

## The Bancor and Gold

There are two possible dangers to be considered

i. that gold might stand at a premium against bancor, and, more generally, be preferred to bancor as a medium of exchange and ii. that the new system might lead to a complete deminorade of gold.

1. So long as the U.S. maintains a gold/dollar parity, gold cannot be at a premium against the bancor, since there is a bancor/dollar parity. Whoever has bancor can exchange it for the dollar and gold at par.

The U.S. might alter the present position in three ways, and she might do so either voluntarily as a matter of policy or under the pressure of a drain on gold.

i. She might alter the present parity within the limits now allowed by law or by a new law extending those limits. This could presumably only be done by agreement with the Clearing Bank, since either the dollar/bancor rate or the Clearing Bank's buying price of gold would have to be altered to correspond to the new situation. The U.S. would presumably wish the former, since on the latter alternative the change in her dollar content would have no effect on her foreign exchange rates.

The former alternative would simply mean a depreciation of the dollar against bancor. It would not be allowed by the rules if the U.S. was in credit. An attempt to force this would be tantamount to a deliberate overthrow of Anglo-American co-operation and as such falls outside the scope of this note. If the U.S. was in debit it would be perfectly proper.

I can conceive no motive for the latter alternative. It would involve a once-over reduction in the gold value of bancor. But the new gold value of the bancor would be safeguarded as before; gold would not stand

at a premium.

ii. The U.S. might wish to raise her selling price without altering her buying price. This might happen if gold became generally popular and her reserve of gold was running below the level she devised. Her motive would then be to conserve her gold stock. Under the Keynes scheme gold might then stand at a premium against the bancor, but only up to the new U.S. selling price. The disadvantages of such a situation must be examined.

iii. The U.S. might abolish a selling price altogether. This would be equivalent to going off the gold standard entirely since the dollar could then depreciate against gold without limit. This would of course require an act of Congress.

One must look at her possible motives.

The usual motive for allowing depreciation of the currency against gold is to get an exchange advantage. This would not operate under the Keynes scheme, since her act would not affect the dollar/bancor par or, consequently, her rates of exchange with other currencies.

Two other motives are possible. She might have come to the conclusion that gold was an undesirable asset, and she would then rescind not only her selling but also her buying price. She would presumably have taken the precaution of first selling all her stocks to the Clearing Bank. This is a possible course of events, but it pre-supposes lack of confidence in gold and the U.S. departure involving Congressional legislation would give a further shock to confidence of paramount importance; the consequences must be considered not under this head but under the head of degrading.

Or the U.S. might act under the pressure of a drain of gold in order to relieve herself of an embarrassing obligation.

The consequences would be similar to those described under ii, but the premium on gold instead of being confined within the legal margin might be unlimited.

(It must be noticed in passing the Keynes proposal to charge interest on deposits at the Clearing Bank would automatically put a premium on gold and thus compel Congress to alter the law if it wished to avoid a drain of gold from the U.S. to all the other credit countries. I have always thought that the Keynes proposal would be ultimately untenable).

We must examine the consequences of this general preference for gold accompanied by a gold premium.

(a) It might be supposed that this general preference for gold over bancor as a store of value might lead us back to the evils of the gold standard. But this is not so. A drain of gold would provide no motive for deflation since the other means of payment would be open to the losing country. All transactions in gold must be regarded as speculations against a prospective change in its premium. They would have no more significance for the internal monetary system than other merchandise transactions; indeed in so far as the gold was held by the central bank they would have less, for a sale of gold would be balanced by an exactly equal increase of bancor, so that the cash basis of the central bank would remain unchanged.

(b) It may be held that operations in gold would confuse the working of the Clearing Bank system, which uses the amount of credits and debits as criteria of the state of the balance of payments for the purpose of applying counteractive measures.

First, suppose the gold holding was confined to credit countries. Gold transactions would affect the size of the individual credit balances, though not of the aggregate. But according to my understanding in the latest Keynes draft no special measures depend on the size of a country's

credit balance. If at any time it were agreed that such measures were desirable, then for purposes of reckoning any net acquisition of gold by the country after a defined zero hour should be added to its credit and any net loss be subtracted.

- (c) But debit countries might acquire gold. The obvious bogey is to suppose a debit country buying a lot of gold, thereby increasing its debit, then rattling from the system and using its gold.

A choice is necessary. We must either decide to compel countries whose debit (or debit-index) exceeded a prescribed amount to surrender all of their stocks - above an allowed minimum - or sufficient to reduce the debit to the prescribed amount, or allow the debit countries to hold gold and rely on measures for liquidating the debits when the sanctions point is reached.

Whichever we decide it is clearly desirable to keep track on the gold as far as possible. Member states could be required to report the value and destination of all exports. If this were insufficient other policing measures might be necessary, e.g. reports by receiving countries on its whereabouts. It should be possible to prevent leakages of appreciable magnitude,

Though paradoxical there is something to be said in favour of allowing debit countries to hold gold.

1. There is the general principle of least possible interference. This is desirable in itself and as making for efficiency!

2. If we judge that there is greater danger of degrading than preference, there is something to be said for anything which keeps active an interest in gold.

3. A very minor point - holdings by debit countries are a source of profit to the Clearing Bank, by increasing interest payments.

If debit countries were allowed to hold gold then, as in the case of credit countries, for purposes of calculating criteria for counteractive measures net acquisitions should be subtracted from debits and net losses added thereto.

We should be more disposed to allow these debit holdings the more sure we were that war would not recur.

The decision will probably be in favour of not allowing debit country holdings. There remains only the problem of preventing evasion. Members of the Clearing Bank might be bound to prohibit exports to debit countries. But these are the minutiae of police problems.

The Clearing Bank would not be embarrassed by a premium on gold. Quite the contrary, it could make a profit by selling its holdings.

2. Degringolade

This might be defined as a condition in which the Clearing Bank held by far the greater part of gold stocks and had to buy up by far the greater part of annual production. But the definition cannot in fact be made so precise. For everyone might think that this was precisely what ought to happen. The danger would arise if the feeling spread that it was an absurd waste of world resources.

If such discredit fell on gold it would be a sign that the Clearing Bank system was working well and pro tanto a matter for rejoicing.

Our sole cause for anxiety would be for the producing countries.

To meet this possibility it seems to me that there should be two quite separate provisions in the charter, namely, (i) a general obligation to buy gold at a specified price and (ii) an obligation to buy all the newly mined gold of named mines in operation at the time of the charter (the list to be reviewed on the renewal of the charter) that was presented to it at certain specified places.

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If public opinion began to run strongly in favour of demonetization, the condominium powers might agree to rescind the first obligation. But it would be clear from the separate statement that the Bank had special obligations in equity to producers. It is indeed only fair that if it is to throw a spanner into the old monetary system it should tell producers where they stand. It would fulfil this equitable obligation by retaining the second clause but at the same time close the list of mines permanently.