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Designing the rules and principles of the International Clearing Union

Past and present debated issues

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Introduction

Once it has been established that the current international monetary system, based on the domination of the US dollar, is asymmetrical and unfair, penalizing one part of the world and reinforcing both the risk of economic crisis and its propagation, the search for structural reform is a step in the right direction. The relevance of Keynes' Clearing Union to solve the fundamental issues of our international monetary system has been illustrated many times over. Its objectives are appealing. The Union would unite national central banks and organize their mutual payments through a clearinghouse at its top. The latter would act like a central bank for central banks, that is, it would issue its own currency which would be the only accepted international money. Each participating country would recognize the International Clearing Union (hereafter, ICU) as a multilateral institution which would facilitate access to international means of payment, and each participant would have equal access to the payment system. It would preserve the existence of national currencies. The aim of this chapter is not to contest the conclusions of the supporters of the ICU but to bring some elements to be discussed. Although the ICU would solve several structural problems of the current USD-dominated international monetary system, the new institutional architecture underlying the ICU induces several major questions – which does not mean that the game is not worth the candle. In other words, the creation of the ICU has serious implications. Economists and policymakers of the 1930s and 1940s had anticipated some of them. It is useful to dig into the discussions of that time, when exchange controls and clearing agreements were much more topical than today, to understand the nature of these problems.

In this chapter, I discuss four major problems. The first one is the policy space of the member countries. I question the assumption according to which the ICU will necessarily increase the monetary and political sovereignty of the member countries and relieve them from outside external pressure. I argue that external pressure does not disappear – it cannot – but is redirected towards creditor countries in a more equitable way. The second problem is related to the exchange rate regime adopted by the ICU and more generally the long-term credibility of the whole institution. I assume that only a quite rigid fixed exchange rate regime would make sense for the ICU, with regard to its infrastructure and credibility. The third section is related to the question of cross-border financial flows, recorded by the balance of payment as short-term (portfolio investments) and long-term (foreign direct investments) investment flows. Some versions of the plan for an ICU ignore or reject the possibility of cross-border financial flows and assume a framework of financial deglobalization, while others include a financial infrastructure that allows potentially large financial flows – which admits the possibility of large disequilibrium within the system. The fourth question is related to the role of the State and economic planning. The establishment of the ICU involves the adoption of restrictions on businesses and individuals regarding currency matters, which can raise some objections in the business elite. To some extent, the State has to play a greater role in the economy with the ICU. This last section discusses the degree of State intervention and planning induced by the creation of the ICU.

Policy space in a rule-based world order

Economic policy space is a term used by economists interchangeably with macroeconomic policy autonomy or economic policy independence (Kotilainen 2024: 93). It can be defined as the ability of a country to pursue the relevant economic policies of its choice – at its discretion – especially monetary and fiscal policies to target some macroeconomic objectives (Ferrer and Kireyev 2023). The policy space is essential for a government willing to sustain Keynesian policies in a global deflationary environment or, for developing countries, industrial policies aiming at transforming in-depth the national economy.

Could the Clearing Union provide additional policy space to its member countries? This question is topical since in today's world economy, the dollar system is often accused of reducing the sovereignty of the countries that rely on the US dollar for their external economic transactions (Prates 2020). The more a country uses the US dollar instead of its national currency for its external transactions, the more it has to carefully follow 'sound' economic policies in order to keep a stable exchange rate with the US dollar. In addition, it has to follow the US foreign policy agenda with more or less autonomy to access the US dollar payments system (Faudot 2018). A country that desires to be sovereign may do its best to 'buy' its economic sovereignty through an export-led growth model and a large current account surplus on the model of China. However, this is a self-imposed harsh discipline and the economic and social price of this policy is high (Angrick 2018).

The argument of the loss of sovereignty with the US dollar dominance has to be nuanced. A country that is integrated into the global economy cannot pretend at any rate to be fully sovereign and independent. As emphasized by Paul Davidson (2006: 272), '[o]nce a nation decides to join a community of nations for both political and economic reasons then interdependence and feedback effects among the trading partners are inevitable'. This statement is true for all nations, although some of them may preserve a higher degree of sovereignty than others which remain dependent countries.

The International Clearing Union is often seen as the best alternative to US dollar dominance as it is supposed to be a compromise between global integration and national sovereignty. For instance, Einzig (1944) considers that Keynes' ICU allows the extension of the national banking system autonomy. The ICU allegedly allows great autonomy of monetary policy and at the same time protects the international monetary system from beggar-thy-neighbour policies of devaluation/depreciation. It is supposed to guarantee the supply of international liquidity up to certain limit. However, its general acceptance would rest *a priori* on strict mutually accepted rules and discipline – an international institution without rules being meaningless.

As emphasized by Meyer (1947) in his pre-war study of exchange controls in Germany,[1] one of the problems of the gold exchange standard was the fact that creditor countries recording inflows of gold (e.g. the United States) were not forced to adjust their monetary base and could continue to accumulate (and sterilize) large amounts of gold. Gold inflows in those countries were supposed to expand the monetary base of their economy, resulting in (reflationary) economic expansion and an increase in import from the rest of the world. The effective attitude of the creditor countries disrupts the imagined adjustment mechanism of the gold standard. Although in practice this above-described mechanism never worked as in theory (Bloomfield 1959), economists viewed the United States as well as French policies at the time as particularly harmful to Germany in the capacity of the latter to equilibrate its balance of payments. On the opposite, debtor countries applied deflationary adjustment policies (see Accominotti 2020). Therefore, the lack of any symmetrical rule or discipline in the gold exchange standard has contributed to growing asymmetries and the further development of disturbances, which resulted in exchange controls and bilateral clearings.

Keynes was also aware of this. His wish was to establish a rule-based world order. Keynes wrote that this dilemma between rules and discretion was the most difficult question to determine (Keynes 1980a: 73). In 1943, he discarded the gold standard on the ground that it was too rigid, stating that '[t]he error of the gold-standard lay in submitting national wage-policies to outside dictation' (Keynes 1980b: 33). However, he did not endorse the floating exchange rate regime. While freeing such 'wage-policies' from 'outside dictation' may result in full-employment policies, Keynes also recognized that exchange rate instability is a likely undesirable side-effect of the end of gold standard. He admitted that there was an inherent conflict between monetary sovereignty and the respect of a stable international monetary arrangement. Keynes (1980a: 181) thought that his proposals were about restoring a sort of gold standard without the disadvantages of the gold standard: 'we should not only return to the advantages of an international gold currency, but we might enjoy them more widely than was ever possible in practice with the old system under which at any given time only a minority of countries were actually working with free exchanges'.

According to Keynes, one of the main problems of the interwar gold exchange standard was that it lacked a symmetric externally imposed adjustment process, because

> the process of adjustment is *compulsory* for the debtor and *voluntary* for the creditor. If the creditor does not choose to make, or allow, his share of the adjustment, he suffers no inconvenience. (Keynes 1980a: 28, author's emphasis)

Keynes wanted to solve this asymmetry by introducing a symmetrical rule, the well-known fee on deficit and surplus beyond some levels. Hence, contrary to the most popular views, he did not want less rules. What he wanted was commonly agreed rules and fairly distributed burdens, alleviating – to some extent – the constraint on debtors and increasing the pressure on creditors. If policy space could be quantified, one may say that the global mass of 'policy space' would not increase with the Union. However, the new rules would have an expansionary effect, for the benefit of debtor countries.

In the August 1942 version of his proposal, Keynes wrote that '[w]e need an orderly and agreed method of determining the relative exchange values of national currency units, so that unilateral action and competitive exchange depreciations are prevented' (Keynes 1980a: 168). Therefore, it might be misleading to assert that Keynes openly assumed that his proposals were in favour of a greater policy space.

> It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Currency Union a greater surrender of their sovereign rights than they will readily concede. [. . .] In the second place a greater surrender of sovereign rights must be in order in the post-war world than has been accepted hitherto. The arrangements proposed could be described as a measure of financial disarmament. (Keynes 1980a: 89)

Such set of rules applying to undisciplined or free-rider countries as planned in Keynes' ICU has also seduced some free-market economists leery of discretionary government policies. Keynes' plan was well acclaimed when it went. As reported by Patinkin (1979: 232), Henry Simons wrote a letter to Keynes after reading the proposals for an International Clearing Union. He stated, 'I have just finished reading the document itself and am pleased beyond even my high expectations. It strikes me not only as sound in its proposals, but as eminently judicious and statesmanlike in its whole argument.'[2]

In practice, the most successful experience of interstate clearing union in the twentieth century was the European Payments Union (1950–8), established at the level of Western Europe and including eighteen countries. The EPU was managed by a technocratic body of unelected economists and policymakers, all of them strictly following the policy objectives of Washington in the context of the Cold War. It successfully overcame post-war bilateral clearing through the creation of a regional multilateral clearing. It boosted intra-European trade. Washington needed to restore the industrial capacities of its Western allies against the Soviet Union and the threat of communism. The United States, was the leading power and conductor of the regional clearing union without being a member of the regional clearing union. Thanks to the US leadership, the national discrepancies within the EPU did not prevent the smooth functioning of the Clearing Union. Hence the United States was the *Deus Ex Machina*. The ability of the EPU members to design policies which would depart from the other member countries was very limited in this Union. But today's analysts have good reason to believe that this lack of room for manoeuvre contributed to the success of the EPU.

Although the ICU would not significantly improve member countries' policy space, it would put an end to the possibility of using the payment system for geopolitical purposes. It would not be possible to unilaterally deny a country the access to the bancor payments system, since it is shielded from national decisions. This move would represent an improvement in autonomy in terms of foreign policy for each member nation. Sanctions using the payment system can only exist if they are taken in concert by the Governing Board of the ICU. They can also survive in the form of secondary sanctions – which remain extremely powerful sanctions using, for example, the threat of being banned from a national market (see, e.g., McDowell 2023).

Long-term stability and credibility

This section extends the former and focuses more specifically on the problem of exchange rates between the members' currencies within the ICU. This problem is a fundamental one. It was debated at length during the 1930s and further discussed in the BW negotiations. This is not surprising, as economists had been discussing exchange rate regimes for decades, even before Bretton Woods. What should be the exchange rate regime of the ICU?

As a foreword, it is worth noting that on one hand, floating exchange rates are still associated with Friedman and the current neoliberal era. On the other hand, fixed exchange rate regimes are currently unpopular among post-Keynesian and progressive economists. As a result, the most recent ICU-like proposals emphasized the exchange rate flexibility of Keynes' proposal. The authors writing on Keynes' clearing union argue that Keynes was supporting 'fixed but adjustable exchange rates' (Whyman 2015: 404) or 'adjustable peg' (Iwamoto 1995: 40; see also Cedrini and Fantacci 2018). Such a formulation is convenient but not very clear, either in terms of policy recommendation or in terms of long-term credibility. When should a member country be authorized to devalue or revalue its currency?

In the first version of the plan (8 September 1941), Keynes wrote: 'Each national currency to have a fixed value (subject to what follows about provisions for change) determined when the Currency Union is set up in terms of the bank money of the Clearing Bank, which would be itself expressed in terms of a unit of gold' (Keynes 1980a: 34). A fixed value meant a fixed exchange rate.

It is true, however, that Keynes wanted some flexibility in the establishment of the exchange rates, allowing depreciation for countries experiencing current account deficits beyond a certain threshold. The extent of the depreciation was capped: 'A member state may not depreciate the rate of exchange of its local currency in terms of bancor, unless it is a Deficiency Country; and the amount of the depreciation within a year shall not exceed 5 per cent without the permission of the Governing Board' (Keynes 1980a: 79). A Deficiency country is a member country whose debit balance has exceeded a quarter of its quota (for a certain period, e.g. a year).[3]

Noteworthy, Keynes was himself not clear at all on the subject of exchange rate regime, as acknowledged by Cesarano (2015) and Cedrini and Fantacci (2018: 154). For instance, he celebrated the sterling departure from the gold exchange standard but proposed different types of fixity in various proposals during his career. He changed his mind several times regarding his recommendations, especially during the 1930s. One of Keynes' concerns, when he conceived the clearing union, was nevertheless to stabilize exchange rates to avoid the disastrous competitive depreciations of the 1930s.[4] The main adjustment mechanism of the ICU in case of disequilibrium was not the exchange rate adjustment but the reflationary (preferably) / deflationary (as a last resort solution) policies resulting from the incentives mechanism of the interest rates applying on bancor balances (negative for both the debtor and the creditor central bank beyond some threshold).

The main argument in favour of fixity is that the ICU is often compared to the central bank of the national central banks. The analogy has been popular among all the promoters of the ICU. Triffin (1960: 40–1), another strong supporter of the International Clearing Union, used this analogy to compare the national histories of banking systems which resulted in the creation of national central banking, and the parallel (hopefully) future perspective of the international monetary system, with the creation of a clearing fund. According to Keynes (1980a: 72), 'The idea underlying such a Currency Union is simple, namely to generalise the essential principle of banking, as it is exhibited within any closed system.' The principle of banking rests on the overdraft economy allowing endogenous money creation ultimately supervised by the central banks, which guarantee the functioning of the payments system over time. Kregel (2017: 67) writes that '[a]s long as all debtors are members of the clearing and settled within it, there can only be individual divergences between debts and credits, but not for the system as a whole'. However, the assumption holds only with the fixity of exchange rates between these members.

In the national banking system, the central bank supervises and unifies the whole banking system. A commercial bank has the discretionary power to create (private) money through overdraft as long as it can comply with the rules of the Central Bank. Only in this way, this commercial bank's money creation is accepted by the rest of the banking system, as an interoperable means of payment (Cipollone 2024). The central bank unifies the exchange rates of private banks' monies at par value. For central bankers, there is no question about devaluing or revaluing the exchange rate of a private bank's money – such a movement would result in harmful balance sheet effects. In addition, the logic of compensation rests on an expansion of trade over time, which means that any prospect for devaluation would involve an exchange rate risk borne by the clearinghouse (i.e. by the creditor members of the clearing house). As a result, devaluations and appreciations are possible but they weaken the entire structure.

The advantage of retaining national currencies and not transforming the Clearing Union into a monetary union lies in the possibility, in the event of a major problem, of modifying the bancor exchange rate of a member economy. However, this possibility must be exceptional. The participating countries would not easily tolerate exchange rate variation of the national currencies against the ICU unit (bancor or whatever the name of the unit of account). First, there would be no market for bancor, and foreign exchange markets would be suppressed so there would be no market-led process to assess the extent of the devaluation. Furthermore, the act of depreciation/ appreciation of national currencies induces a way of adjustment alternative to/in competition with the real adjustment desired by Keynes (the latter being mainly an expansionary adjustment of surplus countries through higher volumes of consumption/ imports).

Hence the use of the comparison between the national and international levels is interesting, but it has deep implications. It is doubtful that the exchange rate could be easily devalued even to the extent suggested by Keynes' plan. The fixity of the exchange rate, so dear to the banking principle and the functioning of the clearing house, could be saved by the introduction of cross-border financial flows into the institutional architecture of the ICU.

Financial account of the balance of payment

The concept of the Balance of Payment was coined by Hume in 1752 and has been elaborated by macroeconomists since then. When the first models of the International Clearing Union appeared, the concept of the balance of payments could therefore not be ignored. However, the flows that are recorded in those models were mostly limited to the international trade of goods. This is particularly true for the models of Clearing Unions that were elaborated in the 1930s (Milhaud 1933; Einzig 1935). The absence of cross-border financial flows in those models did not seem that international finance did not exist. International finance was already of great significance – although not as much as today. At this time, most of the reformers agreed that the amount of cross-border financial flows should be lowered even in times of peace because financial interdependence had been harmful to the world's economic stability in the 1920s and 1930s. The reformers promoted a sort of financial deglobalization. Keynes, in a sense, was also in 1941–3 in this *zeitgeist*.

In Keynes' Clearing Union, the emphasis is put on the current account transactions. Keynes proposed to calculate the ICU quota only with the amount of current account balance.[5] It would be dishonest to claim that Keynes had not thought about the issue of international investment flows at all. Regarding the possibility of allowing long-term finance and development finance, Keynes (1980a: 175) wrote that a surplus country could choose the option of recycling its surplus to finance the development of 'backward' countries. In parallel, Keynes relied on the creation of the International Investment Board alongside the Clearing Union. On the question of international investment, Keynes hoped that the United States, as the post-war largest creditor nation, would take the initiative of a proposal. Be that as it may, Keynes' ICU proposal is often – maybe in a too simplistic way – summarized as an institution whose desire is to reach current account equilibrium regardless of the financial need of the country.

As we will see in the following section, the ICU induces exchange controls, which means that cross-border capital flows should be controlled (Helleiner 2015). However, 'controlling' capital flows does not mean 'preventing' them to reach their destination. Should the flows be simply prohibited by the regulatory agency or should they be authorized – if not totally prohibited, under which criteria should they be prevented from reaching their destination? One may be tempted to conclude that the government could ban cross-border flows as finance could be entirely 'nationalized'. The domestic financial system could take over the role of the rest of the world and supply credit to the domestic economy, simply by endogenous money creation. However, while 'nationalization' of the financial system is seducing at first sight, it rapidly encounters problems when confronting the domestic economy with the rest of the world, especially when it becomes necessary to import goods from abroad. As developing countries often need to import capital goods and need to finance it, banning cross-border financial flows is rarely an option. The external constraint, already dealt with in the two previous sections, gets in back through the window.

According to several post-Keynesian authors (e.g. Toporowski 2018), the ICU to be created should facilitate cross-border flows as they are of utmost importance for economic development. If the ICU is designed according to these rules of cross-border financing, the current account equilibrium is no longer the targeted objective of the Union, at least in the short run. The main achievement of the Union would be the creation of an efficient structure of trade financing and investment financing for economic development and economic peace. We can mention the Schumacher-Kalecki proposal of 1943 (Kalecki and Schumacher 1943). The two Oxford economists proposed the differentiation between two categories of countries. The developing countries, on the one hand, and the advanced economies, on the other hand. The developing countries would be authorized to accumulate bancor deficits because the investment in these countries involves huge spending and disequilibrium of the current account for several years. The members of the Clearing Union could therefore neglect current account equilibrium except in the (very) long run if they experience a process of economic convergence leading to a similar level of economic development – and therefore they would belong to the same category of countries. The international institution should establish clear criteria to declare that countries are 'advanced' or 'developing', which is another difficult task subject to debate and arbitrary decisions. Once these countries are declared 'developing countries' they benefit from some advantages. They could even have the right to discriminate against advanced countries' exports to boost the mutual trade between developing countries.

According to Kalecki and Schumacher (1943), the surplus country (automatically financing the deficit country) should be rewarded by the ICU with a positive (not negative) rate of interest on its bancor balances. Otherwise, the surplus country will be encouraged to stop exporting goods and services to the deficit country as there would be no incentives to export. Kalecki & Schumacher warned that the exporting country could prefer a recessionist policy of contracting export rather than a policy of accumulating useless bancor balances. In a sense, the Clearing Union established by Nazi Germany experienced this problem during the war.[6] Germany ended the war with a large deficit recorded in the clearinghouse of Berlin, which encouraged some of its partners (allied and neutral countries) to stop exporting goods to Germany (BIS 1944). However, even a positive rate of interest should be accompanied by the perspective of an economic recovery of deficit countries to be able to 'convert' in the future the positive balance of bancor into imports of goods and services.

Economic planning and controls

In practice, all the experiences of international clearing have entailed exchange controls and a certain degree of planning. Exchange controls are 'the channeling of all foreign exchange operations through national central banks or ad hoc institutions' (Hirschman 1951: 61). The experiences of bilateral (e.g. during the 1930s in Continental Europe) or regional (e.g. during the 1950s in Europe) clearing have been characterized by more or less strict exchange controls and planning.

The first bilateral clearing agreements of 1931 followed the establishment in the summer of 1931 of exchange controls which were the desperate means to retain foreign exchanges in Austria, Hungary and Germany. In such a situation, exchange controls were tied to clearing agreements out of necessity: it was necessary to hoard gold and convertible currencies which were going to be exhausted. Clearing agreements were then conceived to 'free' trade which was blocked by exchange control. The reverse is also true: clearing agreements could not function properly without exchange controls.

The reason is that the foreign exchange market needs to be shut down and should not reappear in any private centres. The central bank must have a monopoly on foreign exchange dealings for the success of the clearing machinery. As inaugurated in 1930s Germany, 'Private dealings in foreign exchange are likewise prohibited', which should be accompanied by 'the obligation for a person to declare, deposit or surrender the currencies which he has or expects to have at his disposal', as described by Piatier (1939: 102–3). Transactions in the national currency abroad are forbidden too, which means that the export of currency is forbidden and punished. To make this measure effective, the government also forbids the reimportation of the national currency (Piatier 1939: 107).

During the 1930s, an increasing number of governments resorted to exchange controls and clearing agreements mainly because of severe balance of payments problems. The establishment of these measures, however, does not solve the balance of payments problems by themselves. As a result, the only option left to the government is to apply quantitative restrictions. Exchange controls often lead to quantitative restrictions preventing outward investments and imports, since all external transactions were subject to authorization and a large part of them were forbidden due to liquidity shortage (Triffin 1946a). In most practical cases, the establishment of quantitative restrictions involves the distribution of licences on imports (subject to regulations) and quotas. When discussing the international monetary reform in 1943, Keynes (1980b: 33) also recognized that '[a] communist country is in a position to be very successful'. In some cases, it is possible to imagine various techniques relying more on market-led mechanisms to avoid too heavy bureaucratic regulations. For instance, Triffin (1946b) proposed an auction mechanism to distribute the licences of importations for unessential imports (luxury products), while essential imports would be given the highest priority.

Assume that the ICU scheme is eventually adopted in our current world. With the ICU, the liquidity shortage disappears completely, since there are no limits to the ability to finance international trade. Bancor will be the transferable unit used to settle international transactions. Individuals and any private actors will not be allowed to use national currencies outside the national economy. However, the success of the ICU rests on the assumption that private actors will not develop private solutions to circumvent the public infrastructure (e.g. by using foreign national key currencies that are not part of the Clearing Union in their trade). The central bank's monopoly over foreign exchange dealings seems a prerequisite to prevent the development of any alternative to the ICU.

Exchange controls would be part of the institutional scheme in the sense that foreign exchange markets lead to the dominance of one or a handful of key national currencies when left free to operate, which is obvious in our current monetary system. The international monetary reform implementing the ICU must therefore prevent private agents from using national currencies. Therefore, even in the absence of an international liquidity shortage, controls would be necessary. Controls provide for the general acceptability of the bancor (i.e. the newly created monetary unit) and the exclusion of all the other national key currencies from international trade. Keynes (1980a: 129, author's emphasis) was aware of the fact that the ICU makes a 'machinery' necessary:

> It is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system-at least so far as we are concerned. If control is to be effective, it probably involves the *machinery* of exchange control for *all* transactions, even though a general open licence is given to all remittances in respect of current trade. But such control will be more difficult to work, especially in the absence of a postal censorship, by unilateral action than if movements of capital can be controlled *at both ends*.

Helleiner (2015) has insisted on controls 'at both ends' as an innovative and essential feature of Keynes' reform, making it easier to implement and more efficient. The defence of controls in 1943 was not shocking for many economists and even welcomed by H. D. White at Bretton Woods. Nevertheless, the proposal was watered down due to American domestic opposition, especially from the 'New York Financial community' (Helleiner 2015: 421). The need for exchange controls explains certainly partly the fact that free-market economists often opposed all forms of clearing agreements including the ICU. According to Sayers (1956: 230), the British Treasury was against the German-type exchange control system at least up to 1939 because of 'the high degree of state interference and control of every branch of economic life inevitably involved', and 'the large number of officials needed to work the system' – the estimate being circa 30,000 people employed in Germany at the end of the 1930s.

Keynes' opinion seems difficult to determine on the subject. On the eve of the war, he was still reluctant to recommend exchange controls. Writing on Nazi Germany's trade methods and exchange controls in 1939, 'their technique does not offer a good model for us. I have not reached a decided opinion on the point' (Keynes 1978: 12). He seems to have changed his mind only with the outbreak of the war and the worsening international position of Britain. But he was embarrassed by the exchange restrictions problem until the end of the conflict. During the Spring of 1944, he eventually defended in the British Parliament the result of the Bretton Wood conference, that is, the Anglo-American Joint Statement which planned to restore currency convertibility as soon as possible after the war. In 1944, he read Hayek's *Road to Serfdom* on the boat bringing him back to Britain. He wrote a letter to Hayek saying a lot of positive comments. Although he was not fully in line with Hayek, he expressed his distrust of planners who did not share the moral values that he and Hayek had in common.

For the same reason mentioned by Sayers, Hayek (1944) was clear in his opposition to any sort of exchange control.

> The extent of the control over all life that economic control confers is nowhere better illustrated than in the field of foreign exchanges. Nothing would at first seem to affect private life less than a state control of the dealings in foreign exchange, and most people will regard its introduction with complete indifference. Yet the experience of most continental countries has taught thoughtful people to regard this step as the decisive advance on the path to totalitarianism and the suppression of individual liberty.

Should the channelling of transactions be necessarily followed by quantitative restrictions, quotas, or other measures aiming at preventing some trade? Triffin, who was economist at the Federal Reserve, then at the IMF after the Second World War, assumed that controls could be permissive and compatible with capitalist societies (Faudot 2022). The necessity (or not) to adopt economic planning as a domino effect is difficult to assess. In today's world economy, we could assume that an international clearinghouse replaces the international operations of the US dollar banking system. The network of central banks would be necessarily established as a permanent infrastructure, at the top of which would reign the clearinghouse. This would need exchange controls, for the reasons detailed above.

In the twenty-first century, it might be possible to adopt efficient controls on financial flows which would not prevent both existing market mechanisms and instantaneity of capital flows through the creation of a monopolistic structure responsible for recording and carrying out financial flows and international payments.[7] We cannot distinguish any technical or logical impossibility for such a financial infrastructure involving central banks' monopoly over foreign exchanges. The digitalization and technical innovations applied to financial systems have facilitated the standardization of the financial system and, to some extent, its centralization.[8] It has improved transaction speed, reduced the cost of payment infrastructures, and simplified authentication and security procedures (Bindseil and Pantelopoulos 2022). All these features favour the use of the payment infrastructure as they make it even more attractive for private and public players. Such a monopoly also enables greater control over transactions. For the private agent willing to circumvent the monopolistic financial platform, the cost-benefit ratio of the evasion could be too high to be tested.

This scenario rests on the assumption that the ICU will be based on a system of overdraft recording large financial flows to ensure that all balance of payment disequilibrium will not provoke the end of the institution. If the structure is based on strict current account equilibrium, some degree of planning and protectionism is expected to be on the agenda each time a country is under threat of being sanctioned for a large deficit.

Conclusion

The International Clearing Union (ICU) is a highly desirable institution. It is desirable because the current international monetary system is deeply asymmetrical and creates unfair economic and financial conditions for a large part of the world economy. The establishment of the ICU will solve many problems, and, nevertheless, create several new challenges that must be addressed. This chapter argues that some of them have been neglected or understudied in most of the recent discussions of the Clearing Union.

First, the ICU is essentially a rule-based institution. It aimed to restore some kind of rule-based multilateral, fair, and symmetrical discipline in the international monetary system, instead of a gold exchange standard (until 1971) – in which the alleged discipline was easy to circumvent for several creditor countries – and the dollar standard (as of 1971). For the former reason as well as for the functioning of the clearinghouse at the centre of the ICU, the exchange rate regime of the ICU rests on fixed rates which help to cement and unify the international monetary system.

Second, the adjustment process of the members' economy should not pass through devaluation but other policies, expansionary when possible and desirable, as some post-Keynesian economists called for. This mode of adjustment is designed to make it easier to achieve full employment without resorting to devaluation, which in turn relies on the downward adjustment of real wages. Third, the whole structure should deal with financial flows, organizing the recycling of surplus for deficit countries, which involves to relinquish the concept of current account equilibrium. Fourth, the ICU should be prepared for the implementation of exchange controls, its main concern being that no other means of payment should compete with the bancor in order to preserve the functioning of the adjustment mechanism.

The chapter uses experiences and discussions in twentieth-century history to understand the fundamental issues that could emerge from the establishment of the ICU. The lessons are mainly drawn from the experiences of bilateral and regional clearing agreements from 1931 to the 1950s. These lessons have, however, some shortcomings. At the time of the bilateral and regional clearing experiences between 1931 and 1958 in Western Europe (and beyond), economists and policymakers had to face severe balance of payments problems and hard currency shortages. This situation has changed dramatically, as currency shortage is no longer a major threat. The context of the twenty-first century is therefore different concerning the incentives underlying the establishment of the Clearing Union, but we still have good reasons to call for it.

Notes

1 Dr Fritz Meyer was invited to contribute in 1939 to the twelfth conference of the International Institute for International Cooperation organized by John Condliffe,

on exchange controls. The reports of the conference (held in Bergen, Norway) were published in several volumes in 1947 (for the French version), after the war. Some of them are available online: https://atom.archives.unesco.org/documents-concernant-letude-des-politiques-economiques-et-la-paix-conference-de-bergen-1939
2 Henry Simons is well known for his essay on 'rules vs authorities in monetary policy' (Simons 1936).
3 The quotas refer to the sum of each country's exports and imports on the average of the pre-war years.
4 'I should be reluctant, apart from the small change suggested above, to give much more fluidity, because the atmosphere of settled exchange rates seems to me to be an important ingredient in achieving post-war stability. If money wage rates in a particular country have got thoroughly out of gear, there is nothing to be done but to alter the exchanges. In other contingencies the possible benefit to be gained is, I am sure, greatly exaggerated, and it would be exceedingly easy to do more harm than good. This is the lesson of nearly all the depreciations which took place after the last war' (Keynes 1980a: 106).
5 'The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years' (Keynes 1980a: 118).
6 Germany created a multilateral clearing centre in Berlin to allow the multilateralization of payments as of Fall 1940. The structure was perverted by Nazi's increasing exploitation of occupied and allied countries, but it was the most contemporary concrete experience that could help Kalecki and Schumacher to design a better plan.
7 According to Alfred Hirschman, more than seventy years ago, 'It is possible to imagine a situation in which convertibility in the most general sense prevails, with all foreign exchange freely bought from the central bank and all foreign exchange earnings sold to it against local currency' (Hirschman 1951: 61).
8 Some innovations may increase the likeliness of fragmentation of the payment system, which nuances the argument (see again Bindseil and Pantelopoulos 2022).

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