

1944/2014/2084  
**BRETTON WOODS**  
THE FOUNDERS AND THE FUTURE

## The 1944 Keynes Plan: An Idea whose time has now returned?

Remarks by

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***Idea: The Keynes Plan involved symmetrical adjustments of both creditors and debtors to international imbalances. Could that idea be revived, perhaps focusing now on the capital account? A good time to try to do so would be when long-standing international patterns of international trade begin changing fluidly.***

My father used to tell a story about when he was invited to give an after-dinner speech at the 200th anniversary of the American Bar Association. He was a very eminent jurisprudence lawyer. And since he'd been invited and it was a very important occasion, he thought that he should do it properly and he arranged a presentation of about 30 minutes. But after he had spoken somebody else got up to speak. And after a bit, it became obvious that the American Bar Association had invited eight or nine people to give the after-dinner speech without telling any of the others. And each of them, because of the importance of the occasion, had prepared a half-an-hour presentation. At about quarter to 2:00 in the morning, my mother, who had come over and was suffering from jet lag, got down on her hands and knees and crawled under the protection of the table linen covering, out of the room, onto the fire escape to get away and get to bed without being noticed. Now I promise you that I am going to be the last speaker this evening, and I hope that nobody will feel that they have to get down on their hands and knees to crawl out.

As I was flying over, I had some time to read, and I was reading a book – and I'm going to be the only person, perhaps, at this conference who is going to present a book which is not his own, which is Robert Skidelsky's book about Keynes. I was reading it in part because I wanted to refresh my memory on what Keynes and his British colleagues had said about the 1944 Bretton Woods meeting. I came across this particular passage, "The delegates to the 1944 conference, booked into the Mount Washington Hotel, which had been less than fully prepared for its reopening. It was the mixture of luxury, chaos, and inefficiency which impressed Lydia." That was Keynes' wife. "She wrote, 'The taps run all day. The windows do not close or open. The pipes mend and un-mend. And no one can get anywhere.' Despite its beauty, Bretton Woods was a madhouse."

And she went on to say, "In the circumstance it was just as well that the Americans and the British had

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stitched everything up beforehand," which just goes to show how much has changed in these last 70 years, because everything at the Mount Washington Hotel this time, as far as I know, has been working perfectly. And, certainly, the British and the Americans have not stitched up everything beforehand on this occasion, though, I have had great pleasure in trying to help Larry in the preparation of this particular conference.

Though, if I can compare, if you like, the present people who have come from the UK with the delegates who came from the UK 70 years ago, all I can say is that we do not compare very well, because the delegates who came 70 years ago were, perhaps, the finest trio of macroeconomists that was ever put together or could be put together by Britain, and, perhaps, by any other country ever. The three who came were as everyone knows, JM Keynes, but also Sir Dennis Robertson, who is, in fact, my hero and I think in many ways the equal of Keynes in the subtlety of his mind, and Lionel, who later became Lord, Robbins, who is a great macroeconomist.

So the British contingent to the 1944 meeting was quite outstanding. And I think there is no question in my mind that the analytical ability of the British contingent was far and away the greatest and the highest of any at that particular conference. But although the British analytical abilities were the best, the Americans held all the trump cards. They had the money and they had the power. If you take the difference between the Keynes plan and the White plan, in my opinion, the difference was really fairly simple. The UK was a deficit country, and Keynes produced, I think, a quite outstandingly, brilliant plan, I think the best plan that was ever produced along these lines, to try and make the adjustment process between deficit and surplus countries into a symmetric one, whereby the surplus countries had to adjust as much as the deficit countries did, under this system of bancor, an international clearing union approach.

America, of course, was the biggest creditor country of all at that particular time and, therefore, Harry White was effectively determined that there were going to be no, or not any really very demanding, constraints on the surplus countries. So the IMF was born in a way that facilitated the adjustment of the deficit countries, and has never ever been really able to impose significant constraints on surplus countries, particularly large surplus countries. And to my mind, that has always been the great shortcoming of the IMF. All of the adjustment effectively is placed on deficit countries.

Now is it conceivably possible that we might do better than the 1944 Bretton Woods? And in my view, if we are to do better than the 1944 Bretton Woods, what it means is to go back to some simulacrum, some equivalent of the Keynes plan, whereby the adjustment is made more symmetrical. It's extraordinarily difficult to do so, but I think it is not, in fact, actually hopeless. I think there are two possibilities. One is that, as Yu Yongding was saying this morning, the weakness that many of the surplus countries find is that the returns they get from the accompanying capital outflow, that is associated with their current account surplus, has frequently been disappointing or very disappointing.

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And the German outflow to some of the peripheral Mediterranean countries, and the returns that China has got by investing in US T-bonds have been pathetic compared to the returns that it might have been able to get by investing at home.

And the British and the French in the 19th century did not get a massive great return from their foreign investment. Could it be possible that we could shift from trying to put the pressure on the adjustment of current accounts to putting pressure on the adjustment about the change in the capital position?

Perhaps even more likely is that we have been running in a system, which Peter Garber has expressed to us very well over the years, whereby there've been imbalances which have been fairly persistent with countries, Japan in the past, China, Germany, and the oil-producing countries now, who have been running persistent surpluses, whereas the US and the UK have been running persistent current account deficits. In my view, all that is going to change and change fairly dramatically, probably in the course of the next ten years because primarily of demographic changes with an accompanying shift in the dependency ratio. It is quite likely that the current account surpluses of China and Germany and Japan will start shrinking really quite dramatically. It is also possible that, if we can get on top of climate warming, that that will involve, or it will have as an equivalent a decline in hydrocarbon fuel prices, so that it could be that the world imbalances which we've grown to know, and not necessarily to love, over the last 20-30 years, could be in the process of changing fairly sharply in the next ten years. And it may be that in about ten years time, we won't actually know who are going to be the persistent credit account, surplus, or deficit countries.

Now if we were to be in a Rawlsian state of uncertainty about who is going to be in what position so that we don't actually know which countries are going to be running current account surpluses and which countries are going to be running current account deficits, and the old order is changing, then we might be in a position all to agree, from a state of uncertainty, that it is actually desirable for those surplus countries to have to adjust as much as deficit countries are forced to adjust. So it may be that there could be a window of opportunity, as the present structure of imbalances changes, for there to be a condition in which we could revisit the 1944 Bretton Woods arrangement and this time go for the British Keynesian approach.

Thank you.