Agreement by all parties was that world commodity prices needed to rise. The cause of their decline or the solutions to raise them back up were in dispute. Preceding the *London Economic Conference*, Keynes published four articles in *The Times* entitled *The Means to Prosperity*, outlining for the first time the mechanics of the consumption multiplier, and proposing simultaneous budget-deficit spending by countries, supported by a new international monetary regime (Keynes 1932b, CW XXI, p. 216, Keynes 1933, CW IX, pp. 358–9). Although with far less emphasis, Keynes returned again to the ITS and argued for a new gold-commodity standard, a system of fixed exchange rates based on the issuance of gold notes, denominated in US dollars. He specified the need for a new international authority, supposedly the BIS, that would issue the notes, and modify the supply of these gold notes in order to keep the gold price of commodities stable at an agreed level, perhaps the higher 1930 level. As previously stated, an ITS would mean that notes would be withdrawn as international commodity prices recovered. 'Gold points' or a bid asks spread of now 5% was suggested when fixing domestic currencies to gold. The window would allow countries to have slightly different interest rates, and the wider spread would add transaction costs to short-term capital speculation, but not enough to reduce long-term foreign investment.

The BIS as well as the US Federal Reserve, with its massive holdings of the world's gold, would need to cooperate in keeping the gold prices in accordance with an ITS. The gold notes would be created by fiat, convertible into US dollars, and distributed among the participating countries on a quota system against an equal face value of gold bonds issued by their governments.[12] The distribution of these notes would allow national governments to more easily finance their public works schemes and lower the fears of central banks worried they would lose reserves in the process.

Keynes emphasised that the way to raise world prices and fight deflation was through combined, simultaneous, international action, where each nation should have policies of cheap bank credit, low flat yield curve (low short- and long-term interest rates), tax relief, and government deficit spending on investment projects. While individual country-deficit spending would lead to a drain on central bank reserves and a balance of payments crisis:

12 Keynes attributes the quota system plan to one originally devised by Hubert Henderson, an economics advisor to the UK government and one of Keynes' former collaborators. Henderson had proposed to increase international reserves by extending advances from the BIS to governments or central banks to enable them to repay external debts and support domestic expansionary policy.

> the pressure on its foreign balance, which each country fears as the results of increasing its own loan-expenditure, will cancel out if other countries are pursuing the same policy at the same time. Isolated action may be imprudent. General action has no dangers whatever. (Keynes 1933, CW IX, p. 356)

Counter to Keynes' efforts, his policies were not part of the official British proposals at the conference, despite being on the Economic Advisory Council to the Prime Minister (see Howson and Winch 1977). Most officials 'pretty generally regarded [Keynes] as an extremist'.[13] His policies were potentially dangerous as they could undermine confidence in sterling and lead to a run on sterling reserves. London's external liabilities were still immense and her gold reserves still exiguous. Most authorities believed that Great Britain's future was to return to gold and keep sterling as a world reserve status, where it financed and invoiced so much of the world's trade. The Bank of England had to stop the drain on gold and aimed to avoid deliberate credit expansion, deficit budgeting, or public works programmes, that would raise fears of further exchange rate depreciation.

For the 1933 international monetary conference, the British officials planned to back the Kisch plan rather than Keynes' proposal. The Kisch plan proposed an International Credit Corporation, which would borrow gold from surplus countries and lend to deficit countries. In the end, neither plan got an airing at the conference, rather the conference was a failure. The newly elected Franklin Roosevelt had taken the United States off the gold exchange standard two months before the conference. At the conference, the gold standard flag bearers (like France, private bankers, and the BIS) were pressuring participants, for a renewed commitment to the gold standard. Like the UK earlier, the United States planned to focus on its own domestic situation, and had devalued the dollar to raise domestic prices as Keynes had advocated in the *Tract*. Unlike the UK, the United States also ventured into the territory of massive deficit financed investment spending. So while the conference ended in failure, rather than criticise the United States for unilateralism and beggar-thy-neighbour tactics, Keynes praised the United States as being the only country ready to significantly expand its fiscal policy. With the 40% devaluation of the US dollar, commodity prices in US dollars rose, and once the United States fixed its currency to the new higher gold rate in 1934 ($35 to the troy ounce, from $20.67 to the troy ounce), the immediate need for commodity reflation was resolved.

13 Quoted by an American observer at the London Economic Conference (Cox 1946, cited in Kindleberger 1986, p. 31).

The authors of this paper argue that the use of an ITS by Keynes as contained in these three proposals – *Treatise*; *Notes on the Currency Question*; and *The Means to Prosperity* – was ultimately abandoned for political rather than economic reasons when Keynes was drafting his 1941 ICU proposal. In addition with the revaluation of gold commodity prices had improved and the immediacy for an ITS was no longer there. However, these ITS proposals should be remembered and seen as an important contribution towards Keynes' ideal vision of global monetary reform, and his desire in the long run for an international standard of value, especially given his 1944 quote at the beginning of this paper, 'I hope the world will come to some version of it [ITS] some time' (Keynes 1944, CW XXVI, p. 39).

3.5 Criticisms of Keynes' ITS

Initially, the UK Treasury and Bank of England were sympathetic to the idea that maldistribution of gold had caused a decline in international prices after 1929, but they remained sceptical of promoting 'cheap money', unless it was done internationally. They were convinced that a unilateral devaluation of the British pound could not by itself reflate world prices. Those countries still on the gold standard had to expand credit as well; otherwise, the Sterling would lose credibility as a stable currency.

The British officials did not want to connect commodity policy with monetary policy in their talks with the Dominions. Empire countries had little by way of domestic money markets. A devaluation of sterling would lift colonial prices and incomes given their specialisation in the export of primary products, as long as world trade barriers were not on the rise. However, Britain was more concerned about their relations with France and the United States than helping their raw material suppliers. Above all, they were determined to keep sterling policy solely within UK discussions, despite the concerns of a greater sterling bloc which now also included Nordic countries. The British Treasury head, Neville Chamberlain, when discussing commodity price stabilisation preferred to promote a policy of commodity output restriction over 'cheap money' (Drummond 1981, pp. 26, 159).

Once being forced off gold in September 1931, while the UK Treasury and Bank of England were initially committed to a return to a gold standard with non-discretionary monetary policy, and often at an exchange rate much higher than what Keynes ever supported, they became increasingly willing to use easy and discretionary money to fight deflation when needed. They, however, held to the belief that public works were only implemented with a long delay, were historically of not great capital value and would cause 'crowding out' (Peden 2004, p. 136). They criticised

Keynes' *Means to Prosperity* articles, which primarily focused on support for public works, as hypocritical since Keynes himself had said that unilateral deficit spending would lead to a balance of payments crisis.

The Treasury and the Bank of England were also critical of Keynes 'gold points' which he continued to use through all his proposals, widening it up to 5%. They argued that a large bid-ask spread would cause exchange rate volatility and unhealthy speculation in the currency, losing the benefits of a fixed exchange rate (Peden 2004, p. 152).

Despite Hawtrey's exposition on the need to stabilise gold values and sterling in line with world prices, the Treasury was opposed to targeting gold values or sterling in line with 'volatile commodity prices' (Peden 2004, pp. 123–5). They did not see an orderly correlation between international commodity prices and the world's excess demand for gold. They definitely did not want to be tied to an appreciation of sterling when commodity prices rose. Rather they believed that if all countries returned to a gold standard, then stability would be reintroduced, and gold could be managed by UK and US central bank coordination and discretion. Like many open-minded conservatives, they came to regret that they did not do more in 1929 when international commodity prices started to fall. But they did not go as far as Keynes who argued that gold had lost its standard of value (something it never really had anyway) and needed to be managed internationally in a non-discretionary manner.

From a totally different angle, Jan Goudriaan (1932), Benjamin Graham (1933, 1937, 1944), and Frank D. Graham (1933, 1940, 1941, 1943, 1944) emphasised that while credit expansion alone, in either the domestic or international arena, may work in normal times, it may not work during a deflation, due to the hoarding of money or gold. Their own plan for a commodity reserve currency allowed for the creation of money against a surplus of unsold commodity stocks in the possession of producer countries, while Keynes' proposal was limited to creating credit against debt (B. Graham 1944). These criticisms matched the domestic experience in the UK under a managed float and reduced interest rates, which in the end had little impact on unemployment. In line with Keynes' own views in the *General Theory* on liquidity preference, accepting this critique explains his increasing emphasis on public works and government investment over monetary easing (Keynes 1932/1933).

Goudriaan and the Grahams emphasised that any new international reserve currency needed to be convertible into a basket of primary commodities, and the maintenance of commodity buffer stocks, which would be equivalent to international fiscal policy. This would avoid the coordination that domestic deficit financing required (see Ussher 2011).

In 1938, Keynes (Keynes 1938, CW XXI) wrote a paper in support of British government storage of commodity stock piles to compensate for the lack of private holdings. The aims were various and the paper would form the basis of his international CCs proposal in 1942. Interestingly, he regarded the government holdings of 'liquid stocks of raw materials as a natural evolution of the policy of holding liquid stocks of gold outside the banking system' (Keynes 1938, CW XXI, p.469).

4. Keynes and Bretton Woods

4.1 Keynes' plan for Bretton Woods

From September 1941 to 1943, Keynes as the primary author, along with colleagues and advisors from the UK Treasury and Bank of England, drafted the British proposal for a new post-war international monetary agreement, which played a key role in preparing the Bretton Woods conference. Keynes' ICU built on both the *Treatise* and *The Means to Prosperity*. For example, his first draft from 8 September 1941 has reserves or clearing accounts denominated in gold but issued by fiat as balance sheet entries; new reserves are allocated as a proportion of each country's trade; reserves can be expanded or contracted – there is no fixed limit on total reserves; international transactions clear through the international clearing bank (ICU); and there is a clear statement that capital controls will need to be enforced although it is up to each country to determine how and to what extent they are implemented.

The differences reside mostly in the binding agreements now imposed on member countries. There is a clear limit to individual country imbalances, deficits or surpluses are penalised symmetrically, and currencies will face a 5% depreciation or appreciation if imbalances are seen as entrenched. Keynes is far more sceptical of voluntary depreciation as a mechanism for success, given the experience of competitive depreciation since the *Tract* and *Treatise,* and so the governing board of the ICU must approve devaluations by countries.

Important from our perspective is that there is no sign of a tabular standard, instead, Keynes has replaced this with international commodity buffer stocks or CCs to smooth the trade cycle (Keynes 2013d, CW XXVII, p. 141). The new international reserve, Bancor, is fixed in value by a set weight of gold as in the *Treatise*. In his first draft, he suggests that the Bancor–gold exchange rate could be modified by the ICU governing body – initially consisting of eight governors and a chairman drawn from different continents – with a two-thirds majority (Keynes 2013e, CW XXV, p. 40). After doing the rounds at the Bank of England, the second draft then changes the democratic nature of the ICU board with control firmly now in the hands of the United States and UK. The revised drafts continue to keep the option for the United States or UK to change the value of Bancor, but there is never any suggestion that it might be linked to a non-discretionary international price index.

We know that Hawtrey criticised the first draft for the absence of methods to guard against changes in the purchasing power of the unit of account (Keynes 2013e, CW XXV, p. 41). On the second draft, the interim Under Secretary of the Treasury, S. D. Waley, suggested that gold played no essential part in the arrangement and shows up as a mere racket for the benefit of the gold producers (Peden 2004, p. 245). Perhaps in response to these complaints, Keynes elaborates his rational for gold and its (lack of) management in the next draft version:

> the position of gold would be left substantially unchanged. *What, in the long run, the world may decide to do with gold is another matter*…gold … has the merit of providing, in point of form whatever the underlying realities may be, an uncontroversial standard of value for international purposes, for which it would not yet be easy to find a serviceable substitute. (Keynes 2013e, CW XXV, pp. 84–5, emphasis added)

Keynes appears to show some frustration in this statement – and we suggest that he has given up trying to link gold or Bancor to his controversial tabular standard. Clearly, Keynes left the option open but with a hint of resignation:

> The value of Bancor in terms of gold should be fixed but not unalterably. The two founder states, the United States and the United Kingdom acting in agreement, should have the power to change it. Clearly they should exercise this power if the stocks of gold tendered to the bank [ICU] were to be superabundant for their legitimate purposes. *No object would be served by attempting further to peer into the future or to attempt to prophesy the ultimate policy of the founder states in this regard.* (Keynes 2013e, CW XXV, p. 86, emphasis added)

In explaining Keynes' reluctance to discuss the management of gold values during this proposal period, and how this fits with his statement some three years later – that the tabular standard was intrinsically more sensible than gold and that he hopes the world will come to some version of it sometime (Keynes 1944, CW XXVI, p. 39) – our speculation is threefold:

(i) Keynes' ICU mechanism achieved the primary goal of the combined tabular with gold exchange standard, to avoid deflationary forces, by offering an elastic supply of international reserves. There would be far less incentive for any country to accumulate reserves and thereby reduce the supply of reserves, rather Bancor debits and credits just expand or contract with demand. This should mean that there is less volatility of Bancor (gold) prices due to monetary demand for reserves (Keynes 2013d, CW XXVII, p. 140). It does not mean, however, that imbalances are removed, but rather that they are accommodated and reduced.

(ii) Keynes was pressured by pragmatic reasons to not go up against gold interests of the United States which had over half the world's gold reserves. The United States would never voluntarily relinquish its gold price setting to an autonomous index or have its gold stockpile massively devalued. In the beginning of his drafting of the ICU, Keynes puts emphasis on pragmatism in a letter to Kahn saying that he would 'concentrate on [the] technical means of solution without bothering myself with ideals, which, whether right or wrong, are in the actual circumstances pure fantasy' (Keynes 2013e, CW XXV, p. 20).

(iii) Keynes had included an alternative means to counteract monetary shocks and their effect on commodity prices – individual international commodity buffer stocks. 'In the present circumstances, an industrial slump now led to an agricultural slump. We might not be able to prevent the former, but it was hoped to prevent the latter by placing the burden of surplus production on the shoulders of the [CCs] stabilisation board' (Keynes 2013d, CW XXVII, p. 141). Commodity storage to stabilise commodity prices would be financed by Bancor loans from the ICU, collateralised by the commodity stores. It not only offered storage facilities for commodity producers, maintained commodity producer income, but it would inject *new* reserves during a down turn or contract reserves in an upturn, automatically smoothing the trade cycle (Keynes 2013d, CW XXVII, Fantacci *et al.* 2012, p. 463).

It is the latter point which is most important in answering our research question: could Keynes still have supported an ITS even post Bretton Woods and after his adoption of his liquidity preference theory? It is important to note that individual international commodity buffer stocks funded by the ICU were included in the first Bretton Woods draft in 1941 and were expanded upon in 1942 (see Keynes 2013d, CW XXVII, Hirai 2009). One could imagine that Hawtrey would have much preferred a tabular standard rule for injecting funds counter cyclically to stabilise an index of commodities, rather than storing and stabilising the price of individual commodity groupings with potentially idiosyncratic supply side price shocks. However, commodity buffer stocks would prepare the world for the post-war reconstruction (Keynes 2013e, CW XXV, p. 8) and address the criticisms of Goudriaan, Hayek, B. Graham, and F. Graham, of a potential liquidity trap and impotence of monetary expansion. Critical to this answer, is the 1944 publication where Keynes revealed after Bretton Woods, that he saw commodity buffer stocks as an interim step towards making an ITS less controversial. It is our conclusion that the inclusion of CCs can be seen as this interim and companion step towards the greater goal of non-discretionary international counter cyclical monetary policy through an ITS, via an SCB or ICU, and CCs. This interpretation is elaborated upon below.

4.2 Keynes Post-Bretton Woods

It was six months after the Bretton Woods conference, in a response to F. Graham on Hayek's commodity reserve currency proposal, when Keynes' key quote of our paper was published:

> I have no quarrel with a tabular standard as being intrinsically more sensible than gold. My own sympathies have always fallen that way. *I hope the world will come to some version of it some time.* But … the right way to approach the tabular standard is to evolve a technique and to accustom men's minds to the idea through international buffer stocks. When we have thoroughly mastered the technique of these, which is sufficiently difficult without the further complications of the tabular standard and the oppositions and prejudices which this must overcome, it will be time enough to think again. (Keynes 1944, CW XXVI, p. 39; emphasis added)

This paper has argued that this quote does represent Keynes' long-run vision for the post-war global financial architecture and is even reflected in his original ICU proposals which include detailed plans for international commodity buffer stocks but no ITS. Perhaps strategically, the CCs in the original Bretton Woods drafts were the preliminary steps he speaks of in 1944 that are needed to first educate the world of the importance of the tabular standard, to lessen its controversy. Definitely, Hawtrey wrote of the lack of appreciation or understanding for an ITS going back to the 1922 Genoa conference.

We have shown that the omission of a tabular standard from Keynes' original Bretton Woods scheme does not automatically imply that he dropped an ITS as a long-run ideal. It could easily have been due to his political and strategic judgement. Case in point, first, following *The Treatise* and *The Means to Prosperity*, Keynes had worked hard to convince the UK Treasury and Bank of England to index gold to commodities – and failed. Second, he acknowledged that outside the UK, major political players were not prepared to accept the management of gold prices. Keynes (Keynes 1944, CW XXVI) explicitly mentioned a grand coalition of states with vested interests in gold opposed to the international management of gold prices (namely USA, Russia, Western Europe, and the Commonwealth). We believe that gold management was sacrificed in order to garner support for the ICU and Bancor from the United States and Russia (Keynes 2013e, CW XXV, p. 171), both seen as critical members in part due to their 'gigantic hoards' of gold (Keynes 2013e, CW XXV, p. 325). Third, while Keynes had replaced the non-discretionary management of gold by an SCB and ITS with discretionary management of gold prices by the United States, nevertheless, the ICU would provide both elasticity and discipline in that it would impose sanctions on renegade nations to 'prevent the piling up of credit and debit balances without limit' (Keynes 2013e, CW XXV, p. 171). In addition, in June 1943, he fully expected that both the US and Russian gold stockpiles would be reversed in the post-war period (Keynes 2013e, CW XXV, p. 325) which would reduce the current disequilibrium in gold reserves, and go a long way to equating demand and supply for international reserves. Fourth, the US dollar price of commodities had begun to recover with Roosevelt's 1934 repegging to gold at a 40% devaluation of the international world reserve currency. Last, Keynes introduces commodity buffer stocks which can replace the need for an ITS in the short run, and accustom men's minds to the idea of an ITS (Keynes 1944, CW XXVI).

Our conjecture is that in an ideal world with no political constraints, Keynes would have combined individual commodity buffer stocks with an ITS. Hints along this vein are supported by one of Keynes' closest confidants, Roy Harrod. Indeed it was with Harrod's feedback, early in 1942, that Keynes first drafted his commodity policy with CCs to stabilise the international trade cycle in combination with an ICU.[14] Post Bretton Woods on 7 February 1946, just 14 months after Keynes' smoking gun quote, Harrod (1946a, 1946b) was still committed to pursuing this idea. In an op-ed piece in *The Times*, Harrod proposed a British plan for full employment that entailed the stabilisation of UK commodity prices by converting sterling to a commodity currency, redeemable into a fixed basket of commodities representative of British production plus 'certain raw materials' not produced in Britain (Harrod 1946b). Harrod felt that his

14 It was on 6 January 1942 that Keynes wrote to Harrod that he had dug out his 1938 article in the area but had not gone further (Keynes 2013d, CW XXVII, p. 105). By 9 January, Harrod was already providing feedback to Keynes on both the ICU and the CCs (Harrod 1942). It was not until 20 January that a first draft of Keynes' commodity policies was in circulation in the UK Treasury (Keynes 2013d, CW XXVII, p. 105).

commodity-backed sterling 'was entirely consistent with the type of international monetary system proposed at Bretton Woods', of fixed but adjustable exchange rates. The commodity reserve would be a barometer for judging when an adjustment of the UK's foreign exchange rate to the USD (and gold) was desirable. Rising stock piles of commodities would mean that a devaluation of sterling to the US dollar was necessary. 'If other countries also adopted the plan that would be excellent. But their adoption of it would not be a condition for its adoption here' (Harrod 1946b). Proposing a British-only plan is not unusual for Harrod as he had always believed that Britain should lead the world's economic policy (Besomi 2005, p. 105). He would much later offer a similar commodity money idea in 1962 for the international community as a means by which to add or contract liquidity from the international monetary system, and thereby stabilise the balance of payments of commodity producers (Harrod, 1963).

While it is not clear whether Keynes inspired Harrod, or Harrod inspired Keynes, in complementing the ICU with commodity buffer stocks, it is our hypothesis that both men felt similar in their support for an international currency backed by commodities, rather than just a tool that would adjust global liquidity. In 1946, Harrod opined that even at the British domestic level:

> Expert opinion has inclined to the view that it is beyond the power of a central bank to maintain stability in the commodity value of a currency by [interest rate targeting and open market operations]. One might, however, go further, thereby voyaging in less familiar waters, and urge the link with commodities should be achieved by having the unit of currency made officially convertible into a standard sample of commodities, of which the central monetary authority would hold a reserve. The standard sample would also be convertible into a unit of currency. (Harrod, *The Times*, 7 February 1946)

In sum, standing oppositions and prejudices against an ITS made it inappropriate for Keynes to fight publicly in the late 1930s and early 1940s for a tabular standard and SCB. Instead, he chose to promote international commodity buffer stocks, a new international currency between central banks (Bancor) and an ICU. But the longer term goal for international monetary reform, consistent with his quote in 1944, was likely for:

(i) an SCB that operated as an ICU, giving elasticity to the supply of credits and debits in the system;
(ii) the SCB would aim to anchor the value of its currency to an ITS, and thereby offer non-discretionary international monetary policy;
(iii) the ITS would offer an anchor for fixed exchange rates and stabilise wholesale international prices. An SBM, independent of the key country's exchange rate policy, gives each country a degree of

sovereignty over its own choice of fixed or managed exchange rates and domestic discretionary monetary policy;

(iv) adjustment of global liquidity would be through open market operations in a fixed basket of commodities, thereby offering two-way convertibility of the new international currency into commodities; and

(v) management of the commodity buffer stocks would also include individual commodity price stabilisation. Given the high positive correlation between commodity prices, stabilisation would also offer automatic international fiscal and monetary policy to promote world effective demand and full employment.

5. Conclusion

Keynes' concept of an 'ITS' entailed the pegging of an international reserve currency to a broad index of commodities, weighted in terms of their value in world production.

At the end of 1944, after the Bretton Woods conference, Keynes said of the ITS, 'I hope the world will come to some version of it some time' (Keynes 1944, CW XXVI, p. 39). Most scholars of Keynes or of monetary history would suggest that Keynes was not serious when he made this statement and that it does not represent Keynes' actual vision for international monetary reform. In order to shed light on this statement, we considered Keynes' international monetary proposals, based on published writings. We started this paper with a brief summary of the history of the tabular standard, and in particular, its combination with the gold exchange standard. Such a combination was first suggested as a solution to international monetary disorder at the 1922 Genoa Monetary conference, but was not followed up with sufficient political backing. It has remained an 'academic theory', possibly because it was not correctly understood by most people. Two influential and close colleagues of Keynes, Ralph Hawtrey and Roy Harrod, advocated similar positions. Harrod did so publicly in February 1946, just 14 months after Keynes' own confession that he always preferred a tabular standard to gold, and 2 months before Keynes' death.

In three different international monetary proposals, between 1930 and 1933, Keynes developed his concept of an international reserve currency, issued by an SCB, and stabilised using an ITS.

This paper argues that the overriding reason for not including an ITS into Keynes' British proposal for the post-war international monetary system, was due to Keynes' assessment that major political players were not prepared to accept a tabular standard in his time. Keynes thus dropped the tabular standard for the combination of an SCB (ICU) that issued SBM (Bancor) indexed to gold, with no management of gold prices, and international buffer stocks (CCs). However, we argue that his Bretton Woods proposals were steps towards an ideal post-war monetary regime that also included an ITS, or in other words, an international currency backed by commodities, that would help an SCB to manage and stabilise the commodity price of gold (or Bancor) and world effective demand. Keynes indeed had a 'hope [that] the world will come to some version of it some time'.

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Abstract

This paper discusses proposals for *tabular standards* in the late nineteenth and early twentieth centuries. In particular, we focus on Keynes' proposal for an international tabular standard (ITS) as the gold standard unravelled in the 1930s. The paper explains the origins of Keynes' ITS proposal which pegged the value of an international reserve to a broad index of primary commodities, weighted in terms of their value in world production. We argue that the ITS should be viewed as an important and enduring component of Keynes' ideal long-run vision for anchoring the international monetary system, even post-Bretton Woods.

Keywords

Tabular standard, commodity standard, John Maynard Keynes, Bancor, International Monetary Reform

JEL Codes: B31, E6, E5, F33, and F5