

**Centre Jouffroy pour la Réflexion Monétaire  
(established in 1974)**

*proposes*

**THE NEW BANCOR (NB)**

**RESERVE AND PAYMENT CURRENCY  
composite extranational indexed**

**for the**

**INTERNATIONAL MONETARY MECHANISM**

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# INTRODUCTION

The “Centre Jouffroy pour la Réflexion Monétaire” was established in 1974, in order to research how to implement the “concept of inherent stability in real value of an external payment currency”, presented by Jacques Riboud before the “Société d’Economie Politique” on 12 June of the same year, and in a communication to the “Institut de France” on 19 January 1981.

This concept opens the way to a concrete implementation which would take advantage of the recent innovations represented by the vast area of the euromarket and the tremendous developments in communication technology and information processing. These are the means for a new extra-national payment currency with an invariable real value, which fulfills all the conditions required by an international anchoring currency better than any national currency does or can do.

Only after extensive work on the constant ecu – now the Eurostable\* – was the Centre Jouffroy able to formulate an implementation proposal. It is exposed in a study “A Monetary Mechanism with the Constant Euro (the Eurostable)”, 121 pages, JRSC ed. (1998). Since then, it has become apparent that the proposed currency was more appropriate for global application by the International Monetary Fund than for the European Community. Hence the Eurostable was broadened by the addition of the constant dollar to form a composite unit called the “New Bancor”\*. This unit preserves the entire proposed mechanism for creation and circulation.

These pages highlight the diversity and importance of the advantages that the New Bancor would bring. If the IMF assumed the initiative, it would be invested with a power of issuance, which it is currently denied, while it is the privilege of every State. The international organisation would have a standard of reference and measurement that would be independent of time and place, an international medium of payment and reserve that would be proof against uncertainty in real value, and an instrument of exchange regulation, with no inflationary effect, irrespective of volume.

\* Eurostable™ and New Bancor™ are registered trade mark.

The current monetary disorders fully illuminate the deficiencies of a system that has not genuinely changed for three-quarters of a century. The need for innovation (a “new architecture”) has finally been recognised. It is for this reason that the “Centre Jouffroy pour la Réflexion Monétaire” is making this proposal.

# **A NEW INSTRUMENT CURRENCY FOR THE INTERNATIONAL MONETARY SYSTEM**

The crisis which has rocked the countries of South East Asia, ruined some of them (e.g. Indonesia), and is threatening other parts of the world, is a crisis that is specifically monetary. There is anxious debate between experts around the world. William Pfaff, in the Herald Tribune of 17 September 1998, asks, "*Where are the thinkers who will build a better monetary machine?*".

In response, the "Centre Jouffroy pour la Réflexion Monétaire" offers both an analysis and a proposal :

The tremendous advances in communication and information technology today make it possible for the international monetary system to be endowed with the anchoring numeraire which it is currently lacking, in order to stabilise changes and prevent or stop a devastating panic. However, the opportunity provided by technological evolution has not been grasped. The international monetary system has remained without fundamental change since the Genoa conference in 1922, which created the Gold Exchange Standard (GES) and has made the dollar, the national currency of one State, the central currency of the world.

In 1944 Bretton Woods revived the GES by supplementing it with useful institutions, of which the most important, the International Monetary Fund, is close to a central bank in the functions which it fulfils as the lender of last resort. However, just like the World Bank, it does not have the essential factor, which is the power of issuance.

Since 1944 the most important monetary innovation has been the European Monetary Union (EMU) with the euro.

However great its merits, the euro does not bring anything new conceptually. It only extends to a broader territory - that of the European Community - the national monetary system already in use everywhere in the world.

Currency is the instrument of the mechanism. The deficiencies of this mechanism, to a greater extent than those of politics, economy or society, have all too often curbed and paralysed progress, or even inverted it.

The starting point of the great depression of the 30's was not monetary. However, specifically monetary dysfunction transformed what could have been simply a transient stock exchange crisis into a pro-

found and persistent disease that plunged the world first into misery, then into war.

Since being founded in 1974, “the Centre Jouffroy pour la Réflexion Monétaire” has undertaken the analysis of monetary mechanism and has researched ways of applying new techniques to problems of stability which have so far remained without solution. This research has now been concluded.

This leads to the proposal for an external, non-national anchoring numeraire, fulfilling all the requisite conditions of its functions : as a value and reference standard, as an international reserve and payment medium, and as an instrument of regulation.

The monetary unit initially envisaged for the European Monetary Union, under the name of Eurostable, finds a more justified and urgent use on a global level. The proposed name of “New Bancor” is attributed to Keynes who initiated the creation of a monetary unit of a similar type without however being able to claim a general usage for lack of suitable technical means.

The dollar, and now the euro, will be the two most traded currencies of the world. It is only by using these two currencies as a base that the new unit can be conceived.

Thus the new unit is defined with an invariable value (purchasing power) equal to the **sum of the value of half a constant euro and half a constant dollar.**

The EU and the USA have similar population, GDP, trade, size of territory... and between them the euro and the dollar will encompass the world.

[The yen is the other great world currency. One may think it ought to be part of the NB. It is not because it would weaken the composite currency in its function of anchor numeraire. The last example of a composite currency is the ecu of the European Union. It was created in 1979 as a composite of nine currencies for the purpose of acting as the anchor currency of the European Community. It never succeeded. The discrepancies between the components hindered arbitrage. The result was that the Deutsche Mark emerged, and very soon became the European anchor currency. In a few years, the Asian emerging countries will have reached the economic level of Japan, US and Europe. Then the time will have come to enlarge the NB to include the yen.]\*

\* In a few years, emerging countries may have reached the economic level of Japan, the USA and Europe. Time will have come for another NB with the yen.

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The issuance of a new transaction numeraire\* whose real value is immune to the effects of time, is contrary to what is observed and proven on national currencies. The instance of a non-national currency is ignored. In such case, the validity of this project is based on two concepts brought to the fore at the Centre Jouffroy. These are :

a) the perfect stability in real value of an exclusively external transaction currency, independent of time and place – an essential condition for an anchoring currency that has never been fulfilled ;

b) its ability to successfully defend exchange parities without causing any depreciation in value – regardless of the volume issued.

The properties of the New Bancor, combined with a powerful capacity of issuing and distribution and freedom of action with which it would be endowed, would enable the IMF to maintain a stable regime of exchange, to anticipate or calm a panic, and to overcome the inevitable failure that sometimes assail an economy - allowing time for adjustment and reorganisation if necessary.

The damage resulting from a crisis goes well beyond the imbalance that has caused it. The national currency is the essential structure for rebuilding. A tragic error of monetary organisation is not having provided itself with the means of rescue before it is too late. The organisation of NB issue by the IMF is conceived on the model of the euromarket, the result of a spontaneous post-war phenomenon erroneously interpreted for a long time. This profoundly modified the world monetary and banking structure.

The essence of the “monetary machine” of the euromarket (or rather “xenomarket”, to avoid any confusion) consists of a global network of circulation and “storage”, functioning almost autonomously in the external sector. At the same time it is under the control of the central mechanism in the country of origin, which is clearing and reserve

\* These two concepts, beside being presented to the “Société d’Economie Politique” in 1974 and to the Institut de France in 1981, were discussed at the September 1974 session of the Société du Mont Pélerin in Brussel and, again, one year later, at its session in Hillsdale USA, under Milton Friedman’s sponsorship.

It was in order to study the conditions required for implementation of these concepts that Jacques Riboud established the “Centre Jouffroy pour la Réflexion Monétaire”.

accounts in central currency for the national banks within the territory.

In this sense, the circulation and administration of the New Bancor will be entrusted to two bank groups, one European, the other American (US) under the appropriate regulatory supervision of their central Banks. Clearing and settlement will be executed continuously, 24 hours a day, throughout the year. Special arrangements will be provided to deal with default risks and to minimise the need for reserves.

In addition to the simple question of exchange, the new numeraire will, for the first time, meet the requisite conditions for the functions of an international anchoring currency, conditions never before met, even at the time of the gold standard, but which are now accessible.

Looking beyond the circumstances and the disorder into which the international monetary organisation has been plunged, the New Bancor must be viewed as a stage in an evolution : in years past, the monetary function was entrusted to precious metal, which, thanks to its intrinsic value, was alone capable of providing a guaranteed value to a “*signe*” (token of value). The meaning of this token of value, for whoever holds it, is the power to procure at an indeterminate time and place, something equally indeterminate, but which is equivalent in value: that is to say, to procure the same “*level of satisfaction*” as that which has been ceded.

Three centuries ago, claim-currency introduced a risk factor. For a long time, attempts were made to overcome this risk factor, using different stratagems to delay its uncoupling from precious metal (convertibility into gold, GES, etc.). The last vestiges of this system disappeared on 15 August 1971, when President Nixon rescinded the convertibility of the dollar into gold (then reserved for foreign central Banks).

Since then, currency has been floating, thrown to the four winds of economic circumstance, with no mooring or anchor. Valéry Giscard d’Estaing has best defined the anchoring instrument that needs to be rediscovered\*, following the disappearance of the gold standard. It must “*be a non-national asset, with an undisputed reference value, and with conditions of credit, remuneration and revalorization which would*

\* International Conference, 1973.

*make it a more sought after asset than others, even if it had to have an abstract nature.”*

The recognition of this objective and its abstract nature is essential if one is to accept the inaptitude of any concrete product to fulfill the imposed conditions and the validity of replacing it with statistical data. Equally, it manifests the problems which the New Bancor must face : its newness, its departure from traditional, respected notions, and a quite unusual method of implementation.

It is by agreeing to question these notions that the progress which the New Bancor could bring can be recognised. And it is by “dismantling” the proposed mechanism of application that one is able to perceive the part to be played by recent technological progress.

**Jean G. Riboud - March 1999**

## A PROPOSAL : THE NEW BANCOR

The history of the international monetary system during the first half of this century is that of courageous but unfruitful attempts to rediscover the stability and effectiveness which made their mark during the previous century. Meanwhile the history of the second half of this century is that of a tragic failure to adapt to an evolution which is accelerating in all sectors.

At the same time, in Europe, nations that were formerly divided undertook and succeeded in monetary organisation and in creating the euro.

The euro, together with the dollar, opens the way to the creation, on a global level, of an anchoring numeraire for which it would provide the support. Such a numeraire is presently lacking in the institution whose role, as a lender of last resort, is that of a world central bank. This institution is the International Monetary Fund.

In our time – for the first time – it is possible to establish a currency that would have the necessary conditions of an anchoring currency, with its functions as a value and reference standard, international medium, and exchange stabiliser.

In the Financial Times of 18 August, Martin Wolf writes : *“The provision of funds by the IMF will always be slow and subject to strict conditions. It is already difficult to get consensus, particularly of the American congress. It would be impossible to do this without agreements to impose rigorous conditions.”*

The IMF does not have the necessary means to fulfill the role assigned to it, which is that of a world “monetary emergency service”. It has the means to apply suitable treatment after a crisis has occurred, but not the means to act in time to stabilise a currency that is beginning to collapse. It is powerless when faced with an emergency situation – and it is profoundly unjust to make the Fund responsible for such.

The tremendous success of the twentieth century has been to provide more than twenty formerly non-industrialised states throughout the world, in an astonishingly short space of time, with access to a standard of living close to that of the major industrial countries. This has only been possible thanks to irrigating streams of international capital.

This stream will stop and be reversed for no reason other than fear. Through the fault of an international system lacking a true anchoring instrument, their national currencies will collapse, and poverty will take hold. Only yesterday, people were vying to extol the wisdom of management and the validity of “fundamentals”. Today, to protect themselves from “the extension of disorder”, people are contemplating retrieving the arsenal of regulations and constraints from the cupboard which they thought had been shut for ever.

Exchange rate disorder brings misery to emerging countries. To industrialised ones, it brings unemployment. Restricting the flow of capital would aggravate both.

It is a desperate situation: one that disregards the resources that modern technology (electronic movement, computerised data processing) puts at our disposal.

Following this line of thought, the “Centre Jouffroy pour la Réflexion Monétaire” proposes to the IMF an extension of the Eurostable at the global level ; under the name of “New Bancor” (NB).

The essential characteristics of this numeraire are its neutrality, and the fact that it is non-national and exclusively external.

All national currencies are both internal and external. A dollar is internal when it circulates for payment within the US territory. It is external when it is purchased by a French importer against the franc, or the euro, to pay a Saudi Arabian exporter who keeps it, lends it, or changes it into riyals.

A currency that is exclusively external circulates freely only between States. In all States, it has the status of foreign currency. As a result, such a currency benefits from two exceptional properties, which are brought to the fore and defended by the Centre Jouffroy. These are, firstly, its permanence in real value (purchasing power in a given territory) independently of time, place and circumstances, and secondly, its capacity to intervene on the exchange market without being affected by inflation, consequently a possibility of it being issued in the desired volumes without limitation<sup>1</sup>.

**1 Page 21**, a summary of the concept, and on page 35, a diagram showing its application to exchange stability with the constant euro.

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These properties are precisely those that are required by an anchoring numeraire with regard to the three functions mentioned above. None of the currencies in use benefit from these, because all of them are national currencies, circulating both outside and within the national territories.

At the Bretton Woods Conference in 1944, Keynes had (unsuccessfully) proposed an extra-national currency, the “bancor”, defined in a weight of gold that could be adjusted in such a way as to maintain its real value in terms of purchasing power. The bancor was to be reserved for exchanges between central Banks. It could not have a more extended usage. The cost of the reserves that the banks would have had to maintain for “settlement” throughout the world, for want of adequate means of communication would have been too high.

The technical progress that has been made now makes it possible to establish a world-wide network even more efficient than the national networks in place, for a new legal tender whose proposed name is the “New Bancor” (NB) in homage to Keynes, but without being linked to a weight in gold (which he had added in order to “please public opinion”).

A monetary unit in a constant state is a unit whose purchasing power is that which it had in the nominal value on its day of origin. On day D, the purchasing power of such a unit is that which it has on this day D in the nominal state multiplied by the consumer price index of day<sup>2</sup>. Here again, it is the progress in statistics that makes possible the constitution of a money standard that escapes the distortions of value that render all other materials or products, including gold, powerless in this role<sup>3</sup>.

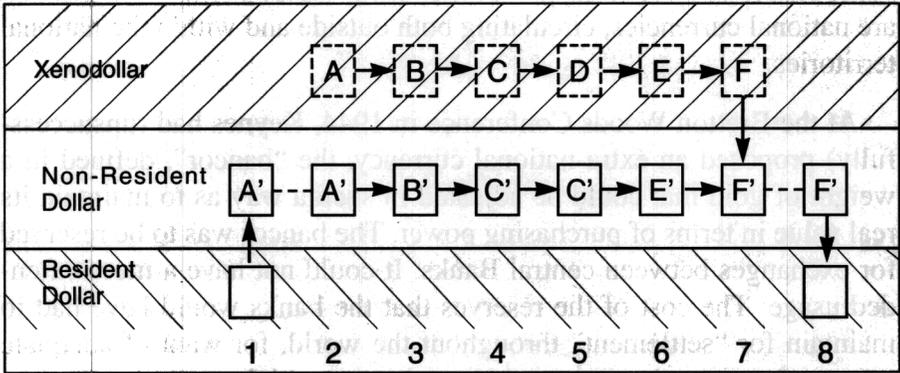
The standard of value thus defined is the basket of goods and services of statistics in the amount that it had on the day of origin of the consumer price index.

The value of the new legal tender, although non-national, must be defined in accordance with national currencies, since it is only on a national territory that purchasing powers are expressed and measured.

**2 Page 23**, example of application.

**3 Page 24**, reflections of the perspective in which use of the price index for defining a value is to be defined.

# A XENODOLLAR FROM CREATION TO DESTRUCTION



At 1, a foreign bank in the United States, A, borrows M dollars from an American company. The dollars are transferred from that company's resident account to the non-resident account that bank A holds at bank A' in the United States.

At 2, a client of bank A buys M dollars from it. A credits its client's account in xenodollars, which are created by this act.

At 3, the client pays a foreign trader by transferring the quantity M of xenodollars to the trader's bank, B. At the same time, the corresponding non-resident dollars are transferred to the non-resident account of B at American bank B'.

The operation is repeated and the xenodollar moves successively to the xenodollar accounts held by persons of various nationalities at banks B and C.

At 5, the xenodollar has been deposited in the account of a client of foreign bank D ; its counterpart has remained in American bank C', as a result of transfer or clearing.

E lends or sells the dollars with which it has just been credited to F, which, like A, has a debt in the United States.

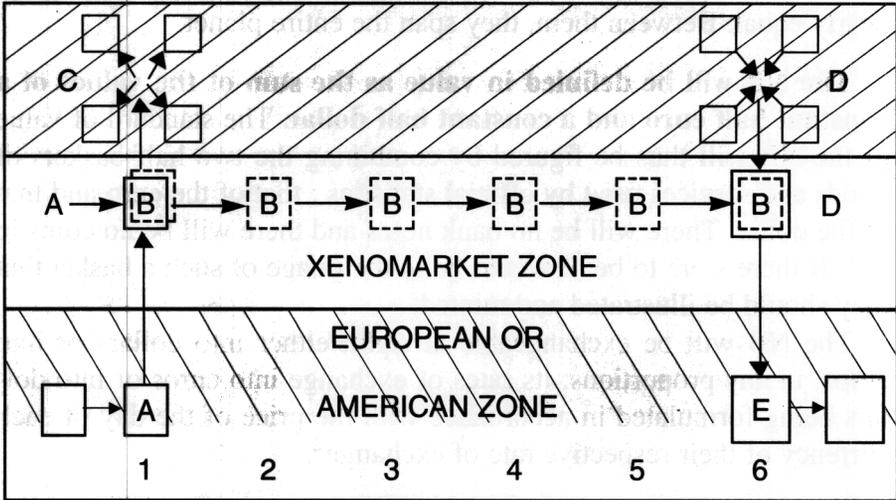
F repays its debt to its American lender. The non-resident dollars are then transferred to the lender's resident account (7 and 8).

Thus ends the life of the xenodollar created from the conjunction between A and A' (1).

This circuit is the one followed by transaction xenodollars. On top of this are the credits and debts to which they give rise, all the more rapidly as they are loaned and transferred as soon as they are paid into an account at a bank, at a pace exceeding that of domestic dollars.

Must be added clearing between several xenobanks resulting in only one transfer of the balance in US dollar. (Between two such movements of the base currency (the US dollar) the xenocurrency (the xenodollar) circulates freely, as if it were autonomous. Such is, in the opposite diagram, **the case of the NB from 1 to 6.**)

# A NEW BANCOR (NB) FROM CREATION TO DESTRUCTION



## I - The private NB (see p. 43)

- 1 • A member bank of the NB system in B creates the New Bancor against A euro or dollar, which it then invests in C.
- 2, 3, 4, 5 • Transactions from member bank to member bank by the quantity B of NB (payment order from one member to another).
- 6 • The NB components invested in C have produced D, which includes income that offsets the inflation by the components of NB before conversion (6). A member bank converts B (NB) into quantity E of nominal components ; NB disappears.

Payment orders and transfers of the counterpart from one member bank of the NB system to another go via its "clearing office".

## II - The IMF New Bancor (see p. 13)

The IMF creates a NB by crediting a central Bank which transfers it to a commercial bank for deposit in a bank of the NB system (zone E and D).

The interest paid to the IMF by the borrowing central Bank feeds the interest (real rate added to inflation) served to the NB deposits through the ECB and the Fed.

Reference national currencies for the NB are those of the dominant economic zones : the European zone with the euro, and the zone of the United States with the dollar. The weight of these two currencies is nearly equal. Between them, they span the entire planet.

**The NB will be defined in value as the sum of the values of a constant half euro and a constant half dollar.** The standard of value of the NB will thus be figured by combining the two half-baskets of goods and services used by official statistics : that of the euro and that of the dollar. There will be no bank notes and there will be no coins in NB. If there were to be, it would be in the image of such a basket that they should be illustrated and minted.

The NB will be exchangeable at sight, either into dollars or into euros, in any proportions, its rates of exchange into euros or into dollars being formulated in accordance with the price of the day of each currency of their respective rate of exchange<sup>4</sup>.

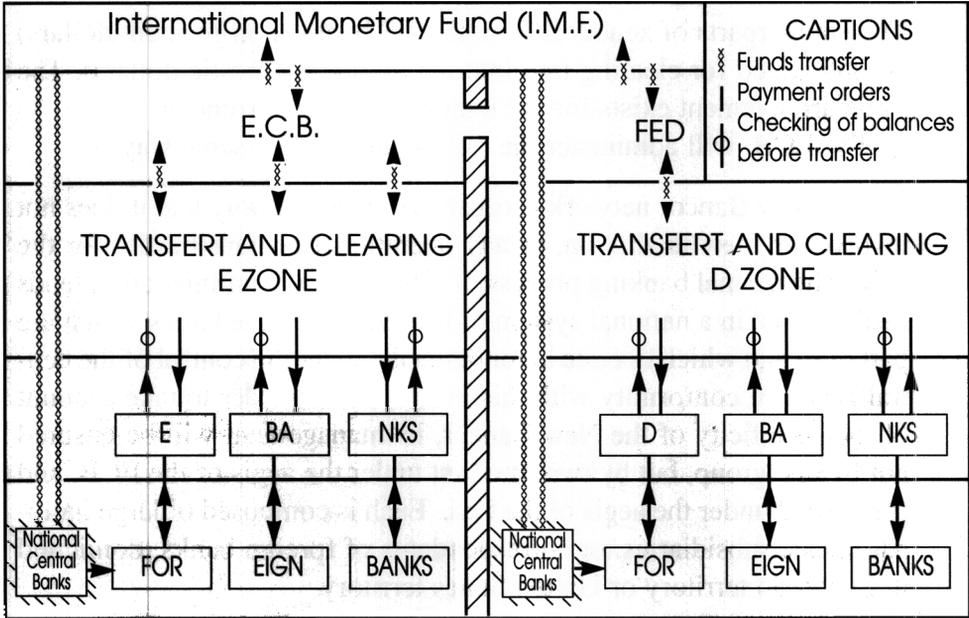
Since the disappearance of the monetary role attributed to precious metal and of the dominating part played by its universally accepted intrinsic value, the validity of a payment currency, which is simply a credit, can only continue to be guaranteed through the power of legal tender, which only the government of a state is in a position to impose. The governments concerned will be those of the European Community and the United States which, through the convertibility of the New Bancor into euros and dollars as legal tenders, will endow it with ultimate purchasing power in Europe and in the United States.

The IMF will create the New Bancor either through loan or through exchange against currencies exclusively with the central Banks. The banking network for the diffusion and circulation of the New Bancor is conceived on the model of the network which has been spontaneously created for national currencies in their external use under the designation "eurocurrencies" (or rather, xenocurrencies, to avoid any confusion).

A xenodollar is a deposit denominated in dollars in a foreign bank A outside the United States, whose counterpart is the deposit of a US dollar by this foreign bank in a bank B domiciled in the United States.

**4 Page 25, exchange rate formulas of NB into euros and dollars.**

# A NEW BANCOR CREATION AND DESTRUCTION



The IMF would create New Bancors exclusively by entry in its current accounts at the ECB or the FED against claims on national central Banks. The central Banks would then distribute the New Bancors created amongst their affiliated banks. The mechanism for clearing and settlement would be composed of two sections, administered autonomously: the E section administered by the large national banks in the European zone, under the aegis of the ECB, and the D section administered by the large banks\* in the US zone under the aegis of the Fed.

The New Bancors held by foreign banks are deposited in E or D banks. Their counterparts are the «xeno-New Bancors» of their clientele.

The clearing system operates 24 hours a day throughout the year. An order for payment from one bank A to another bank B within a zone passes through the intermediary of the clearing system, which only transfers it to B on condition that the resulting debit balance of A is below the agreed limit. In the case where limits are exceeded, the transfer is only released under certain conditions : funds transferred by A issuer of the order to the bank of the zone with the highest surplus balance, or, failing that, security of assets by collateral, provided for the required time by a specialised body, etc. Payment orders between banks in different zones are subject to immediate settlement (or, where appropriate, are subject to separate clearing).

Inter-bank interests set at the agreed rate are continuously recorded and periodically settled by transfer. If a,b,c,d are the balances in a zone and a',b',c',d' the rerorded summed up interest.

$$a+b+c+d = 0 \qquad a'+b'+c'+d' = 0$$

\* This chart illustrates how such a worldwide network is dependant on means of communication and data processing ; and how their recent advances are making the NB available.

A transfer in xenodollars by A to A' is accompanied by a transfer by its counterpart from B to B' in the USA. The global network of xenodollars is thus structured on the US network under the aegis of the Fed. The counterparts of xenodollars in the US banks (non-resident dollars) are integrated for clearing into internal dollars (domestic dollars). The same arrangement exists for the major European currencies.

The ECB will administer the "xeno-euro" in the same way.

The New Bancor network is organised in such a way that it does not involve any new institution, or any operational responsibilities for the IMF. The normal banking process of diffusion and administration lends itself to this: in a national system, it is entrusted to the banks which are part of it, and which operate autonomously under the control of the central Bank. In conformity with this model, and in order to take account of the specificity of the New Bancor, its management will be ensured not by one group, but by two; the first under the aegis of the ECB, and the second under the aegis of the Fed. Each is composed of large national banks, subsidiaries, or correspondents of foreign banks, domiciled in European territory or United States territory.

Transfer orders within each zone or between zones are each cleared autonomously. The clearing model proposed<sup>5</sup> transposes the one designed by the Centre Jouffroy for the Eurostable. Its originality lies in its continuous operation, 24 hours a day, throughout the year; while removing the risk of default and considerably reducing the amount of reserves to be maintained by each bank for "settlement" (balancing of clearing money). This results in a greater freedom for the banks in investments of assets and a reduction in the final balances of the NB to be transferred.

The example given above of a circuit of xenodollars between an importer in France and an exporter in Saudi Arabia, can be transposed as follows : the importer purchases New Bancors at his bank, which he pays in francs or euros. These New Bancors are transferred from bank to bank to the Saudi Arabian supplier who lends them, keeps them on account, or changes them into riyals.

**5 Page 25, theory of clearing and importance of its role in monetary functioning.**

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The New Bancor is created by credit or by exchange against the euro or the dollar and is cancelled by exchange in euro or dollar ; it will only have existed for a moment. The view that Keynes had of the currency was that of *“an intermediary without intrinsic value that is created, changes hands, and disappears once its function is accomplished.”* This is precisely the nature of the New Bancor as it is of all the xenocurrencies, as they deviate temporarily from their nominal status in their territory of origin.

The New Bancor, like all xenocurrencies, only circulates for payment outside countries, in the sphere of the xenomarket. The restriction of the New Bancor to this area gives concrete expression to its specific purpose.

The xenomarket is an immense area separated by real (the ocean) or virtual (between two opposite custom-houses) boundaries, from the 185 states of the world. With the New Bancor, the xenomarket will become autonomous from these states for the first time, and its identity fully established. It will no longer be a common area where national currencies take advantage of a freedom which they do not have at home, while remaining fully vulnerable to inflation.

The xenomarket does not today have a currency of its own. It is incompletely explored and used, and is simply, at present, a point of transition and “stocking” for transfers of currencies with a national reference. It is capable of being something quite different – such as the chosen land of a transaction currency, immunised against all deteriorations in value, a place of refuge for capital, and the crossing-point for a currency which avoids the hazards of economic conditions.

The power of issuance, and the freedom of action that it entails, would enable the IMF to apply the single measure which would succeed in stopping an emergency : the announcement of immediate and unlimited intervention at a judiciously selected, specific rate.

The characteristic of the exchange market is that it is by nature unstable, lacking a mechanism to oppose the force that unbalances it. A weight whose center of gravity is under its support is by nature stable because gravity returns it to equilibrium. If the center of gravity is above the support, a fall caused by a disequilibrium keeps on accelerating. That is the case of a currency in the foreign exchange market.

The Mexican crisis in 1994 is an example, which has been repeated since, and continues to pose a threat. In that summer, the wisdom of its government and its management were still being praised. The basic indicators were good : budget, inflation, current account balance... the rating agencies were quoting the highest level. In December there was panic in the exchange rate, dollar reserves were exhausted, the peso plummeted.

There were a number of flaws : its exchange rate was overestimated and there were too many short-term private and public loans in dollars. Without any fore-warning of the storm, following a parity adjustment by the government, dealers had realised the extent of public and private debts in dollars and the inadequacy of the Treasuries to repay the due loans ; the threat of political unrest hovered in the background. After difficult negotiations, the IMF, with the assistance of the American government, finally succeeded in limiting – but only limiting – the ravages of inflation and unemployment.

Illness spares neither living beings nor plants ; nor does it spare companies or business. There are hardly any big names on the stock exchange that, at some time in their history, have not experienced financial difficulties. When a disease breaks out, it must be countered with treatment and drugs. For living beings, there is a pharmacopoeia, which is constantly being perfected, and for companies, there are procedures, which allow them to pursue their activity and recover.

There is no such assistance in monetary matters – and the problem is not just transitory. Better informed and better equipped, the IMF could check an emergency, then reasonably stabilise the situation, dealing with the problems caused by the unwarranted, greedy and imprudent lenders.

Backed up by its reserves, by the commitments of its members and even, if necessary, the resources of the planet, it can issue billions of New Bancors. It is unlikely it would ever have to do so. The simple knowledge of an unlimited issuing capacity would suffice to calm anxiety and discourage speculation. For the majority, especially for business, the convertibility of their assets into foreign currency is an inconvenience and a concern. Provided that they would be reassured, they would often prefer to wait\*.

\* This would also allow the time necessary to analyse and identify those areas that require assistance, thus avoiding a recovery operation in extremis, too often interpreted as an encouragement to take excessive risks - what financiers term “moral hazard”.

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However, the simple mention of “unlimited” issue causes fear. The spectre of inflation continues to haunt people’s minds and distorts judgement. The possibility of unlimited issue would be easier to accept, if the concept of stability inherent in an exclusively external currency, was not ignored, even though it contains the means of solving the problem against which monetary organisations have stumbled for so long<sup>6</sup>.

The disease that is spreading across the planet is not an economic disease ; it is a disease that is specifically monetary, a deficiency in a mechanism. It is amazing that, in a time where society has succeeded in mastering so much technology, it has not managed to master the mechanics of currency. Even more surprising is the fact that it expends so little effort in gaining more knowledge and command of an area that is both essential and ill-explored.

Currency is subject to two types of instability, one internal (purchasing power), and the other external (exchange rate). Whether it is a question of one or the other, it is futile to hope to achieve the desired results unless these two types of stability are dissociated, instead of being closely connected by the same means of correction.

In this context, the short-term interest rate – the instrument used to control everything, including internal and external stability - flouts all the requisite conditions of a good process : accuracy, reliability, transmission, speed of response, leverage, and finally - and above all - selectivity. The means of separating the internal and external controls, with an appropriate instrument for each, should be the first step in a redeveloped monetary system. Within the framework of this proposal, the interest rate, released from its role as an external stabiliser, would be reserved for internal control<sup>7</sup>.

The New Bancor allocated for the external control of foreign currencies would also serve to stabilise exchange arrangements between its two constituents, the euro and the dollar. Their conjunction within a common compound, and the permanent arbitrage to which this gives

**6 Page 30**, a study by the “Association for the Monetary Union of Europe” (AMUE) on “intervention” in the exchange market.

**7 Page 31**, an example of interconnection between internal and external stabilities.

rise, would establish an adjustable parity between the two currencies<sup>8</sup>.

So essential is the need for an anchoring currency that, even after having been deprived from such statute, the dollar preserves its unofficial function in the three roles that have been allotted to it (standard of reference, medium, exchange rates regulator). In each of them, it suffers – and causes grief – from being a national nominal currency, which means that it lacks the essential qualities of a real anchoring currency – being neutral : its threefold increase on the foreign exchange market, between 1977 and 1984, has multiplied by a factor of six the burden of reimbursement and interest of the borrowing countries and disrupted their economies. The dollar is no more suitable as an instrument of reference and measurement : comparisons of the GDP of Argentina and Taiwan in dollars raises doubts just as would a comparison between the costs of manufacture in Germany and Japan.

Financing of US trade balances by Japanese savings derives from the external dollar's role, being too encompassing and too exclusive. The authorities themselves are concerned. All the same, for the Federal Reserve it is “heretical” to give pre-eminence to requirements derived from the dollar's world role. US Treasury Secretary, John Connally, drew the line in the sixties, when he said: *“The dollar is our business. Exchange rates are yours.”*<sup>9</sup>

The contradictions that plague American policy are due to the vain attempts to reconcile two functions that are incompatible : being the central currency for one national State and for the world.

The plan outlined in these pages does not contain anything that requires “meetings at the level of Government”, even less a conference à la “Bretton Woods”. It confines itself to proposing the issuances of a neutral numeraire, like the issuance of central currency by the central Banks, and of banking currency by the commercial banks. This will encourage material and conceptual progress in a field that has remained oddly apart from evolution and without basic change since the Genoa conference of 1922.

**8 Page 31**, regularisation of the exchange rate between euro and dollar within the New Bancor.

**9 Page 36**, a text by William Pfaff on the international role of the dollar versus the euro.

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The IMF, faced with an insurmountable task, and unjustly criticised, would ultimately be in a better position to fulfill the supreme monetary role assigned to it by its statutes. It could then correct the disorder that threatens the expected progress of liberalisation and globalisation of finance.

We would then see an anchoring currency that, for the first time, would have the attributes required for its functions :

– As a standard of reference and measurement : because such a standard makes sense only if its value is independent of time, place and circumstances.

– As an international medium of exchange and of reserves, because material and social progress in all the world's States depends on exchanges between nations, and the commitments implied by these exchanges are worth only as much as the currency in which they are contracted is worth, while the notion of reserve implies independence of value vis-à-vis the effects of time.

– As an exchange control instrument, since “by intervening” it is inflation-proof.

The goal targeted and defended in these pages is a numéraire (assimilated as legal tender) for the international monetary system, and above all, for the institution responsible for it: the International Monetary Fund. However, one cannot expect an innovation departing so widely from what already exists, from an international or even national public institution. Because of their very position, those institutions can “institute” only in the light of the results of experiments previously undertaken, successfully, by the private sector. That has been the origin of all monetary innovations in the past : discount, clearing, central Bank, paper money...

The same process must be followed for the NB. To achieve recognition and acceptance by the financial community, it is proposed to start with an issuance of bonds before moving on to using it as a payment means along the lines of the private ecu, which has been created and managed by an association of major banks. Those preliminaries to the NB are described in addition **10 page 38**.

Indeed, the proposal for implementing the private NB transposes the successful former private Ecu system. Hence it enables one to form a

concrete representation and to get a better understanding of the NB working and feasibility.

The reader has noted that what is proposed in these pages does not follow traditional notions about currencies.

One cannot dispute the idea that certain precepts anchored in people's minds are only an expression of the technical means which were available in the past. The same logic should lead to acceptance of the monetary notions that are based on technology that has evolved profoundly.

This evolution not only validates the NB, but will also facilitate its implementation.