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GLOBALIZATION AND KEYNES'S IDEAL OF A "SOUNDER POLITICAL ECONOMY BETWEEN ALL NATIONS"

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GLOBALIZATION AND KEYNES'S IDEAL OF A "SOUNDER POLITICAL ECONOMY BETWEEN ALL NATIONS"

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Abstract

This paper is a contribution to the elaboration of a narrative of the international economic disorder that followed the demise of the Bretton Woods regime. It therefore revisits some key episodes of the recent history of the world economy – the Washington Consensus saga and the widening of global imbalances – and throws light on the attempt made in the Nineties to construct a neoliberal global order entirely and exclusively based upon market discipline, with consequent shrinking in policy space. The article shows that the resulting "hyper" version of globalization is, in its essence, a complete repudiation of Keynes's international economics, and discusses the enduring relevance of his vision of international economic relations and global reform plans to the current epoch of "gated globalization".

Keywords: Globalization, John Maynard Keynes, Washington Consensus, global imbalances, international economic order, policy space, developing countries
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Introduction: gated globalization

Ours is a "gated globe", according to the recent report of *The Economist* (2013) on world economy. "After two decades in which people, capital and goods were moving ever more freely across borders, walls have been going up, albeit ones with gates. Governments increasingly pick and choose whom they trade with, what sort of capital they welcome and how much freedom they allow for doing business abroad" (The Economist 2013). This would have produced a new kind of globalization, a "gated globalization", whose appeal is "closely tied to state capitalism" (ibid.), at a time when this latter is currently enjoying greater popularity than its main competitor, liberal capitalism. In the liberal view of *The Economist*, we are currently living in a world wherein globalization has "paused". This might confirm Eric Helleiner's (2010) speculations about the future of the international economic order: the 2007-2008 crisis should be regarded as a "legitimacy crisis" (p. 620) for the neo-liberal order which followed the collapse of Bretton Woods, as well as an important stimulus to elaborate an international reform agenda. But this does not necessarily mean that the process will end with a "constitutive phase" of the Bretton Woods kind; rather, the lack of consensus concerning the content of the reform agenda induces to interpret the current one as a phase of "interregnum" between two global orders, of which the future one remains unpredictable. "The more plausible scenario", writes Helleiner, "is one in which states increasingly attempt to carve out greater degrees of autonomy to pursue distinctive national and regional practices within the context of a still quite integrated global economy" (p. 635).

The world seems to desire a new Bretton Woods order, but such expectations are likely to be disappointed. Still, an "interregnum" will not, by definition, last forever, and contains, in all probability, the seeds of the future order. Today's gated globalization allows a certain dose of pluralism, as shown by the increasing autonomization of Southern developing countries, the widespread use of capital controls and the inconsistency of International Monetary Fund's conditionality programmes (see Grabel 2011). No transnational policy paradigm such as the Washington Consensus has already replaced, or is likely to replace this latter in the near future (Babb 2012). This might be a first sign of transition to that "form of embedded communitarian liberalism, which seeks to reconcile the achievement of national, regional and global objectives, and to marry universal values with a respect for diversity" which Gore saw, in 2000 (p. 801), as the likely outcome of the Washington Consensus parable. Curiously enough, the "more heterogeneous international regime" (Babb 2012, p. 291) of the future might in truth rests on a "return" to Bretton Woods and its "embedded liberalism" (Ruggie 1982). Hence the current discussion about the possibility to recreate the historical conditions which favoured the establishment of an international system which, James (2012) warns, among others, runs the risk of being interpreted in the light of "what happened *after* as well as *before*" (ibid., p. 412) its birth in 1942.

From this, two consequences follow. First, the attack of contemporary "embedded liberals'" on the neoliberal globalization of the Nineties might appear to have a backward-looking character (see Helleiner 2003). Second, the current nostalgia for Bretton Woods might in truth rest on a "positive mythology" (James 2012, p. 428) which overestimates the actual relevance of the 1944 conference and overlooks that the system was "the outcome of a much more extended historical process" (Helleiner 2010: 620). More subtly, this induces us to reinterpret Bretton Woods as "a solution, not just to the question of post-war reconstruction, but to the problem of recasting capitalism in such a way that it would not permanently destabilize both itself and the international political and legal order" (James 2012, p. 412). Dani Rodrik (2000) has passionately contributed to the cause of a new Bretton Woods compromise, as he calls his preferred option in the "political trilemma of the world economy". Democracy, national sovereignty and global economic integration are mutually incompatible, Rodrik argues. Globalization requires the elimination of transaction costs produced by national borders: either it becomes the concern of a world government ("global federalism" model) taking care of a world market, or it totally determines the political agenda of nation states whose main, if not unique task would be to attract the confidence of foreign investors ("golden straitjacket"). The only alternative left is a new "compromise of Bretton Woods", significantly narrowing the scope of globalization to leave adequate policy space available to developing countries. Under the Bretton Woods order, writes Rodrik, "countries were free to dance to their own tune as long as they removed a number of board restrictions on trade and generally did not discriminate among their trade partners … [and] were allowed to maintain restrictions on capital flows" (p. 183).

Among other reasons, the mythization of both the conference of Bretton Woods and the merits of the regime it established may explain why Rodrik's far-reaching criticism of the neoliberal globalization of the Nineties makes no use of the peculiar vision of international economic relations elaborated by one of the two theoretical fathers of Bretton Woods, the one who finally lost. The post-Bretton Woods era "continually regenerates the myth of Bretton Woods" (James 2012, p. 428) but not necessarily the one of John Maynard Keynes. There is a widespread trend in the international relations literature (see among others Ikenberry 1993, Boughton 2002) to identify in the "intellectual consensus", as John Williamson (1983, p. 107) named it, forged by Keynes in the inter-war years the main driving force behind the birth of the Bretton Woods order. Once the embedded liberalism (multilateral liberalism predicated upon domestic intervention, in Ruggies' words) of Bretton Woods is defined as a "neoclassical synthesis" (p. 88) of microeconomic liberalism and macroeconomic management, it becomes easy to explain why this theoretical consensus excluded Keynes himself, despite the role he played in shaping it. Still, Williamson's observation, thirty years ago, that a post-Bretton Woods international order worthy of this name requires a new intellectual consensus of this kind still holds today. Provided the attention is focused not on the consensus that Keynes defended despite the final rejection of his reform plans at Bretton Woods, but on the deep sense of the intellectual consensus that he *wished* to create for the postwar world. That is, on the possible legacy of that same rejected proposal, which wanted to establish a consensus on freedom and policy space, rather than on the sacrifice of national autonomy on the altar of market discipline and aggressive globalization.

Keynes's *desired* consensus may serve two distinct but interrelated purposes. First, the theoretical foundations of Keynes's project of "sounder political economy between all nations" (*The Collected Writings of John Maynard Keynes*, hereafter: CW, Vol. 25, p. 43) can be a valuable asset in constructing a historical narrative of the international economic disorder. Having in the Washington Consensus (see Cedrini 2008) saga and the rise of the global imbalances of the so-called "Bretton Woods 2" (non-)system (see Carabelli and Cedrini 2010-11) its salient episodes, the narrative should resists the temptation to give the "normality" of the lack of legitimated order for granted. It should rather presents the current crisis as the sad epilogue of the attempt, in the Nineties, to impose a neoliberal order structured around the concept of market discipline, symbolizing not only the abandonment, but the complete abjuration of Keynes's work of international economics. Second, Keynes's desired consensus can contribute to identify the possible pillars of the new narrative explicitly and rightly called for by Rodrik (2011), among others, to shape the future of globalization. Keynes's mature vision of global economic integration "was rooted in his longstanding effort to understand both the strength and weaknesses of the pre-1914 era of globalization under the gold standard", as Dimand (2006, p. 175) aptly puts it. Keynes's reform plans of the Forties are the result of a long theoretical journey, shaped by changing times and circumstances, which deepened his scepticism about the possibility to recreate the lost paradise without a revolution in international management. And it is this scepticism, that is Keynes's growing doubts about those which the gold standard epoch took as the certainties of globalization, to demonstrate the relevance of Keynes's reasoning to today's world.

The Washington Consensus: discipline without freedom

The final suggestion to dethrone gold and build an international system freeing nation states from its "golden fetters" strikes the imagination also because it came from an early supporter of the gold standard. Likewise, it was a thinker of global economic integration, who had offered an enthusiastic picture of pre-war globalization in the opening pages of *The Economic Consequences of the Peace*, to opt for national self-sufficiency in the most acute phase of the Great Depression. Although one naturally tends to overvalue such radical positions when trying to grasp the essence of Keynes's work of international economics, a much more representative example of his way of reasoning about international economic relations is provided by the "dilemma of the international system" (CW 6, p. 272) he discussed at length in the *Treatise on Money*. The dilemma opposes the advantages of the stability of national currencies in terms of the international standard to the benefit of national autonomy over domestic rate of interest, which the gold standard tends to the contrary to equalize in all countries, and foreign lending. In analysing the impact of financial globalization on domestic economies, Keynes therefore referred to an apparently ineliminable tension between international discipline (as regards exchange rates and capital movements) and domestic autonomy (as regards policy to attain and maintain full employment). As Kregel (2008a, p. 168) notes, "in today's jargon this would be called a discussion of the 'national policy space' available to developing countries in designing their domestic economic policy".

A possible solution to these tensions is to externally finance policy space (ibid., p. 169), that is to finance it through external capital flows. If Keynes had previously praised the virtue of the gold standard, this was because the system ensured its reserve countries the possibility to face their short-term balance-of-payments deficits while investing long-term in peripheral countries. Britain's ability to make the Empire finance its deficit with Europe and the US, but also her "responsible" behaviour towards the "new" countries (limiting the strict discipline of the classical mechanism and allowing member countries the possibility to live and develop in a global multilateral economy) guaranteed multilateralism and dynamism (De Cecco 1975). In the post-war period, however, foreign lending, namely the "process by which rich countries spread the proceeds of their wealth over the world" could not "be strongly supported on nationalist grounds" any longer (reported in Fleming 2000, p. 142). The old relationship between foreign lending and exports – capital inflows being used by borrowing countries to finance imports from the lender – was in fact not valid any more in the Twentieth century. In discussing the dilemma of the international system, Keynes warned about the risks of allowing "a disproportionate degree of mobility" to capital only, in an economic system which is "extremely rigid in several other respects" (CW 6, p. 335).

When Latin America implemented the Washington Consensus recipes under the promise of financial support on the part of the United States, it managed to reduce inflation through external capital flows. Still, these latter "produced by-products that were crucial to [the strategy's] success – overvalued exchange rates, open capital markets, high levels of capital inflows – but … created domestic incentives that impeded the domestic restructuring required to provide improved growth and employment" (Kregel 2008b, pp. 553-54). Adjustment policies produced current account surpluses and tendency to currency appreciation, and favoured financial assets and rentiers (Câmara Neto and Vernengo 2002-3) over domestic corporate restructuring; productivity gains were simply wasted in the process (Ocampo 2004-5). Capital market liberalization was therefore a necessary condition for the initial success of stabilization policies, but ran against developing countries' desire to position themselves on a growth path, and forcedly established, somehow ironically, the seeds of future financial crises, which the Consensus was meant to prevent. But capital market liberalization was the password (and main tool) of a bigger overall project of universal convergence towards a specific model of capitalism, destined to reaffirm the principle of "monoeconomics" (Hirschman 1981). It should pose an end to the era of "global apartheid" (Williamson 2002) which had allowed developing countries to (attempt to) reduce their income gap by unorthodox means such as inflation, state-led industrialization, and import substitution. And, in truth, the Consensus rapidly became something more than a blueprint for development. If critics of the "neoliberal" theory of globalization (see Quiggin 2005) identify the Washington Consensus paradigm as the main culprit for the socio-economic disasters of the past decades, it is mainly because it became the architrave of an aggressive neoliberal agenda imposed by the two Bretton Woods institutions to crisis-hit and developing countries.

As known, the Consensus failed both as set of policy prescriptions for development and as structural adjustment reform package for countries presenting unsustainable balance-of-payment disequilibria. The agenda of capital market liberalization implemented in East Asia throughout the Nineties had pushed up the value of the region's currencies and produced large current account deficits; IMF austerity policies during the crisis, which were meant to restore investors' confidence, soon revealed their "beggar-thy-neighbour", and, worse, "beggar-thyself" character. The crisis itself was taken as an opportunity to remodel Asian "crony capitalisms" into free market economies worthy of the name. In Stiglitz's (2002, p. 213) words, the collapse cast doubt on the presumedly superior model of capitalism embedded in the Washington Consensus, so that "the IMF and the U.S. Treasury had to argue that the problem was not with the reforms ... but with the fact that the reforms had not been carried far enough. By focusing on the weaknesses of the crisis countries, they not only shifted blame away from their own failures – both the failures of policy and the failures in lending – but they attempted to use the experience to push their agenda still further".

Hence the "Augmented Washington Consensus" (Rodrik 2004), with the shift from "getting prices right" to "getting the institutions right". Establishing a tautological relationship between the augmented list and economic development, "second generation" reforms made it simply too easy to ascribe failures to developing countries' scarce political courage. Above all, they transformed the predominant Western model of socioeconomic organization into the unique reference for international institutions' policy reforms (Ocampo 2004-5). Conditionalities imposed by the IMF and the World Bank to fundamentally sound Asian countries were based on what the technocratic Washington believed to be the "universal norms of a proper economy" (Vestergaard 2004, p. 818) – capital market liberalization was supplemented by Anglo-Saxon financial regulation, reforms of business-government relations and of labor market institutions. Structural adjustment policies, currency board regime (dollarization of the economy) and full integration into the Free Trade Area of Americas made Argentina the poster child for the neoliberal economics of the Washington Consensus as understood by the IFIs. Economic policy in developing countries was shaped by the rules of a "confidence game" (Krugman 1998) played by the IMF in the attempt to restore market confidence in crisis-hit economies. Argentina's default, in particular, served to demonstrate at the same time the circularity of the argument – "If market confidence comes only after sound policies are followed and sound policies are defined as policies that trigger confidence, financial markets and the IMF can in principle converge on any arbitrary set of policies", Rodrik 1999, p. 14).

The Washington Consensus, Rodrik argues (2006, p. 974) at the end of the saga, too easily neglects the "need for humility, for policy diversity, for selective and modest reforms, and for experimentation". As Stiglitz observes, the only possible "Post Washington Consensus" consensus can be on the fact that there should be no consensus about growth strategies. Policy space is required to exercise autonomy in the choice – "the essence of freedom is the right to make a choice – and to accept the responsibility that comes with it" (Stiglitz 2002, p. 88). There is here an interesting parallel with Keynes's work of international economics. For critics of the Washington Consensus tend to believe that it is not possible to satisfy the demand for enhanced policy space generated by the application of the paradigm by other means than a reform of the international architecture.

This brings us back to Williamson's 1983 work on Keynes's work of international economics, where the father of the Washington Consensus complained about the lack of an intellectual consensus on "a set of generally accepted rules and conventions regarding the proper way for countries to conduct those of their economic policies that have significant repercussions outside their own borders" (87). Williamson was quite convinced, at the epoch, that there was no chance of building "a framework that significantly constrains countries' policies in the general interest" (109). In a way, the Consensus aimed at remedying this state of affair. The paradigm truly created an international economic order, although its evolution over time, until the final collapse, demonstrates the intrinsic fragility that necessarily characterizes fully technocratic constructions lacking veritable democratic support. It therefore becomes necessary to investigate the peculiar nature of the "general interest" of the Consensus international order. As Gore (2000) maintains, contrary to the structuralist view, the Washington Consensus employs a "national explanatory framework" to analyse the specific development situation of each emerging nation, and adopts a "global normative framework" which asks countries to conform with the norms of a liberal international economic order. Such conformity, it was argued, would lead to better performances for both global economy and individual countries, whereas deviations would be self-defeating, heterodox countries ending up with being excluded from the "global field of flows" (Gore 2000, p. 793) and the distribution of the benefits of globalization. In truth, globalization itself was the "general interest" of the liberal international economic order established by the Consensus. Technocratic in nature, the attempted order included the political project, as Bourdieu (1998) called it, of neoliberalism: the only freedom allowed in and by the order was that of market forces. Its final aim was to make the world a safe place for free trade in goods and capital (see Rodrik 1998), which required, though disguised under the promise of allowing countries to borrow it from abroad, the suppression of policy space, and what Chang (2006) defines as the "right to be wrong" with it.

Keynes's desired consensus: in defence of policy space

What precedes shades light on the deep anti-Keynesian nature of the Consensus (attempted) order. The author of a fundamental essay on probability as the most general form of knowledge and a guide for human action in conditions of uncertainty (*A Treatise on Probability*; see Carabelli 1988), Keynes was a thinker of the complexity of international economic relations. To these latter he applied his anti-positivistic conception of economics as "a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions" (CW 12, p. 856). The object of economics being to provide ourselves not with "settled conclusions" (ibid.) or "infallible" answers, but rather "with an organised and orderly method of thinking out particular problems" (CW 7, p. 297). Aware of the complexity of the material under consideration, Keynes opposed the introduction and use of the "atomic hypothesis" (CW 10, p. 262) in the analysis of economic issues, a rule to which his international economics makes no exception. As Vines (2003, p. 339) points out, Keynes's way of reasoning about the international environment was shaped by an "extraordinarily clear understanding of how pieces of the global economy interact, driven by the policies of autonomous nations, in an only partly coherent manner".

The above-recalled dilemma of the international system truly occupies a central position in Keynes's work. In the *Treatise on Money*, Keynes draws attention to the (open-economy) problems of Britain, the former leader of the system, now (in 1930) a debtor country facing the enormous costs of the return to gold and creditor countries' anti-social attitude. The Great Depression and the "international" disease which accompanied it brought Keynes to elaborate a view of economic history as a permanent conflict between creditors and debtors which readers of the *Treatise* find exposed at length in the famous chapter on the "historical illustrations" (De Cecco 2001). As Cairncross (1978, p. 46) puts it, "in an anarchic world [Keynes] accepted the need for each country to preserve its freedom of action (...) Without international management, however, the task of individual governments would become indefinitely more difficult (...) individual countries would find it hard to keep in internal and external balance and maintain full employment unless they operated within a framework of international institutions planned and managed for the common good". Keynes's early proposals of global reform (the more rational gold exchange standard of *Indian Currency and Finance*; the suggestion of reshaping the global monetary system, in *A Tract on Monetary Reform*, so as to free monetary policy to point at price stability; the "maximum" plan of the *Treatise on Money*, whereby an international central bank should issue new global money and provide liquidity to crisis-hit countries) aimed "to weaken the pressures on deficit countries and slow down the process of adjustment in the hope that surplus countries would allow the adjustment mechanism to operate" (Moggridge 1986, p. 71). The plan for the creation of an International Clearing Union (ICU) is the accomplishment of the more ambitious task of sketching a model of national behavior consistent with the general interests of the system (ibid.).

Keynes brought forth this model in the *General Theory*: it was the "twice blessed" (CW 7, p. 349) policies of regaining control over the interest rate, whereby countries could reach and maintain full employment and help their neighbors, at the same time, to achieve this same result. Still, only the "simultaneous pursuit of these policies by all countries together" (ib.) could transform international trade, up to then "a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases", into "a willing and unimpeded exchange of goods and services in conditions of mutual advantage" (pp. 382-83). A revolution in global management was key to avoid having to recur to the isolationism of national self-sufficiency, which Keynes advocated as second-best solution to, and just before, sterling devaluation and departure from the gold standard. This did not prevent him from partially borrowing from his heretical proposal of national self-sufficiency in preparing the ICU project: undesired capital flows from debtor to creditor countries, hitherto "the major cause of instability" (CW 25, p. 31), should be subject to strict controls in the proposed flexible exchange rate system. As he stressed in a speech to the House of Lords on 23 May 1944, "the external value of sterling should conform to its internal value as set by our own domestic policies … we intend to retain control of our domestic rate of interest, so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money … whilst we intend to prevent inflation at home, we will not accept deflation at the dictates of influences from outside" (*CW* 26, pp. 16-17; see Dimand 2006).

Another main influence to the ICU was the interwar "Schachtian" experiment, which Keynes saw as a straightforward device to cope with the "secular international problem" (CW 25, p. 21) of international balance-of-payment imbalances. Whereas a "freely convertible international standard" (p. 27) usually throws the adjustment burden on debtor countries, the ICU plan rested on a principle of shared responsibilities for global imbalances, asking creditors to take their part. In Keynes's scheme, the Clearing Union issues a newly created bank money (bancor) functioning as the new international standard. Deficits and surpluses in the balance of payments are settled through the use of clearing accounts at the ICU denominated in bancor; and the institution can create reserves in the amount required to satisfy the needs of international trade. Members are granted an overdraft facility corresponding to half the average trade size over the five last pre-war years. To counteract the formation of surplus positions in excess of a quarter of their quota, creditors would be allowed and, the case being, required to revalue their currencies and unblock foreign investments, as well as to pay rising interests on excess credits. Symmetrical obligations are imposed on debtor countries. It is to be noted that Keynes opposed the interpretation of his plan as an "automatic surrender of surpluses" (reported in Skidelsky 2000, p. 213). Creditors were simply asked not to hoard those resources which they could choose "to leave idle" (CW 25, p. 74) and left free to choose how to employ them—expansion of credit and domestic demand, currency appreciation or wages increase, abatement of trade restrictions or foreign lending for development – exactly as in the absence of the ICU. This way, creditors would no longer fear the "automatic tendency towards a general slump in international trade" (457) produced by the exhaustion of debtors' means of repayment. The plan presents therefore a "built-in expansionary bias", and configures a "free lunch for all", as Davidson (2009) calls it.

In the light of what precedes, that Keynes developed "a theory of how the system *as a whole* would behave" (Vines 2003, p. 349) though starting from a national perspective (Newton 2000) is less surprising than it may appear. The ICU plan was meant to transform adherence to international discipline into a choice of freedom: policy space lies at the core of the project, as the analysis of the ethics of international economic relations embedded in Keynes's vision allows to understand. The parallel with the *General Theory* is, in a way, direct. It is in fact to be noted that Keynes's late global reform plans aim at the euthanasia of rentier countries. Keynes criticises domestic rentiers, first, for exercising a demand for money rather than for goods or labour; second, for producing deflation and thereby unemployment; third, for their being functionless investors, exploiting the purely artificial scarcity of capital (see Elliott and Jensen 1997). Now, in the closed world of the ICU project, the "dead hand" of debt cannot impose its burden on deficit countries. Credits cannot be removed outside the system but only transferred within it, while facilities available to debtor countries "do not involve particular indebtedness between one member state and another … [they] are not a real burden to others" (CW 25, p. 74). Second, the system's clearing principle evidently makes the possession of capital an asset of "insignificant importance" (p. 210), and prevents a repetition of the interwar "competitive struggle for liquidity" (CW 21, p. 42) from happening. Third, the expansionist bias of the plan severely reduces the incentives to become a "functionless investor" on the model of France and the United States in the early Thirties.

A fundamental aim of the plan was to enhance member states' policy space. Somehow paradoxically, this is what the "patchwork solution" - one of those "the post-war world must not be content with" (CW 25, p. 26), wrote Keynes when still convinced that the United States could comply with his suggestion of a "system of general and collective responsibility, applying to all countries alike" (p. 47) – of the American gift he proposed after the rejection the ICU plan helps to understand. As known, Keynes asked for an American gift, rather than a business loan, to Britain, to solve international imbalances further and dramatically nurtured by the war. The rejection of the ICU plan had left the newborn international institutions with scarce resources to deal with the transition to the new order. Global trade was threatened by Britain's deficit position towards the sterling area, since this latter was the only actor, itself indebted towards the US, who could stimulate American exports in the postwar period. During the first three years of war, before negotiating the Lend Lease agreement with the United States, Britain had "held the fort alone" (CW 24, p. 609) and financed the common cause of the Allies' war against Germany; the sterling area countries had accepted to centralize their gold and foreign exchange reserves in London in exchange for sterling. Revamping the approach he had already used in 1919 when dealing with German reparations and the burden of Inter-Allied debts (see Carabelli and Cedrini 2010a), Keynes insisted on the freedom-enhancing effects that a shared-responsibilities approach to the imbalances, implying a strong involvement of the world creditor power, would have on debtor countries' policy space (see Carabelli and Cedrini 2010b).

His solution for unsustainable international imbalances relied on the "psychological atmosphere of the free gift" (CW 24, p. 340), as he explained in the correspondence with the Treasury representative in Washington Robert H. Brand while preparing the negotiation of American assistance to London. He believed that an American gift (to be given as a sort of retrospective Lend-Lease) could assist Britain in approaching the sterling area countries with an equally generous program of debt restructuring. By helping Britain to return to sterling convertibility, sterling countries (highly indebted with the United States) would have regained the possibility to revitalize their trade with the United States, and world trade in general with it. Only a gift could help enlarge the spectrum of countries disposed to take part in a "shared responsibilities" international adjustment to a more balanced order, debtor countries being otherwise compelled either to return to distasteful isolationist interwar policies or to accept the rules of a new multilateral order of free trade for which they were financially unprepared.

The proposal aimed at convincing the Americans, as Keynes observed in the correspondence with Brand, to use "their financial strength not as an instrument to force us to their will, but as a means of making it possible for us to participate in arrangements which we ourselves prefer on their merits if only they can be made practicable for us" (p. 272). Otherwise, "they would fail to get, here and now" (p. 328), the multilateral world of free trade the Americans themselves desired. The plan was thus a sort of tester of the leader's willingness to comply with the rules of Keynes's desired new system despite its final rejection at Bretton Woods. The "American Gift" embodied the spirit of the ICU plan: by granting the gift, the United States would have allowed Britain the freedom to choose and proactively help to shape the multilateral option, whereas a loan would have compelled her to accept the "American conception of the international economic system" (p. 61) through market adjustment and austerity. The "shared responsibilities" approach of the American gift proposal, relying on a preliminary generous attitude on the part of the world creditor power, was first and foremost a defense of policy space.

It is Keynes himself to support the (though partially disappointing) results of the Anglo-American negotiations as the "first great attempt at organizing international order out of the chaos of the war in a way which will not interfere with the *diversity of national policy* yet which will minimize the causes of friction and ill will between nations" (p. 608). While the unrestricted laissez-faire of the late gold standard and interwar period had "mistake[n] private licence for public liberty" (p. 622), he wanted the new system to protect freedom to choose, that is to manage the co-habitation of different varieties of national capitalism, instead of imposing them from outside a one-size-fits-all set of right policies. The ICU shared-responsibilities principle was intended to perform the same function of the "central controls" (CW 7, p. 380) invoked in the *General Theory* as a solution to unemployment, that is to protect the "traditional advantages of individualism". In Keynes's aristotelian, anti-utilitarian but individualistic ethics (see Carabelli and Cedrini 2011), individualism is "the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice" (ibid.).

The "global imbalances" world

Instead of the "genuine organ of truly international government" (CW 25, p. 193) envisaged by Keynes, the United States provided the world with a guardian of world monetary stability. The Marshall Plan and rather happy historical circumstances prevented the Bretton Woods system, in its thirty glorious years, from assuming the quite pronounced disciplinary traits of Harry Dexter White's plan. It is no coincidence that the "integrationist agenda" (Rodrik 2007) of the Nineties could be easily described as the attempt to revive the pre-1914 era of globalization by means of disciplinary mechanisms which follow closely those of the gold standard, finally abandoned exactly in reason of the excessive suppression of policy space they necessarily implied (see Polanyi-Levitt 2006). Those, to put it differently, which Keynes strenuously opposed, ending up with elaborating a global reform plan expressly designed to dethrone gold and its dangerous automatisms. But Keynes's legacy might be of the utmost importance even for today's (post Washington Consensus) world. Before the crisis, it had become commonplace to describe this latter as the "Bretton Woods II" (BWII) world, after a highly influential paper of 2003 by Dooley, Folkerts-Landau and Garber. The Bretton Woods order was still in place, the three economists argued, for Asian countries in particular, with a long line of countries destined to follow, were covering the same road traced in the 60s by the then peripheral Europe in the successful attempt to regain a central position in the global order. Their development strategy – export-led growth with undervalued exchange rates, capital controls and reserve accumulation (mostly dollars) – acted as a long-term, always operating safety clause for dollar stability, despite the widening of unprecedented global imbalances.

Due to the weaknesses of the theoretical hypothesis on which it rests, the label BWII is a camouflage of what could be more correctly referred to as the "global imbalances" world, despite disequilibria of this kind are in truth the norm rather than the exception in the history of global economy. The Washington Consensus taught developing countries that foreign borrowing is a risky strategy. In the international non-system post Bretton Woods, the more a developing country is successful in attracting foreign capital to finance its growth, the larger its foreign imbalances, which reduces the chances of retaining the desired level of capital inflows (Kregel 1999). Hence the widespread adoption of costly but effective strategies of "self-protection through increased liquidity" (Feldstein 1999). As Cruz and Walters (2008, pp. 666–7) argue, such strategies were developed "in the context of the decision to adopt or reinforce the neo-liberal strategy of rapid financial liberalisation, unrelated to the development of either deep financial markets or mature and effective regulatory structures". In general, developing countries' reserve accumulation finds its rationale in a combination of precautionary motives – the need for protection from procyclical capital inflows, even more so when a country is unable to adopt countercyclical policies (Ocampo 2007) – and desire to compete in a mercantilist hoarding game to win access to Western markets (Aizenman 2008).

Global imbalances were the engine of global growth (under the tacit assumption of ever-growing American demand for foreign goods and with the help of China's growing demand for commodities and raw materials from the South) in the Noughties. Nevertheless, they result from fearful behaviours (either aggressive or defensive) adopted in a neoliberal environment which is in its turn a legacy of the Washington Consensus decade. This runs against arguments justifying inactivity with regard to their persistence, such as those stressing that global imbalances should not be counted among the causes of the crisis. In truth, a significant majority of economists consider them as a "handmaiden" to the crisis (see Suominen 2010), and they will with all probability be a relevant feature also of the post-crisis global economic environment. Remarkably, all this is strongly connected with the Washington Consensus attempted order. For, as Davidson (2004-5) points out, the Consensus philosophy – independently of concrete applications of the paradigm – presupposes "a global environment where *each* nation independently sees significant national advantages in a policy of export-led growth" (p. 213), despite the evident resulting fallacy of composition. "The Washington Consensus has created perverse incentives that set nation against nation in a process that perpetuates a world of slow growth (if not stagnation) ... [the]continuing U.S. Trade deficit has been, in recent decades, the primary (sole?) engine of growth for the rest of the global economy as the other nations of the world focus on policies that promote export-led growth as a solution to each nation's unemployment rates and stagnating rates of growth" (p. 217). Hence the importance of so-called "co-dependence" views about global imbalances, emphasizing the ongoing dependence of the rest of the world on net exports to the United States (Mann 2005).

As Kregel (2006) maintains, financial flows accompanying global imbalances derive from global investment and production decisions that determine the global pattern of trade. Surplus countries invest in the United States to finance their exports, as was the case with pre–World War I Britain's foreign lending, which promoted exports of capital goods to new countries. Though aiming at different national or regional targets, therefore, pre-crisis Europe, Asia and Latin America adopted the same current account surplus-cum-foreign lending strategy as a substitute for, respectively, the unusable or dangerous device of external and government borrowing. In other words, global imbalances result from national policy choices – reflecting attempts by emerging countries to integrate into international trade and finance and efforts by European firms to acquire American assets and technology. Hence the paradox of global imbalances: although their orderly unwinding, given the systemic risk they produce, should be in the interest of all countries concerned, multilateral coordination remains an insurmountable problem. Structural reasons – not only the stimulus provided by American growth to raising incomes abroad, but also China's role as major engine of growth in Asia and a promoter of increased trade among developing countries – explain their persistence. With the result that, due to lack of policy coordination in the times of a severe recession, adjustment will be more likely imposed to world economy by developed countries' waning appetite for imports from developing countries (Frieden, Pettis and Rodrik 2011).

Keynes and today's globalization

We have shown elsewhere that Keynes's reasoning in international economics offers powerful analytical instrument to identify the shortcomings of the global imbalances world and detect solutions to overcome the current impasse. Keynes would likely support the case of coordination. He would probably join the Stiglitz Commission of the United Nations in pointing at the risks inherent to the building up of global imbalances, and recommend new rules to counteract the asymmetric character of international adjustment. In so doing, he would perhaps use that same theoretical framework which supported the case of an American gift to Britain at the end of WWII (Carabelli and Cedrini, 2010b). But he would also reflect on reserve accumulation and ambiguous creditor-debtor relationships as the two main features of our international non-system (Carabelli and Cedrini 2010-11). He would note that we are still unable to cope with the spectacular effects of "a change of ideas in Asia" (CW 1, p. 71), to borrow words from *Indian Currency and Finance* (1913), namely, the passage to the "undervaluation-cum-intervention" strategies after the 1997 collapse, and the fact that Asia has by now "turned the tables on the West" (ibid.). Keynes would likely condemn the "expensiveness with instability" character of the non-system – as opposed to the "cheapness with stability" (p. 91) order he wanted to establish on the eve of the war – and reiterate his plea to adopt a "reserves are to be used not shown" principle, but would not fail to note that economic anxieties lie behind reserve hoarding.

In sum, Keynes would evidently attempt at reforming the system. Still, as Kregel (2009, p. 5) points out in his report on the proposals advanced by the Stiglitz Commission, it would be an error to look at the shortcomings of the current disorder as if they could be remedied through the use of a new international currency alone. The challenge is to discover a new international adjustment mechanism, and one that is "also sufficiently compatible with global aggregate demand to provide full employment and support the national development strategies of developing countries" (ibid.). Keynes was not a development economist, nor had a specific interest, however defined, in the problems of economic development, poverty alleviation, and so on (see Chandavarkar 1986; Toye 2006). However, Keynes might really be of help to create an international climate revamping the "guiding philosophy behind the Bretton Woods regime", as Rodrik (2013, p. 8) defines it, that is "that nations – not only the advanced nations but also the newly independent ones – needed the policy space within which they could manage their economies and protect their social contracts". For in present times, Keynes's notion of a "sounder political economy between all nations" would rest with all probability on a criticism of developed countries that adopt export-led rather than internal-demand growth policies: a well-managed system should help developing countries fill the gap with already developed nations (Kregel 2006).

Now, it has been observed that Keynes developed the ICU plan having in mind a world of already developed countries, and that the plan requires a high degree of economic cooperation (see Davidson 2009). Keynes himself knew that, conceived "in a spirit of hopefulness which may be disappointed", his proposals assumed a high measure of "international discipline and good neighbourliness and, in general, a readiness of governments to accept proper standards of international behaviour" (CW 27, 137-38). To complicate matters, the fact itself that developing countries may deliberately opt, in principle as in the current practice, for growth policies based on net exports would require "not only a coordinated policy to distribute surpluses and deficits but also an appropriate allocation of the costs of this distribution, as well as the required liquidity provision to finance them" (Kregel 2009, p. 5). Keynes's plan should therefore be updated so as to be able to distinguish between different stages of development in applying sanctioning for the creation of excessive surpluses. And it might be an easy victim of the lack of global monetary cooperation and of willingness to proceed with constructive efforts of this kind. But it was Keynes himself to praise the virtues of capital controls, and capital controls are a main feature of today's international economy exactly because of the absence of an international monetary order.

In the current international non-system, the developing world is therefore trying to achieve what Keynes considered as a fundamental expected outcome of his plans of global reform. In assessing the relevance of Keynes to today's globalization, therefore, this paper has subscribed to Hans W. Singer's (1987, p. 70) reading of this legacy as one of "philosophy and methodology". The point is stressed with force in Newton's (2000) analysis of Keynes's WWII diplomacy, which he finds representative of a "fundamental difference of philosophy" (p. 202) with respect to the American delegation. As known, Keynes "wanted the two institutions to be a-political, deciding matters on technical criteria" (Skidelsky 2000, p. 465). For this reason, he believed that they should be located in New York instead of Washington, that the IMF managing director should exercise unencumbered control over the institution, while it executive directors (representing their own countries) should be part-time and receive part-time salaries. This latter wanted the Fund "to exercise constant pressure on members in the direction of currency convertibility, fixed exchange rates and non discriminatory in trade … [whereas] Keynes on the other hand, had believed that the Fund's deliberations would always be led by national policy programmes rather than the other way around. It followed that he envisaged a neutral organization which would allow the automatic use of drawing rights and meet to consider changes in exchange rates" (ibid.). And while Keynes had initially favored the authority of the ICU in the trade-off with members' discretion (Moggridge 1986), already in 1943 had he pointed out that "there should be the least possible interference with internal national policies and the plan should not wander from the international *terrain*. Since such policies may have important repercussions on international relations, they cannot be left out of account. Nevertheless in the realm of internal policy the authority of the Governing Board of the proposed institution should be limited to recommendations, or at the most to imposing conditions for the more extended enjoyment of the facilities which the institution offers" (*CW* 25, p. 234).

Helleiner (2003, p. 964) has recently emphasized White's contribution to a "'development' orientation of the Bretton Woods vision", and concluded that "White and other US officials were far ahead of Keynes in mapping out an international financial order based on embedded liberal principles" (p. 963). But Skidelsky (2005, p. 21) notes that the attention posed by the Americans on Latin American countries (that is, on the "monetary indiscipline" of the area's debtor nations) is responsible for the more disciplinary character of White's plans. Keynes, to the contrary, wanted the euthanasia of rentier nations to establish a principle of shared-responsibilities, but also to save policy space and variety. As Kirshner (1999, p. 316) argues, Keynes believed it "a fallacy to think that every country should pursue the same macroeconomic policies". Capital controls were simply necessary, in Keynes's scheme, to the aim of protecting policy heterogeneity from the push to conformity, so to speak, exercised by profit-seeking investors (see also Kregel 2008a). And it is in this sense that Keynes's "pragmatism" (Kirshner 1999, p. 322) about protection, his "practical protectionism", as Radice (1988) calls it, are to be explained. When Keynes advocated protectionism, he did so against in reaction to an international system functioning in such a way as to repress, rather than safeguard, policy space (see also Eichengreen 1984): he did so in reaction to the interwar gold standard, whose error, he claimed, "lay in submitting national wage-policies to outside dictation" (CW 26, p. 33).

Singer (1987) observes that when Hirschman refers to the "mutual benefit claim" of development economics, as well as to the possibility of creating a global order bringing developing countries "into a network of international relations to the mutual benefit of both themselves and the industrial countries" (p. 71), Keynes's "role in proposing just such a global system inevitably comes to mind" (Singer 1998, p. 141). This drives attention toward the holistic approach to the problems of international economic relations embedded in Keynes's plan for the creation of a "global macromanager" (Skidelsky 2005, p. 21). The original ICU scheme included a series of ancillary international institutions destined to combat the evils of the trade cycle, to be financed by extra overdraft facilities, transfers from the Reserve Fund of the ICU, and, as seen, through direct contributions by surplus countries. These included a Relief and Reconstruction authority, a Board for International Investment or Development Corporation, a Supernational policing body, and a scheme for commodity controls. This latter (see Thirlwall 2007, 1987; Fantacci *et al.* 2012) was destined to counteract a deflationary bias of the same kind of the one exercised by rentier nations.

Dating back to 1942, the "Commod Control" proposal was to be an important element of the ICU plan, and one which shared the essence of the monetary reform proposal. Here too, Keynes wrote, “we have … a plan for international co-operation which can be safely adopted in the common interest by every country alike irrespective of its national economic policy” (CW 27, p. 162). Setting up an international body representing both producing and consuming countries should have stabilized commodity prices within a reasonable band around the normal price, and the international trade cycle with them. Fully aware of the extremely harmful effects of commodity price volatility in a context of global interdependence, Keynes argued that “a falling off in effective demand in the industrial consuming countries causes a price collapse which means a corresponding break in the level of income and of effective demand in the raw material producing countries, with a further adverse reaction, be repercussion, on effective demand in the industrial countries; and so, in a familiar way, the slump proceeds from bad to worse. And when the recovery comes, the rebound of excessive demand through the stimulus of inflated price promotes, in the same evil manner, the excesses of the boom” (121). Curiously enough, Skidelsky believed it safe to argue, in 2005 (pp. 24-25), that the urgency of such schemes “has gone out of the issue”, for deterioration in developing countries' terms of trade and primary commodities volatility had proved to be less dramatic than expected. It is obviously less safe, now, to argue that “financial hedging … offer a better alternative to physical shortage” (ibid.). As Fantacci *et al.* (2012, p. 469) have recently pointed out, “the dogma of 'unfettered competition' has been shaken by the global financial crisis. Even commodity trading, which typically occurs on the broadest and most sophisticated futures markets, has suffered unprecedented strains”. In the light of this, today's world might therefore have an incentive to revisit “the remedy proposed by Keynes, as an ideal complement to the International Clearing Union, and in the same spirit of a regulation not designed to contrast, to impede or to substitute, but rather to facilitate private transactions in commodities” (p. 470), in the interest of both developed and developing countries.

Conclusion: the vitality of Keynes’s reasoning in the times of gated globalization

To offer a concrete demonstration of the vitality of Keynes's reasoning to today's world, let us consider UNCTAD's *Trade and Development Report 1981-2011*, where the “integrationist agenda” is found responsible for posing both “de jure” (multilateral trade and investment agreements) and “de facto” (capital movement and financial liberalization) constraints to policy space. Here follows a summary of each of the *Report*'s chapters, read in the light of Keynes's international economics. First, the *Report* detects the theoretical basis for the analysis of the problems of economic development in the notion of "interdependence", that is in the impact of the performances, as well as of the macroeconomic, trade and financial policies on the developing world. From the beginning (the monetarist turn in the US) to the end (revealing the dangers of borrowing policy space from abroad), the Washington Consensus saga demonstrates that Keynes was right to insist on the dilemma of the international system. The only truly disciplinary aspect of a global order that wants to defend policy space must concern undesired policies on the part of wealthier countries, which should not be free to mistake "private licence" for "public liberty".

Second, the *Report* correctly ascribes the loss of policy space available to developing countries to the mix of deflationary fiscal policies included in loan conditionalities imposed by the international financial institutions and of restrictive monetary policy to counteract the emergence of inflation. On the other, it points at the detrimental effects of such neglect on the key variable of global demand to explain the build-up of global imbalances and the zero-sum mercantilist game played by both developed and developing countries. Keynes taught us that a successful global order must include an expansionary built-in mechanism: exactly the contrary of today's expensiveness-with-instability international non-system of global imbalances, nurturing these latter in the unreasonable hope that they can indefinitely persist without threatening global growth.

Third, "Global economic governance". The legacy of Keynes in this regard is simply obvious. Still, two points should be noted. One is the interesting parallel between Keynes's case against capital-account liberalization, which introduces a "mobile element, highly sensitive to outside influences, as a connected part of a machine of which the other parts are much more rigid" (CW 6, pp. 334-35), and UNCTAD's complain about the lack of "coherence" between today's international trade, monetary and financial systems. The other point to raise is that Keynes's "holistic approach" to international economic relations covered practically all aspects touched on by UNCTAD's *Report*: trade multilateralism and commodity price stabilization, on one side; financial instability, conditionalities, exchange rate disorder and debt problems, on the other. The Report itself adopts a holistic approach à la Keynes in explaining the loss of policy space available to developing countries in pursuing their national strategies. This loss derives from insufficient coherence first, "in the design of national policies across countries"; second, "between national policies and international arrangements"; third, "in the assignment and performances of international institutions" (*TDR 1981-2011*, p. 37).

The final chapter of the *Report* includes an assessment of development strategies and policy recommendations, and concludes with a discussion of policy space in the times of the hyper-globalization. The chapter rejoins Rodrik in stressing that development needs experimentation: "The most successful societies of the future will leave room for experimentation and allow for further evolution of institutions over time. A global economy that recognizes the need and value of institutional diversity would foster rather than stifle such experimentation and evolution" (Rodrik 2011, pp. 239-40). Now, if Rodrik is right, we do not need a new development agenda, but a new global order. One that leaves room for experimentation, and manages the cohabitation of different varieties of national capitalisms without attempting to reduce them to the only "right" model. If Rodrik is right, Keynes should come back.

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