

Date of the event:

On Thursday, 19th January, 2012
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before January 16th, 2012
- At the following address : lsf-events@uni.lu

Information:

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<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

*Why not bancor?
Keynes's currency plan as a solution to
global imbalances*

*By Professor Luca Fantacci
Bocconi University*



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LSF Seminar



***Why not bancor?
Keynes's currency plan as a solution to global imbalances***

Financial crises traditionally have at least one positive side-effect: a dramatic reduction of debts that have become unbearable. As a partial compensation for the damages they produce, financial crises usually reduce leverage and allow to restart economic activity on sounder grounds. By contrast, the crisis that broke out in 2007, and the countermeasures that have been adopted to contrast its effects, have left unaltered, if not increased, the overall debt exposure of businesses, banks, families and states. Therefore, as recent events have shown, the economic system has been made even more vulnerable to unanticipated contingencies, while the scope for further intervention has dramatically narrowed for governments and central banks that have already expanded their balance sheets on an unprecedented scale. The persistence of financial imbalances – public and private, national and international – appears to be, at the same time, a burdensome bequest of the last crisis and an ideal breeding ground for the next one.

In this paper, I focus on the role played by the monetary system in favoring or contrasting the buildup of financial imbalances. I argue that the seeds of the current situation were sown at Bretton Woods, with the establishment of the US dollar as a global unit of account, which paved the way to its use as a means of international payment and reserve, and hence to the eventual suspension of its convertibility and to the unrestricted expansion of capital movements worldwide. I then analyze the alternative plan for an International Clearing Union proposed by Keynes, and I suggest that it was expressly intended to avoid the accumulation of imbalances, in particular thanks to three distinctive features: an international unit of account, bancor, distinct from all national currencies; a system of money creation and destruction, that did not operate as a fiat money system, but through overdraft facilities and multilateral compensation; the symmetric distribution of the burden of adjustment between creditor and debtor countries. Finally, I suggest that the principles underlying Keynes's proposal could be adopted to address persisting imbalances at a global level and within the euro area.

