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RECONCILING MONEY AND GOODS: KEYNES'S COMMODITY AND CURRENCY PLANS FOR THE POSTWAR WORLD

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ABSTRACT

Growing volatility of commodity prices has been both symptom and factor of instability over the past years. The problem, however, is not new. In the interwar period, it already attracted the attention of Keynes, who ascribed it to the lack of storage of surplus stocks. According to Keynes, markets for raw materials and foodstuffs are inherently unstable. Compared with other forms of wealth, particularly financial assets, commodities are unattractive for private agents since they not only yield nothing but entail high carrying costs. In order to supplement inadequate private storage and to provide a buffer between production and supply and between consumption and demand, Keynes proposed to arrange public storage of commodities in buffer stocks under the management of an international organization. Between 1942 and 1944, his plans for a Commodity Control were widely discussed and repeatedly redrafted, but, like the Clearing Union proposal, they were eventually set aside. This research analyses the peculiar institutional design of Keynes's postwar commodity schemes.

Keywords: Keynes; International commodity policy; Buffer stocks.
JEL codes: B22; F02; F13; F55; N50

1. Commodity Price Fluctuations

"The fluctuations in the prices of the principal raw materials which are produced and marketed in conditions of unrestricted competition are quite staggering", observed John Maynard Keynes at the eve of World War II. In fact, he calculated that, over the previous ten years, price fluctuations of four significant commodities, measured by the excess of the year's high

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over the year's low, had been on average 67 per cent (Keynes 1938: 458-459). Over the last ten years, price variations measured by the same criterion for the same four commodities have yielded an average of 58 per cent, not far from the volatility recorded in the interwar period by Keynes.[1]

Indeed, in the wake of the current financial and economic crisis, commodity markets have undergone violent oscillations. Such sharp fluctuations of prices represent a major element of uncertainty and distress for producers and consumers alike, particularly when they affect foodstuffs or raw materials on which the nutrition or livelihood of entire populations depend.

The problem, however, is not new. Markets for primary commodities are structurally exposed to dramatic imbalances: the alternation of abundance and shortage, with the ensuing price volatility, appears to have been, over the centuries, a persistent feature of commodities as opposed to manufactures (Jacks *et al.* 2009: 13). Oscillations are particularly violent for the price of foodstuffs, due to the vagaries of crops and weather and to the fragmentation of markets.

Throughout history, the evil consequences of agricultural cycles were fought through various forms of commodity storage. In ancient Rome, the supply and distribution of grain was entrusted to a public official, known as *praefectus annonae* from the time of Augustus till the end of the Empire (Kessler and Temin 2007). In the Middle Ages and up to the early modern period, public and private granaries functioned as buffer stocks, collecting grain in years of plenty to redistribute in years of famine. The practice was abandoned only in the eighteenth and nineteenth centuries, with the gradual diffusion of the doctrine of free trade (Persson 2004). Competitive commodity markets have undoubtedly produced benefits by reducing rents, promoting innovation, and enhancing productivity. On the other hand, however, they have failed to avoid the continuous alternation between over- and under-production, and the resulting price fluctuations, particularly in periods of economic uncertainty and financial instability.

It is not surprising, then, that the issue should rise to the fore in the turbulent interwar period. What is perhaps less known is that, throughout those years, Keynes devoted great attention to the problem, producing a series of contributions that have not yet received the attention they deserve. The goal of this paper is to interpret a neglected aspect of Keynes's activity in the broader setting of his economic approach and policy recommendations. At first glance, commodity policy might appear as a rather marginal issue in the body of Keynes's work. A more accurate consideration shows

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[1] Calculations based on the monthly time series of the IMF Primary Commodity Prices: http://www.imf.org/external/np/res/commod/index.aspx (last update: 23 August 2016).

that, in his view, it played a crucial role, not only as an automatic stabilizer of commodity prices, but as a powerful countermeasure against cyclical fluctuations of the economic system as a whole.

Keynes's interest for primary goods arose as a practitioner, in the early 1920s, when he started investing in commodity futures markets. Section 2 reviews Keynes's theoretical speculations on commodity futures, which led him to identify the lack of private stocks as a major cause of price volatility and the creation of public stocks as a possible remedy.

The outbreak of the war proved the importance for each country to build up strategic reserves of foodstuffs and raw materials. Keynes's idea was to extend the practice also in time of peace and on a global scale, through an international organization responsible for managing buffer stocks of various staples. Section 3 investigates the origin of the *Commod Control* proposal and its fundamental role as a pillar of Keynes's plan for the postwar economic order.

Keynes's proposal raised immediate reactions, in both political and academic circles. Section 4 traces the evolution of the plan, and analyses its theoretical underpinning and practical viability, in the light of largely unpublished material. As Treasury documents reveal, a major determinant of the demise was the abandonment of the Clearing Union proposal.

In fact, the Clearing Union would have provided funding for the accumulation of buffer stocks, while the commodities accumulated by the Commod Control would have provided backing for the creation of Bancor. Section 5 reviews the interconnections between the two plans and argues that they were coessential elements of a consistent vision, aimed at contrasting two major causes of economic disequilibria, by penalizing the accumulation of money balances and encouraging the accumulation of real goods.

2. Causes and Remedies

The stabilization of commodity prices is not commonly regarded as an important theme within Keynes's broader concern for macroeconomic stability. Yet, for two full decades, between 1923 and 1943, Keynes repeatedly addressed the issue, analysing its causes and suggesting possible remedies. The continuity of his interest for the matter and the originality of his contributions have been appropriately emphasized by Sabbatini (1989) and by Dimand and Dimand (1990).[2] However, these authors overlook several

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[2] Brief accounts of Keynes's interest for commodity policy, mainly focused on the schemes he developed during World War II, are provided also by Tonveronachi (1981) and by Kaldor (1983).

relevant writings, both published and unpublished, which span over two decades and may help appreciate more fully the peculiarity of Keynes's explanation for commodity price fluctuations and the rationale for his buffer-stock proposals.[3] Here I provide a general review of all the various writings, both academic and political, that Keynes dedicated to the issue, together with the peculiar instances that occasioned them, in order to analyse their content and the policy indications that they suggest.

Keynes's interest for commodity markets began as a practitioner rather than as a theoretician (Fantacci, Marcuzzo and Sanfilippo 2010). Already in 1920, he started to invest on commodity markets, on his own account and as bursar of King's College. In this capacity, he was assisted by Richard Kahn. Keynes 'apologised to Kahn for causing him so much trouble over commodities. "But it's a pure game", he added lightly, "and should not use time available for serious tasks", (Skidelsky 2000: 7). Among the more serious tasks, Keynes quite certainly counted the theoretical speculation on the functioning of commodity markets.

Keynes's first written contribution on the subject came only a few years later, in March 1923, with an article in *The Manchester Guardian Commercial*, entitled 'Some Aspects of Commodity Markets' (Keynes 1923a). At the same time, Keynes started to edit a series of *Special Memoranda on Stocks of Staple Commodities* for the London and Cambridge Economic Service. He produced altogether seven issues between April 1923 and September 1930, where he collected and commented periodical data on the volume of surplus stocks throughout the world, with a view to provide information "of the utmost importance both to businessmen and to economists" (Keynes 1923b: 267).

From his practical acquaintance with commodity markets, both as an investor and as the editor of these enquiries, Keynes must have drawn quite early the impression that competitive markets did not provide adequate incentives for the private storage of raw materials that could have contributed to even out fluctuations in their production.

Already in his first article Keynes observed that commodity markets had been affected by wide price fluctuations, especially in the recent past, and advanced an explanation along the following lines: the post-war boom had raised prices, stimulating supply and retarding demand; however, this had failed to re-establish a parity between the two, since supply had continued to rise, overshooting demand; the resulting accumulation of abnormal

[3] We have already suggested (Fantacci, Marcuzzo, Rosselli and Sanfilippo 2012) the strong coherence between those proposals and the theoretical framework developed by Keynes, particularly in the *Treatise on Money* and in the *General Theory*.

stocks had then caused prices to decline; yet, in the absence of a timely adjustment of supply, prices had continued to fall even below costs of production; eventually, production was drastically reduced and, for certain commodities, almost suspended, falling short of consumption; as a consequence, prices had started to rise abruptly and showed no evidence of slowing down, since production only gradually adjusted to increased demand (Keynes 1923a: 264). Keynes thus anticipated, with regard to the specific case of post-war commodity markets, the analysis that was later generalized and developed into a formal model, in particular by Kaldor (1934), and that came to be known as the 'cobweb cycle'.

However, it was only three years later, in a second article on the subject, that Keynes not only described the cycle but also provided some hints as to its possible causes. The article was written in reaction to a declaration by Herbert Hoover, then US Secretary of Commerce, and appeared in *The Nation and Athenaeum* in June 1926. Here Keynes underlined two peculiar features of commodity markets, the concurrence of which is required to produce wide fluctuations of prices: "an inability of the market to carry surplus stocks and an inability of the producers, acting separately, to restrict production quickly" (Keynes 1926: 549). In other terms, in Keynes's view, the chain of events described above crucially depended on the concomitance of two conditions, which characterize commodities: (i) the slow adjustment of production to variations in demand, *and* (ii) the impossibility to smoothen changes in supply by recurring to surplus stocks, i.e. by accumulating stocks when demand falls in order to draw from them when demand rises.

Now, given the wide fluctuations of commodity prices, one could think that they would provide sufficient incentives for the speculative holding of stocks, in the expectation of price rises, and that in turn such speculation would contribute to smoothen price fluctuations. Why then is the market unable to carry adequate surplus stocks of commodities?

In general, in order for speculators to be induced to purchase, not only must they have an expectation of an increase in prices, but the expected increase must be large enough to compensate them for the costs of carrying the commodities (deterioration, warehouse and insurance charges) and for the opportunity costs of not investing in other assets (Keynes 1926: 549). Moreover, one must consider the risk of further unexpected price declines, since the length of time for which the holding will be necessary and the price at which the commodity will eventually be sold are both highly uncertain (Keynes 1930a: 121-124; Keynes 1938: 457).

As Keynes argued in the *Treatise*, price fluctuations and low private stocks were tied together in a vicious circle of reciprocal causation: if price fluctuations were amplified by the exiguity of liquid stocks (which fail to

compensate for lengthy adjustments of output), the holding of stocks was discouraged by price volatility (which increases the ensuing risks) (Keynes 1930a: 121-124). In turn, the lack of accumulation of liquid stocks implied that there was no support to demand (and prices) during the downturn, and that there was no immediate supply of working capital during the upturn (and hence that there was a strong upward pressure on prices) (Keynes 1930a: 116). Recovery was thus retarded and the trade cycle amplified.

The argument was developed further in Chapter 17 of the *General Theory*, where the high carrying costs of commodities compared to money were shown to 'play an essential part' in the possibility of equilibrium with underemployment. For all these reasons, Keynes was brought to believe that competitive markets were not capable of maintaining the stability of commodity prices which was required to assure a reliable provision of foodstuffs to consumers and to allow the planning of production, both by the producers and by the users of raw materials.

> It is an outstanding fault of the competitive system that there is no sufficient incentive to the individual enterprise to store surplus stocks of materials beyond the normal reserves required to maintain continuity of output. The competitive system abhors the existence of buffer stocks which might average periods of high and low demand, with as strong a reflex as nature abhors a vacuum, because such stocks yield a negative return in terms of themselves. It is ready without remorse to tear the structure of output to pieces rather than admit them and in the effort to rid itself of them; which should be no matter for surprise because the competitive system is in its ideal form the perfect mechanism for ensuring the quickest, but at the same time the most ruthless, adjustment of supply or demand to any change in conditions, however transitory.[4]

Since Keynes was convinced that commodity price fluctuations were caused by inadequate private motives towards the accumulation of commodities, he started to look for a possibility of supporting the storage of primary goods by means of public intervention and international coordination. From the beginning, he explicitly advocated this policy both as a means to reconcile the interests of consumers and producers and as a measure to dampen the trade cycle.

The first time Keynes mentioned the need to contrast commodity price fluctuations by enhancing co-ordinated storage facilities was in his introduction to the *Memorandum on Stocks of Staple Commodities* published in June 1924: "It seems as if relative prices could be kept a good deal steadier

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[4] Keynes 1942: 131; the same observation is made, in similar terms, also in Keynes 1930a: 130 and in Keynes 1938: 457.

if the organisation for carrying stocks at a moderate cost were on a larger scale" (Keynes 1924: 315).

In 1926, Keynes made a further and more explicit endorsement of buffer stocks in his article for *The Nation and Athenaeum*, "The Control of Raw Materials by Governments". Replying to the indiscriminate condemnation of government controls recently made by Hoover, Keynes urged to distinguish policies aimed at defending monopolistic profits from those aimed at avoiding the evil effects of wide price fluctuations for both producers and consumers. Whereas the purpose of output restrictions was "to make abnormal profits", the purpose of buffer stocks would be "to avoid abnormal losses". Keynes ascribed such losses to the "inability of the market to carry surplus stocks" (Keynes 1926: 549) and hence advocated government intervention to "supplement the deficient carrying power of the market" (*ibid.*: 550).[5]

In 1938, Keynes could cite not only the negative examples of restriction policies (such as private monopolies, cartels, quotas, price agreements aimed at protecting the interests of producers of specific commodities), but also the recent adoption of policies that he considered more favourably: the accumulation of stocks by governments to use in time of war, or to protect producers or – what Keynes deemed even more desirable – to smoothen fluctuations of demand and supply. As significant examples of the latter, Keynes mentioned Henry Wallace's ever-normal granary and the Bank of Sweden program for the purchase of stocks of commodities as a part of their reserves (Keynes 1938: 462-463).[6]

Keynes's proposal was to provide for government storage of private stocks. The commodities would remain in the ownership of depositors, but would be stored at special conditions: they would be exempt from warehouse charges, or subject only to a nominal charge, and they would benefit from an advance by the government up to 90 per cent of the market price of the commodity delivered into storage, free of interest or at an interest equal to the rate on Treasury bills. The advantages would be to secure a supply of raw materials, not only to face the war but also to contrast the trade cycle at a low cost for the government, and to facilitate the course of private trade rather than interfering with it. The scheme could be regarded as a form of foreign investment, with the advantage of being situated at home. The acquisition of the commodities might cause an out-

[5] The same criticism against restriction schemes is repeated in the introduction to the *Memorandum on Stocks of Staple Commodities* of September 1930. Such schemes eventually proved ineffective in preventing a fall in prices, in the face of the general decline in demand associated to the world depression (Keynes 1930b).

[6] On the Swedish experiment see also JMK 30/PS/6/269-70.

flow of gold. However, this need not imply a reduction of reserves. Indeed, Keynes was inclined "to regard the policy of holding liquid stocks of raw materials as a natural evolution of the policy of holding liquid stocks of gold outside the banking system" (Keynes 1938: 469).[7]

Due to Keynes's health problems, the paper was read by Gerald Shove at the August meeting of Section F of the British Association for the Advancement of Science, and received positive comments both by participants and in several newspaper articles, "nearly all expressing cautious agreement" (letter from Keynes to Shove, 23 August 1938, in JMK 30/PS/6/249-50). That Keynes's proposal was benignly received is confirmed by Nathaniel Wedd, who attended the meeting and reported in a letter to Keynes's wife, Lydia: "It made all the Scientific pundits seem drab and dreary, and it gives light and hope not just for a war crisis, but for the future permanently. I am glad that you succeeded in persuading him to remain in the country, while Shove read the paper for him" (Wedd to Lydia Lopokova Keynes, 26 August 1938, LLK/5/219).

Keynes also sent copies to a number of authorities, hoping that his proposal might be put into practice, yet to no avail.[8] Most prominently, Keynes's proposal was presented and discussed in the cover article of *The Economist* on August 20, 1938, significantly entitled "The New Joseph", as it credited Keynes for having raised an issue that "since the days of Joseph [the biblical patriarch who advised Pharaoh to prepare for years of scarcity by storing grain] has hardly received the attention it deserves" (Economist 1938).

Some of Keynes's critics believed that his proposal might seriously undermine the prestige of gold and lead to another gold scare. However, the main preoccupation was that the management of buffer stocks might be deviated from its noble purpose to the defence of more special interests, particularly those of producers, aimed at maintaining artificially high prices.[9] *The Economist*, though appreciating Keynes's approach to the problem, expressed apprehension for the fact that "some bureaucrat sitting in Whitehall or in the Thames House, should be equipped with the finance and

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[7] This idea points towards the proposals for a 'commodity reserve currency' discussed below in Section 5.

[8] In particular, he sent copies of the paper to Oliver Stanley, President of the Board of Trade, to Sir Thomas Inskip, Minister for the Co-ordination of Defence, and to Henry Wallace, US Secretary of Agriculture, and author of a similar scheme for wheat, "the ever-normal granary" (CWK 21: 470-476).

[9] These observations, together with other minor criticisms related to more specific aspects of Keynes's proposal, were made at the seminar where the paper was read, and were reported to Keynes by Harrod in a letter dated 20 August 1938 (in Besomi 2003: 833-844).

the authority to become the world's supreme jobber" and that, instead of bringing demand and supply closer together, buffer stocks "having originated as an attempt temporarily to increase demand, [may] remain as a permanent addition to supply" (Economist 1938).

These criticisms may be better reviewed in the light of Keynes's later proposals for a buffer-stock scheme. In fact, in his 1938 paper, Keynes had only proposed that the government provide storage facilities for the accumulation of private stocks, and not that it should act as a jobber, buying and selling massive amounts of commodities in the name of the public (with the risk of acting in the interest of powerful lobbies). It was only in the proposals of an International Commodity Control elaborated during the war that Keynes envisaged the actual purchase of commodities by a centralized authority and entered into the details of how the buffer-stock scheme should be managed.

3. A Pillar of Postwar Planning

All the elements of Keynes's post-war plans were already present in embryonic form in his plans to prepare for the war: capital controls, clearing systems, and buffer stocks (Skidelsky 2000: 25). Of course, before the war, they completely lacked their international dimension and pacifist spirit. Capital controls appeared in the form of an embargo on British foreign lending. Clearing mechanisms were advocated on a bilateral basis "so as to make sure that those from whom we buy spend a reasonable proportion of the proceeds in corresponding purchases from us" (CWK 21: 483). Buffer stocks were envisaged as a form of government control over strategic resources for the wartime. And yet, Keynes clearly saw that the same institutional arrangements would be desirable after the war, for the purpose of establishing a reliable international framework for peaceful economic relations: "If only we could tackle the problems of peace with the same energy and whole-heartedness as we tackle those of war!" (CWK 21: 463).

A conversation with Kingsley Martin in January 1939 brought out in full "Keynes's view that the 'war economy' which was slowly taking shape might serve as some sort of model for the peacetime regulation of economic life" (Skidelsky 2000: 39). The first opportunity to put this idea into practice was provided by the Anglo-American loan negotiations in which Keynes was involved as envoy of the Treasury.

Discussions about buffer stocks were resumed in British government circles during World War II, in relation to the problem of export surpluses. The blockade and the disruption of trade channels caused producing countries to experience difficulties in selling their entire production. In order to

prop up the blockade and to support Dominions and Allies who suffered the greatest surpluses, Britain started purchasing and accumulating stocks of commodities, in view of using them for post-war relief.

In a speech to the Commons on 20 August 1940, Churchill expressed preoccupation for the collateral damage that the blockade was producing on both sides of the front: the countries occupied by Germany were suffering from lack of food, but it was impossible to deliver goods to them without having the Nazis intercept it; on the other hand, producing countries, particularly in South America, had trouble selling their primary products and were left with surpluses and with the costs that they implied.

Hence the Prime minister supported the idea of purchasing surplus stocks and of holding them until the end of the conflict, thus providing both for immediate relief to producers and for postwar relief to liberated countries. He stated that "we shall do our best to encourage the building up of reserves of food all over the world so that the peoples of Europe, including the German and Austrian peoples, may have the certainty that the shattering of the Nazi power will bring to them all immediate food, freedom and peace".[10]

Of course, Britain would have not done this out of sheer generosity, but would have had her own advantages. These are clearly described by Keynes in a BBC broadcast just one week later. The first motive, of course, was propaganda:

> We do want to help, and we've got to prove that we do. That was Mr Churchill's point. The best proof will be to beat up Hitler and drive him out. But we can do something else first. We can say that, as soon as the Germans clear out of these countries, we'll pour in food to feed them, and we can prove that we mean it by building up big stocks of food.[11]

The message would have been directed not only to occupied countries, but also to producers, who were being harmed by the blockade:

> We can't let Goebbels persuade all these primary producers in South America – yes, and in the United States, too – that our blockade is driving them into bankruptcy.[12]

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[10] Quoted in "Memorandum on Mr. Dean Acheson's draft letter to Sir F. Leith-Ross", 7 July 1941 (T 247/104/42). The exact date of the speech is confirmed in CWK 27: 3.

[11] BBC Broadcast with [Donald] Tyerman, 27 August 1940, p. 4 (T 188/247). A copy of the transcript is preserved among the papers of Frederick Leith-Ross. The author is not identified, and the text is not published in CWK. However, the words written in pencil at the top of the page appear to be in the handwriting of Keynes and the arguments are very close to those that he will use in supporting buffer stocks in the following months.

[12] *Ibid.*: 5.

But Britain would have had an even more concrete and direct advantage in economic terms:

> Just as these other countries can't any longer sell their food and raw materials to Europe, so we can't sell our manufactures there, except in a very few places, and we've got to sell them overseas instead to pay for the produce that we must have for the war. And all these countries won't be able to take our goods if we don't help them. So this business of reserves, reserves for us and reserves for Europe, is tied up with our need to export more, with our new export campaign "Britain delivers the goods" and so on.[13]

By helping others, Britain would help herself. The money spent on purchasing primary goods would come back in exchange for manufactures, and could be spent again to finance the war. The initial purchase would thus diffuse its expansionary effects throughout the world economy according to the mechanisms of the multiplier described in *The General Theory*.

The principle could turn useful, well beyond the contingent necessities of war, to contrast economic downturns in times of peace. With respect to commodities, the war had the same effect of a severe trade cycle. The scheme envisaged by Britain was anti-cyclical, since it consisted essentially in absorbing excess supply during the conflict in view of satisfying the excess demand that was to be expected after the end of the hostilities. It could inspire the establishment of a permanent international institution in the postwar world, expressly designed to accumulate foodstuffs and raw materials in periods of low activity, in order to sustain the purchasing power of producers.

> It's a lesson for peace-time, a lesson for the years when primary producing countries produce too much and sell too little, and start us all on the way to depression. If we and the United States were to buy their surpluses and build up reserves, we could perhaps keep prices fairly steady. We could keep the primary producers fairly well off, and they could buy our goods, so we'd be well too. It's a thought, you know. Solving the problems of peace by using the methods of war. It's a big idea and a very important one in a country that's fighting to keep the right to work out a decent democratic life.[14]

The stake was high, possibly higher than the costs involved. "Some of you may complain we can't afford it. I'd say we can't afford not to do something like this". Especially because the costs didn't seem to be prohibi-

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13 *Ibid*.

14 *Ibid*. It is the same argument used by Keynes in his speech of two years before (Keynes 1938).

tive: "they say that all the surpluses of South America could be bought for something like £100 million". Moreover, the Americans could be expected to help.

Already on 19 July the Economic Policy Committee of the War Cabinet had set up a Ministerial Sub-Committee on Export Surpluses "to report what steps, such as restriction of production, purchase and storage, destruction, etc., should be taken to deal with surpluses in producing countries of commodities which should be denied to the enemy by our blockade".[15] On 9 September the survey was entrusted to an official sub-committee, which, following the Prime Minister's endorsement, identified the purchase of excess stocks as the most effective way to deal with the problem of surpluses. The sub-committee recommended that £200 million be dedicated to this purpose, with or without the help of the United States. On 9 November 1940 Sir Frederick Leith-Ross, Chief Economic Adviser to H. M. Government, was appointed to co-ordinate the purchases and Keynes became Treasury representative on a special advisory committee.[16]

From his very first contributions to the debate, Keynes insisted that it was not just a matter of providing contingent relief in times of war, but of designing permanent institutions for a new international economic order after the war. As the British government attempted to involve the United States in a concerted approach to the problem of surpluses, he wrote to S. D. Waley at the Foreign Office on 25 November 1940:

> If we really want to get U.S.A. in, we ought to make it seem more interesting and of real significance to the world as a whole. As it is, we are simply appearing as suppliants pleading with them once more to give us financial assistance and to pull chestnuts out of the fire. On my view of the matter that is not at all a correct view of the situation. If this is anything at all it is a world scheme of the greatest possible post-war significance. (CWK 27: 5)

Keynes had made the same point in a letter to Leith-Ross on 23 November 1940 (CWK 27: 6). And he must have been convincing, since, when a few months later Leith-Ross wrote to Dean Acheson, Assistant Secretary at the U.S. Department of State, he moved precisely from an appeal to higher ends, underlining the importance of addressing the problem of surpluses within the broader perspective of postwar planning:

> You and we are being forced by circumstances into dealing with urgent cases of particular industries or particular countries which, for political or commercial reasons, we are impelled to help. We may have to improvise remedial measures

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[15] CWK 27: 3.

[16] CWK 27: 3.

for such cases but so far as possible, it is surely desirable to frame such measures so as to get the most constructive results, e.g. in connexion with post-war plans for relief in Europe and for stabilisation of commodity prices and for the adoption of saner economic policies all over the world. We feel that it would be a great pity simply to deal with immediate cases by palliative measures without taking every opportunity to further these wider aims. [17]

What was at stake was not merely the contingent problem of commodity surpluses, but the structural problem of fluctuations in commodity prices and in the income of producing countries. The former was a temporary effect of the war, the latter was a permanent element of disturbance and a potential factor of international conflict. The approach had to be widened from cure to prevention:

If we could success in preventing sharp fluctuations in the prices of the chief primary materials, we should have gone a long way towards smoothing out the cyclical depressions of trade in manufacturing countries. This sort of objective seems remote from the troubles of war which now beset us, but economic depressions are the breeding ground of social disturbances and future wars, so I feel no hesitation in urging this aspect of the problem on you.[18]

During his stay in Washington for the negotiation of American loans to Britain, in the summer of 1941, Keynes met Acheson at the State Department to discuss the problem of export surpluses. Keynes sketched out three different approaches to the problem: to lend money to producing countries; to buy their commodities regardless of any actual need for them; to build a partnership between producers and consumers. The first two lines of conduct, supported by the US and the UK respectively, were regarded by Keynes as a form of temporary relief, whereas the third would have aimed at a permanent solution of the problem.

In fact, one of Keynes's primary concerns was to overcome the logic of subsidization to producers – "we must cease to be their milk cow", he wrote to his Treasury colleagues on 26 February 1941 (CWK 27: 15) – or at least to distinguish between subsidies, aimed at supporting producers, and price policies, aimed at damping short-term price fluctuations: "The question how far subsidies should be disentangled from price policy is another issue. I should like to see them disentangled […]. I am rather frightened by the atmosphere of comprehensive and open-hearted philanthropy which seems to prevail" (CWK 27: 17).

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[17] Leith-Ross to Acheson, 15 February 1941, §2 (T 247/104-3).

[18] *Ibid.*: §11 (T 247/104-6).

Keynes set the problem of surplus stocks in the broader perspective of commodity price stabilization. In his view, it was not just a matter of absorbing excess capacity, but of balancing supply and demand at a fair and stable price in relation to the state of technology and tastes. Therefore, he insisted from the very beginning on the need to focus on prices and not just on quantities. "In the large bible on export surpluses I do not find nearly enough material bearing on prices. There are a few figures here and there, but the information about price is remarkably defective compared with the information about quantities. Yet a sound price policy is perhaps more important than anything else, especially if the surplus scheme is to lead up to a system of stabilizing commodity prices post-war" (CWK 27: 10). Keynes stated thus the objective that was to become the ultimate goal of the Commod Control: to establish a sound price policy, as opposed to restriction schemes.

Another peculiarity of Keynes's approach to the problem of commodity export surpluses was that he immediately associated it with the problem of US current account surpluses, and hence with the broader issue of balance of payments disequilibria. In a letter dated 1 April 1941, he drew the attention of Leith-Ross on "the outstanding economic problem of the post-war world—how the U.S.A. is to redress her unbalanced creditor position" (CWK 27: 19). The idea was that producers were having trouble selling their commodities, because the US were not spending or lending enough money to finance the purchase of those commodities. In other terms, if producers were accumulating surplus stocks of commodities, the US were accumulating surplus balances of money, by running systematic trade surpluses. As we shall see, Keynes's buffer stock scheme and the Clearing Union can be seen as an attempt to address the two issues jointly, as two specular aspects of the same problem.

At this stage, Keynes merely advocated the establishment of buffer stocks, along the lines of the 'ever-normal granary' advocated by Vice President Wallace when he was Secretary for Agriculture (Davis 1938, Bodde 1946). As L. P. Thompson reported in his minutes of the meeting: "Mr Keynes had in mind particularly (i) the problem of post-war relief and reconstruction in Europe and (ii) a permanent scheme of the 'ever-normal granary' type. [...] Mr Keynes believed that there might be found in this surplus scheme the beginnings of a comprehensive scheme for equalising the prices of the main commodities throughout the world" (CWK 27: 22). Keynes insisted on this point in a letter that he wrote to Acheson on 4 June 1941 as a reminder of the 'main upshot' of the conversation:

> The international discussions relating to particular commodities [...] might naturally lead on to a more ambitious plan for stabilising within reasonable limits

the prices of leading internationally traded raw materials and even for some kind of international holding cartel which would apply the idea of the ever normal granary to the international field (CWK 27: 24).

Leith-Ross expressed once again his full support to Keynes's approach, and suggested that some scepticism and resistance came from other quarters of the British government:

> I fully agree with your letter of the 4th of June, which in fact puts very clearly the line on which we have been working. […] But I find the Departments here, particularly the Treasury, Board of Trade and Dominions Office, terrified that we may get into an immediate conflict of policy, and they are advising that general discussions should be postponed and that we should concentrate on immediate questions.[19]

Those fears were perhaps not completely unwarranted. When Acheson finally replied to Leith-Ross, he expressed a clear preference to start from the most urgent matters. In practical terms, the essence of Acheson's proposal was to establish an 'informal joint committee' with the purpose of reviewing commodity agreements between producing countries, estimating post-war needs of Europe, assessing potential supplies available to meet them, and studying "ways and means of financing the holding of stocks for European needs".[20]

Even though it fell short of Keynes's aspiration towards the establishment of a permanent international organization for the management of commodity buffer stocks, the scheme that emerged from these early talks on surpluses presented two important steps forward with respect to Keynes's proposal of 1938. First, it was intended from the outset as an international facility, managed by an international body. Second, such organization was supposed not merely to store the commodities on behalf of participating countries, but to purchase them on its own account.

The accumulation of stocks of commodities along these lines appeared as a possible solution to the problem of surpluses. At the same time, it presented the further benefit of preparing to meet the excess demand that was to be expected after the war. Quite apart from the contingent situations created by the war, buffer stocks came to be seen as a convenient way to smoothen the cycles that typically characterize the production of foodstuffs and raw materials even in times of peace.

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19 Leith-Ross to Keynes, 17 June 1941 (T 247/104/17-18).

20 Draft reply from Acheson to Leith-Ross, 1 July 1941, §10 (T 247/104/29).

4. Discussion and Development of the Plan

The function of buffer stocks, together with the meaning of their name, is clearly explained in a letter of 29 November 1941 from Sydney Caine, Financial Advisor to the Secretary of State for the Colonies, to Leith-Ross:

> Comparatively small changes in production or consumption are needed to turn an 'unmanageable' surplus into a shortage or vice versa. This in turn emphasises the importance of stocks and their proper management in acting as a buffer or cushion to absorb the shocks of changes in either consumption or production [...] the centre of interest is shifting more and more to this question of the proper management of stocks (T 247/9: 2).

This letter also testifies to the growing interest for buffer stock schemes as a way of managing commodity markets. Keynes was, of course, a major advocate. Accordingly, he spent all his efforts to win support for the idea within the British government, in view of proposing it within Anglo-American talks as a fundamental pillar of post-war planning. As he wrote to Caine on 3 December 1941: "We ought to aim in my opinion at moving Americans to favour commodities schemes which are worked primarily, as you suggest, by control of stocks leaving normal market organisation as free as possible apart from that" (T 247/9: 4).

Competitive commodity markets had the benefit of providing incentives for continuous increases in productivity, but were liable of producing wide price fluctuations in prices to the detriment of producers and consumers alike. As Caine wrote to Keynes on 22 January 1942: "the real objection to the competitive system is that it is inherently opposed to security and stability. Equally, however, it has the great virtue that it is opposed to stability in the sense of stagnation" [21] (T 247/9: 11-12). Restriction schemes, on the contrary, had the advantage of stabilizing prices, but also the drawback of imposing high prices and discouraging innovation. Buffer stocks seemed capable of combining the virtues of stability and change, by avoiding price fluctuations in the short term, while permitting corrections in the long term, in order to accommodate major shifts in technology and taste.

It was with this intention that, in those same days, Keynes followed Harrod's recommendation to dig up his proposal of 1938 and wrote the first draft of a plan for the establishment of an International Commodity Control, with the task of managing buffer stocks.

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[21] This sentence was included almost literally by Keynes in the fifth draft of the plan (Keynes 1942: 131).

Harrod contributed significantly to the conception and development of Keynes's commodity plan. Already in November 1941 he had outlined a buffer stock scheme, together with a proposal for creditor involvement in balance of payments readjustments. Before Keynes had even drafted the first version of the commodity plan, Harrod insisted that a buffer stock control be included, together with the Clearing Union in a comprehensive set of institutions designed to rule post-war international economic relations (Skidelsky 2000: 213-224).

What was truly peculiar of Keynes's position is the idea that buffer stocks were not ancillary (as thought and practiced until then), nor even complementary to restriction schemes (as argued e.g. by Harrod), but truly substitutive for restriction schemes. According to Keynes, buffer stocks were essentially the only form of commodity policy that was needed, not only to dampen short-term price fluctuations, but also to balance production and consumption.

But how was this to be achieved? The Commodity Control was to define a basic price for each commodity. In the earlier drafts, Keynes suggested that basic prices should be set according to the cost of production, ascertained by ordinary accounting methods. He later accepted the suggestion of Caine to avoid establishing a general criterion ex ante for all commodities, but rather to allow the basic price to converge towards the marginal cost by a process of trial and error.[22] In the first extant draft, dated 14 April 1942 and circulated as an official Treasury memorandum, it was specified that the basic price could be adjusted up to ±5 per cent over the year. The adjustment would follow prescribed rules, but with ample margins of discretion for the managers of the scheme, who would reduce the basic price if stocks were increasing beyond a stipulated figure or at more than a stipulated rate, but would remain free to determine the degree of the correction and to deliberate changes, in exceptional circumstances, even by more than 5 per cent (Keynes 1942: 117-118).

The control would buy whenever the price fell 10 per cent below or sell whenever it rose 10 per cent above that price. Within these limits, free and competitive markets would handle the trade (*ibid*.: 116).

Both ranges were criticized by some for being too narrow and by others for being too wide. Keynes suggested that the percentages were to be intended as an indication and not as a constraint (CWK 27: 110). Minimum prices attracted most criticisms: they were regarded as a possible cause of overproduction, which would have made it necessary to complement buffer-stock schemes with output restrictions. The objection, already raised

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[22] See letter from Caine to Keynes, 22 January 1942 (T 247/9/A5).

by *The Economist* against Keynes's 1938 proposal, was again voiced with respect to his 1942 scheme by J.W.F. Rowe of the Ministry of Economic Warfare. Keynes replied that if, after falling 10 per cent below the basic price, the price of a commodity was still so high as to unduly encourage output of high-cost producers, this was a sign that a reduction of the basic price was needed: "Under my plan the price would be reduced until it no longer had this stimulating effect. I should say that that, and not restriction, is the right remedy" (CWK 27: 109). An excess supply was to be cured by a price reduction, rather than by an output restriction.

Keynes argued that commodity policies should not hamper the play of market forces in the long run, but only avoid meaningless price fluctuations in the short run. The general purpose of his proposal was to favour stabilization in lieu of restriction (see also Keynes 1942: 113-114). Keynes opposed restrictions as an instrument to control international commodity prices after the war on the same grounds on which he had opposed rationing as an instrument to check domestic inflation during the war: they eliminated free choice (Skidelsky 2000: 63-64).

Indeed, the Bank of England criticized Keynes's buffer-stock proposals for being too *laissez-faire*, since they left room for private trading. The Bank's own plan ran along rather different lines: "it can surely be foreseen [...] that we shall maintain exchange and import controls for an indefinite period; that we shall aim at maintaining the concept and structure of a sterling area; and that we shall retain the liberty to use bilateral negotiations as an instrument for promoting international trade".[23] Clearly, the Bank did not envisage a post-war economy free from shackles and controls.

That shackles and controls should be imposed during the war was, of course, commonplace. Keynes, however, was resolute in refusing that such war-time methods should be maintained in the post-war world:

> International agreements, by which prices were absolutely fixed and quotas rigidly determined for every producer and perhaps for every consumer also, so as to freeze or stereotype world trade into a mould – what mould, calculated on what principles, I have no idea – seem to me terrifying, not least from our own special point of view. I suspect that this bias towards rigidly controlled state trading on Russian lines influences the general critical approach. The same bias seems to appear in [the Bank's] Deputy Governor's letter. In reply to [this] I can only plead guilty of aiming at a plan which does take a middle course between unfettered competition under *laissez-faire* conditions and planned controls which try to freeze commerce into a fixed mould (JMK to Sir R. Hopkins, 15 April 1942, CWK 27: 111).

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[23] Memo 29 September 1941, T247-122 q. Skidelsky 2000: 210.

Keynes was well aware that the fiercest opposition against a radical reform of the rules of the game would be waged on ideological grounds. In the fifth draft of the Commod Control plan, after denouncing the "frightful price fluctuations" caused by the "international competitive system", he did not hesitate to identify the principal obstacle against change in the following terms: "For many years the orthodoxy of *laissez-faire* has stood in the way of effective action to fill this outstanding gap in the organisation of production" (CWK 27: 113-114). In fact, the opposite dogma, which was prejudicially in favour of planning and which had gained force in wartime, was to prove equally obstructive against the advancement and implementation of Keynes's commodity scheme.

In the midst of the Second World War, Britain was fighting also a diplomatic battle with the United States on the foundations of the post-war world. With Article VII of the Atlantic charter, the Americans had tried to impose on the United Kingdom a commitment to free trade as a counterpart for the aid provided under 'lend-lease'. Of course, Keynes was not opposed in principle to free trade. He did believe, however, that Britain should not give up imperial preference until the stage had been set for a true internationalism, where countries could compete as equals. "The challenge with which Article VII faced Keynes was to devise a plan to lock the USA into a system which would maintain balance of payments equilibrium between all countries without trade discrimination but also without forcing deflation, unemployment or debt-bondage on the deficit countries" (Skidelsky 2000: 182).

Keynes saw the chronic trade surplus of the United States as a major obstacle towards the possibility of restoring free trade together with exchange rate stability. Once again, he shared this view with Harrod, who expressed it in rather colourful terms: "The general level of [international] debits depends on the degree of dog-in-the-mangerishness of credit countries".[24] The ultimate condition for multilateralism, according to Keynes, was that creditor countries do their part to preserve balance. "His internationalism, therefore, was contingent on getting the United States to do its duty as a creditor – by spending its surpluses, as Britain had done in the nineteenth century, and not hoarding them" (Skidelsky 2000: 202).

This did not mean, however, that Keynes regarded financial aid to wartorn countries as a viable solution to persistent surpluses. On the contrary, Keynes expressed what sounds as an ante litteram criticism to the Marshall plan and its underlying logic. "It is a necessary condition of a return to free

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[24] R. Harrod, "Forthcoming conversation with the United States on economic questions", Annex II. Proposed amendment to Clearing Union plan, p. 28, T 247-63.

exchanges that the United States should find some permanent remedy for [her] unbalanced [creditor] position. Sooner or later one can only suppose that she will have to do so. But it would be very optimistic to believe that she will find the solution in the immediate post-war period, even if she tries to mitigate her task by making large presents for the reconstruction of Europe" (JMK to Ashton-Gwatkin, 25 April 1941, in CWK 25: 19).

Even in his first memorandum on post-war currency policy, Keynes expressed scepticism on "some liberal Red Cross work by the United States" that would only mitigate and postpone currency disorders, without solving prospective global imbalances due to chronic British deficits and American surpluses (CWK 25: 24). It was not a matter of letting the United States step in as a sort of benevolent Leviathan on a global scale, but of inducing surplus countries in general to refrain from accumulating idle money balances, promoting global savings in the form of actual commodities.

5. Commod Control and the Clearing Union

Already in his first draft of the Clearing Union proposal, dated 8 September 1941, Keynes expressed concern for inadequate arrangements concerning foodstuffs. He accused the United States of proposing "the enforcement of an agreement to restrict Europe's freedom to feed herself by compelling even the poorest Eastern European states, however impoverished by war, to eat pure white bread" (CWK 25: 24 q. Skidelsky 2000: 234). The early drafts of the Clearing Union plan included some provision for international buffer stock management (CWK 27: 105).

Indeed, the proposal for an International Clearing Union and the Commod Control scheme were elaborated in the same months, and as part of a broader and coherent design to reform the architecture of international economic relations. However, the relationship between the two plans does not stop here. In fact, there are numerous cross-references from one to the other, suggesting that the two proposals can indeed be considered complementary, as two interconnected elements of a coherent institutional architecture. The hinges of their articulation turn around two aspects.

The first consists in the use of Bancor as a *measure* in the definition of the relationships between producing and consuming countries. This rests on two provisions of the commodity plan according to which:

i) the prices of primary goods would be fixed by the Commod Control in terms of Bancor (CWK 27: 115; 142);

ii) the (debit or credit) position of primary producers within the Clearing Union would be used as reference to define quotas (CWK 27: 152) or subsidies (CWK 27: 181).

The second, more important juncture consists in the use of Bancor credits supplied by the Clearing Union as a *source of funding* for the Commod Control. In this respect, Keynes envisaged that:

– the accumulation of buffer stocks by each Commod Control would be financed through an overdraft facility supplied by the Clearing Union or by bonds, issued in surplus countries, backed by the commodities stored with the Commod Control and guaranteed by the Clearing Union (CWK 25: 39-40; CWK 27: 119);
– in order to avoid inflationary drifts, the first channel would be reserved to funding short-term fluctuations of commodity stocks, whereas the second would provide the long-term finance required to hold structural reserves (CWK 27: 129).

The exchange of bancor against commodities, through the account held by the Commod Control at the Clearing Union, would have countercyclical effects on the global economy (CWK 27: 184-185; CWK 25: 91-92) or on specific sectors, according to the circumstances (CWK 25: 60). The articulation between the two institutions would thus favour international trade, and at the same time help avoid the build-up of systemic imbalances and smoothen the cyclical alternation between booms and depressions.

Even on this front, Keynes was supported by Harrod who clearly saw the importance of buffer stocks as an instrument to contrast the trade cycle. It was Harrod, in fact, who urged Keynes to mention this feature of the commodity plan explicitly in his proposal and who made him admit that it "was scandalously omitted in the first draft, due to haste in preparation and keeping too closely to my old E.J. article".[25]

In April 1942, in his memorandum on 'Forthcoming conversation with the United States on economic questions', Harrod insisted on the importance of the buffer stock plan as an instrument to contrast the trade cycle, which would have been more effective than deficit spending and liable of being applied universally without regard to specific national circumstances:

> The two principal proposals on our side are (i) the "Clearing Union" put forward by Mr. Keynes and (ii) the plan […] for "steadying the prices of primary products and the holding of buffer stocks" […]. I think that both schemes are intrinsically just as necessary […]. There are good grounds for giving priority and emphasis to our two schemes, to the Clearing Union because it is the corner stone, and to commodity regulation because this is the biggest single remedy for the Trade Cycle that can be applied by unilateral action (T 247/63: 12-15).

By purchasing commodities in times of slack demand, the Commod Control would not only avoid excessive price declines in depressed sectors,

[25] J.M. Keynes to R. Harrod, 10 February 1942 (q. CWK 27: 107).

supporting the income of producers; but it would also inject new money into the global economy, by drawing on its overdraft facilities with the Clearing Union, thereby contrasting broader deflationary tendencies. On the contrary, in periods of accelerated growth straining the global supply of raw materials, the Commod Control would sell its stocks, contributing to cool inflationary pressures not only by keeping down the prices of specific scarce commodities, but also by reducing the overall amount of international money, handing over its bancor revenues to the Clearing Union in reduction of its debt. Therefore Harrod saw in the joint operation of buffer stocks and the Clearing Union an unrivalled means to contrast the trade cycle. As he wrote on 2 June 1942:

> It is a further beauty of the scheme that by centralizing the finance of the various commodity controls (and, if possible, linking it to that of the Clearing Union) it secures that purchases during the depression release what is for the time being 'new' money, not money withdrawn from incomes elsewhere. This infusion of new money is precisely what is needed, to combat depression, and I do not believe that any other practical way has ever been suggested of securing an infusion of like magnitude (T 247/9: 100).

According to Harrod, buffer stocks were not merely one way, but *the best way* to smoothen the trade cycle:

> I come more and more in my own mind to lay stress on this as the supreme mode of curing the trade cycle. The amounts involved in public works are so disappointingly small and the period of gestation from the trade cycle point of view so troublesomely long. The buffer stock on the other hand could create hundreds of millions of pounds of investment almost overnight, smoothly, automatically, without fuss or flurry, consultation or debate, exactly as the circumstances require (T 247/9: 7).

Keynes eventually bought into Harrod's arguments. In a note dated 19 July 1942, Keynes went so far as to state that the main goal of the buffer stock scheme was to dampen the trade cycle: "It is devised primarily as a major instrument for dealing with the trade cycle in the decade after the 'transitional' period" (T 247/10: 15).

Despite the virtues claimed by Harrod and Keynes, it was precisely the use of the Clearing Union to finance buffer stocks that attracted the fierce opposition of the Bank of England. In a letter from Basil G. Catterns, of the Bank, to Sir Richard Hopkins, at the Treasury, dated 2 April 1942, the argument reads as follows:

> We feel strongly that a scheme of this sort should not be closely associated with any international clearing scheme. It would be difficult enough in any event for an international currency organisation to gain in its initial years enough con-

fidence to persuade the principal countries to entrust it with the bulk of their reserves; but it would have little or no chance of doing so if there were any risk of its assets being locked up in commodities (T 247/9: 75-76).

The Bank failed to acknowledge that a clearing scheme does not involve the accumulation of 'reserves' by surplus countries, but merely of credits with the clearing centre. Within a clearing scheme, the 'assets' of creditor countries correspond to the 'liabilities' of the debtors. Now, it might seem vexing to oblige a country with a positive trade balance to keep that balance in the form of a credit with the clearing centre. However, this way of reasoning is gravely misleading, since those credits only arise thanks to the existence of the clearing centre: just as the latter affords debtor countries the facility of spending money that they have not previously earned, symmetrically it allows creditor countries to sell goods or services that they would not have otherwise been able to sell. In other words, the 'reserves' kept with the clearing centre only exist thanks to the clearing centre itself. If part of those assets are backed by commodities, it should be all the better for the safety of the creditors. Understandably, Keynes gave Hopkins the suggestion to reply along the following lines:

I find the objection [...] concerning the relationship of the [Commod Control] proposals to the Clearing Union very perplexing. If some part of the liabilities of the Clearing Union were covered by assets in the shape of stocks of commodities, instead of by mere book debts from potentially insolvent countries, I should have supposed that this would improve the security of those with credit balances. I do not follow why a creditor of the Clearing Union should feel more comfortable if his balance is covered by an unsecured liability of Brazil than if it is covered by bags of coffee (T 247/9: 78).

Further objections to funding buffer stocks by issuing money came from Wilfred Crick of the Ministry of Food. Crick proposed to finance buffer stocks through governments rather than monetary authorities, so as to avoid "unnecessary and possibly undesirable extension of functions" of the latter (T 247/9: 85). Why did Keynes propose instead that the funding come from monetary authorities? Perhaps because he wanted to associate the accumulation of commodity stocks with monetary, rather than fiscal expansion. This, indeed, is what Keynes argued in the brief notes on Crick's comments that he sent to Hopkins on 12 May 1942:

One considerable advantage of the proposed scheme would be lost, namely, that those governments which are financially weaker would suffer no reduction of their foreign purchasing power when demand falls off. The fact that international purchasing power is stabilised is an important aspect of the present proposal, which would be lost if the scheme is divorced from the Clearing Union (T 247/9: 86).

Even Waley at the Treasury was ultimately in favour of financing the buffer stocks through the issue of new money by the Clearing Union, despite certain drawbacks:

> On the whole I am inclined to prefer the original idea that finance should be found by the Clearing Union despite the fact that a Central banking Institution ought not in principle to tie itself up in long term finance, and the more general danger that the Clearing Union idea may come to grief if it is regarded as an international philanthropist with a bottomless pocket (T 247/10: 52-53).

However, the supposed drawbacks indicated by Waley may be somewhat misleading. By financing the buffer stocks, the Clearing Union would indeed be providing long-term loans. And, yet, the later would ultimately be guaranteed by the commodities purchased and stored in the buffer stocks. Far from being precarious, this guarantee could be regarded as safe as the gold reserves conventionally used by central banks to back their currencies. Indeed, it would be even safer, since gold reserves are fractional, whereas the commodities stored within the buffer stocks would cover the full value of the money issued to finance their purchase.[26] Moreover, commodities represent a far more diversified investment compared to gold reserves. Finally, commodities have a much higher "value in use" than gold, since they have much wider industrial applications.

Concerning Waley's second point: is it more 'philanthropic' to purchase the commodities that a people has produced with the sweat of the forehead or to purchase the bonds that a government has issued with a stroke of the pen? Is the issue of money more liable of being inflationary, i.e. 'bottomless', in the former case or in the latter?

In his rejoinder to Sir Waley, Keynes confirmed that even he considered preferable that funding for the Commod Control should come from the creation of international money. Indeed, the Clearing Union was seen by Keynes as the natural source of finance for the buffer stocks. This does not mean that the establishment of the Clearing Union was a necessary condition for the establishment of the Commodity Control, and hence that the failure of the former automatically entailed the renunciation to the latter. In fact, Keynes also envisaged that buffer stocks might be financed "through the Clearing Union, or, if that does not come into existence, by central banks working in co-operation" (T 247/10: 17).

Once again, a more concrete and detailed proposal came from Harrod, who suggested that, failing the Clearing Union, the financing of buffer

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26 Minus the possible depreciation on the market, up to the limit of the oscillation allowed for by the Commodity Control, and hence not more than 10 per cent.

stocks be entrusted to a mutual credit scheme functioning along the same principles:

> Hopkins raises the important question whether the whole scheme depends on the Clearing Union. Broadly I think it does. But supposing we are driven to some arrangement for mutual credit (and we must at least have that if there is to be any Anglo-American co-operation at all), then I think the finance of the buffer stock could be modelled accordingly […]. My suggestion would mean applying the same principle mutatis mutandis that you have if there is a Clearing Union, namely the use of the de facto surpluses on the balance of payments (T 247/9: 132-133).

However, it is clear that the Commod Control would have been difficult to implement without Bancor, or at least without accepting the principles embodied in the Clearing Union.

> The existence of a Clearing Union, which could take the main responsibility for the provision of the finance, would so greatly facilitate a system of Commodity Controls which is essentially based on their having the financial capacity to carry an 'ever-normal granary', that some might hold this project to be, in effect, conditional on the adoption of the former (CWK 27: 128).

The fact that the Clearing Union was overcome by the American proposal for an International Monetary Fund is probably the main reason why the Commod Control plan was also eventually abandoned. Without an international bank money, it would have been difficult to provide the funding required by the Commod Control relying only on the meagre endowments of the International Monetary Fund and the World Bank. Even more importantly, perhaps, the establishment of the dollar standard stood in stark contrast with the multilateralism underlying Keynes's plans for the economic order of the postwar world.

Keynes's commodity and currency plans were two complementary elements in a broad institutional arrangement designed to reconcile free trade and economic stability in the postwar world. Harrod regarded the Commodity Control and the Clearing Union as complementary institutions, together with the third pillar of the post-war economic order envisaged by Keynes, namely the International Investment Board:

> The remedies at their disposal are interactive and mutually dependent. For example the nature, intensity and timing of the currency adjustments which the Union may require of an excess debit country must depend on the plans, if any, of the Investment Board in regard to that country. The plans of the Investment Board will depend on its diagnosis of the current phase of the Trade Cycle. They will also depend on the amount of purchasing power likely to be released (or absorbed) by the Commodity Control, and conversely. It is clearly important that

the measures devised by each of the three institutions should be part of a common concerted policy (T 247/9: 31).

The Clearing Union would favour the operation of a buffer stock scheme not only by providing funding, but also by encouraging free trade, and hence by discouraging protectionist measures and output restrictions: in the pre-war decade "foreign payments were becoming progressively more difficult, and nations were bound as a precautionary measure to secure that as many of the bare essentials as possible were produced at home; we hope that the Clearing Union, or whatever arrangement serves in its stead, will produce easement here" (T 247/9: 101).

Together with the Clearing Union and the Investment Board, the Commod Control would have been an instrument of monetary policy. The buffer stocks would have acted as a sort of official reserve: any increase would have implied a monetary expansion and any decrease a contraction.[27]

The establishment of international buffer stocks was explicitly conceived by Keynes as a way to allow the stocks of raw material and foodstuffs of producing countries to be 'permanently liquid' (CWK 27: 129). On the other hand, the imposition of charges on surplus balances within the Clearing Union may be seen as a way to avoid the accumulation of liquid stocks of international money. Together the two plans can be seen as a way of reducing the liquidity of money and enhancing the liquidity of commodities, so as to discourage the accumulation of idle monetary balances and to encourage the accumulation of stocks of actual goods. They are, in Keynes's own view, complementary proposals: "The underlying principle of the Clearing Union and the financing of staple primary products dovetail together in a perfect manner" (CWK 27: 147).

Today, the international economy still faces persistent imbalances that lead to price fluctuations, financial distress, social tensions and sometimes even political uprisings. Keynes's post-war plans – together with the ideas that inspired them, the criticisms that they attracted and the reasons that caused their defeat – provide plenty of practical suggestions. But, more importantly, they contribute to conceive a coherent design in which to inscribe a radical reform of international economic organizations, with a view to favour the accumulation, not of money and debts, but of real goods.

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[27] Keynes's proposal is close, yet not identical, to the commodity reserve currency advocated, in those same years, in particular by Benjamin Graham (1937). In 1943-44, Keynes explicitly confirmed his sympathy for this type of proposal, yet questioned its political viability and certain aspects of its implementation in a debate with Benjamin Graham, Frank Graham and Friedrich Hayek in *The Economic Journal* (CWK 26: 30-40; see also Fantacci, Marcuzzo, Rosselli and Sanfilippo 2012; Usher 2011).

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