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NOT BEAUTIFUL, NOT JUST, NOT VIRTUOUS; 'AND IT DOESN'T DELIVER THE GOODS'. CAPITALISM AND "FEAR OF GOODS" IN KEYNES'S THOUGHT

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Not Beautiful, not Just, not Virtuous; 'And It Doesn't Deliver the Goods'. Capitalism and "Fear of Goods" in Keynes's Thought

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Abstract

Offering a view of the other side of the liquidity-issue, the paper elaborates on the concept of "fear of goods" in Keynes's thought. It therefore illustrates numerous evidences of "fear of goods" in his economics, and aims to show that the notion might be considered as playing a quite important role as organising concept, helping to establish connections between ideas that are apparently only weakly related. The article fosters an interpretation of the development of Keynes's theoretical arguments and proposed policy instruments for both domestic and global economy, as reactions to the "fear of goods" of capitalism, which Keynes saw as an inborn propensity of monetary economies of production.

Keywords: John Maynard Keynes; capitalism; fear of goods; international economic order; commodities plans

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0. Introduction

In chapter 23 of *The General Theory*, Keynes expresses admiration for mercantilists. He refers to the Heckscherian concept of "fear of goods" (*The Collected Writings of John Maynard Keynes*, hereafter CW, Vol. 7, p. 346) to synthetize mercantilists' success in perceiving "the existence of the problem without being able to push their analysis to the point of solving it" (p. 350). Positively impressed by their awareness of the strictly "nationalistic" character of their policies, Keynes praised mercantilists for having drawn attention to the notions of overproduction, insufficient aggregate demand and money hoarding, as well as to the non-self-adjusting tendency of the rate of interest and the idea that scarcity of money can lead to unemployment. Still, what mercantilists saw as the solution was to Keynes part of the problem, if not one of its most troublesome manifestations, and rather a more general issue, transcending the specific realm of international relations, of capitalism itself as an economic system (an unjust one, which may eventually fail "to deliver the goods").

Offering a view of the other side of the liquidity-issue in Keynes's thought, the paper wants to elaborate on the significance of the notion of "fear of goods" to his economics. It aims to show that, since Keynes saw in it an inborn propensity of a monetary economy of production (wherein the barter analogy is an illusion), the development of his theoretical arguments and proposed policy instruments may be considered as reactions to the "fear of goods" of capitalism. We therefore focus on the numerous evidences of this phenomenon in Keynes's economics.

After summarizing (section 1) Keynes's discussion of mercantilism in *The General Theory*, we present the importance of "fear of goods" as socio-psychological attitude, a crucial topic of his vision of capitalism, touched upon in virtually all his writings, and particularly his socio-political speculations (section 2). We then suggest, with reference to *A Treatise on Money* and *The General Theory* (section 3), that the concepts of risk and uncertainty are key to understand the "fear of goods" of capitalism as seen by Keynes. In this vision, if laissez-faire produces this fear, it is exactly because of markets' inability to bear the risk, which may be enormous, of

holding stocks of goods and commodities, despite the "tremendous pressure" they exercise on the market.

These reflections are of the utmost importance in explaining the rationale of Keynes's suggestions of "concerted actions", as he defined them, for both domestic economies – aiming at reducing the effects of the fear of goods on investment decisions (causing difficulties or impossibilities to tolerate stocks of durable as well as liquid capital goods) – and the global architecture. Due both to Keynes's reference to "fear of goods" in the only chapter of the *General Theory* specifically dealing with the international dimension, and to the relatively scarce attention the issue has attracted in the literature, the paper concentrates on Keynes's international economics. In sections 4 to 6, we explore the connections between Keynes's advocacy of managed money, his proposals of internationally managed buffer stock schemes and his global reform plans for Bretton Woods. We point out that "fear of goods" is a critical issue in Keynes's attempt to devise models of international adjustment fostering a return to a vision of international trade as "a means for trading goods against goods", within the more general framework of a new international order intended to protect policy space from the most harmful effects of globalization. In so doing, we show that this peculiar perspective makes it possible to read Keynes's reform schemes as the practical outcome of his strong commitment to overcome the troubles of mercantilism as possible general rule of a zero-sum international economic system. Section 7 summarizes and concludes.

1. Keynes and mercantilism in *The General Theory*

It is well known that Keynes renders homage to mercantilists (those who believe, in his words, that "there is a peculiar advantage to a country in a favourable balance of trade, and grave danger in an unfavourable balance, particularly if it results in an efflux of the precious metals", CW 7: 333) in chapter 23 of *The General Theory*. There is an "element of scientific truth" in the mercantilist doctrine, Keynes argues, though subject to two important qualifications. "The weakness of the inducement to invest has been at all times the key to the economic problem" (347-

8), and such inducement may derive either from home or foreign investment, depending respectively on the rate of interest and the balance of trade. Since the rate of interest, assuming stable wage-unit, liquidity-preference and banking conventions, is governed by the quantity of precious metals, and this latter mainly depend on whether the balance of trade is favourable or unfavourable, mercantilist rightly pointed to the balance of trade itself as both a direct and an indirect means of increasing aggregate investment.

Keynes recognises that mercantilist thinkers may not be fully conscious of the theoretical grounds on which their recommendations were based. Here is where Heckscher's "great work" (341) on mercantilism, published in English in 1935, comes to help: the core of the chapter is built upon direct quotes from Heckscher's volume. According to Keynes, first, mercantilists rightly denied that the rate of interest had a tendency to adjust itself to the level required to boost investment. Rather, their policies aimed at increasing the quantity of money, so as to reduce the height of the interest rate, and at diminishing liquidity-preference, for hoarding likely eliminates the effect of the influx of precious metals on the rate of interest. Second, mercantilists had full awareness of the dangers of excessive competition and of "the fallacy of cheapness" (345). Third, "the mercantilists were the originals of 'the fear of goods' and the scarcity of money as causes of unemployment which the classicals were to denounce two centuries later as an absurdity" (346). As Heckscher observes, Keynes continues, mercantilists consciously "killed two birds with one stone": mercantilist countries get rid of "an unwelcome surplus of goods, which was believed to result in unemployment", and increase the stock of money, at the same time, thereby fully benefiting from falling interest rates. Finally, mercantilists were also aware that the proposed solutions to the problem of unemployment were strongly nationalistic in character: "it was *national* advantage and *relative* strength at which they were admittedly aiming" (348). A "realism" Keynes praises the virtues of, if compared to "the confused thinking" of the supporters of the gold standard and laissez-faire in international lending, which they believed to be conducive to peace.

This was the first qualification. The second was that mercantilists had "perceived the existence of the problem without being able to push their analysis to the point of solving it" (350). Paradoxically enough, mercantilists and supporters of the combo gold standard – laissez-faire in international lending attained the same result. With the aggravating problem, for these latter, of precipitating the world into a spiral of aggressive behaviours while pretending to act in behalf of peace. "Never in history was there a method devised of such efficacy for setting each country's advantage at variance with its neighbours' as the international gold … standard" (349). Prosperity, in such system, directly depends on "a competitive pursuit of markets and a competitive appetite for the precious metals" (349).

Now, Keynes has been highly criticized for the use he makes of the mercantilist doctrine (see Magnusson 1994) and the notion of "fear of goods" in *The General Theory* (see Groenewegen 2005; see also Perrotta 2004). Heckscher himself criticized Keynes both in an article of 1936 (Heckscher 1969) and, more vehemently, in 1946, in the second edition of *Mercantilism* (published in English in 1955), in a note titled "Keynes and Mercantilism" (vol. 2: 340-58). Briefly, Heckscher accused Keynes of ahistoricism – suffice to remark that mercantilists never referred to the concept of inducement to invest. It was false, Heckscher wrote, that mercantilists had derived their notions from "actual experiences", as Keynes claims (CW 7: 347) when introducing the well-known paragraph on the "chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest" (ibid.). Mercantilist writers did not base their doctrine on empirical research, nor were they presenting its validity as universal (Groenewegen 2005). According to other critics (Jacob Viner, Charles Wilson) Keynes is a victim of an "anachronistic trap" (Magnusson 1994: 46), leading him to believe that the real aim of mercantilists was full employment instead of, as it was, national growth and power. In spite of all this, as Magnusson (47) recognizes, "it is not so easy to dismiss Keynes as an interpreter of mercantilists". Full employment was indeed an aim of mercantilists, though as part of a wider project; and Keynes himself knew, and demonstrated to know, of the anachronism of his reconstruction (Magnusson

rightly insists on the fact that Keynes does not put his own words in the mouth of mercantilist thinkers referred to in the chapter).

A caveat is warranted here: it is not our intention to evaluate the extent to which Keynes has been faithful to history. Nor, of course, is our aim to attempt to reply to the intriguing question related to the likely too encompassing meaning and scope of mercantilism as exposed by Heckscher (on which see Magnusson 1994), also in view of the structural difficulty of demonstrating the "unity" of mercantilist writings and of mercantilism as category or doctrine (see Blanc and Desmedt 2014). Rather, our hypothesis is that there must be a strong reason why Keynes feels free to use the mercantilist notion of "fear of goods" to support his arguments about inducement to invest, a notion which easily lends itself to criticism, owing to the intrinsic indeterminacy of its nature, its evocative power and the broad generalization it relies on. By "fear of goods", Heckscher meant that for mercantilists, belonging to an epoch of monetary economies, "it was easy to believe that commodities were a nuisance and a danger, especially as a cause of unemployment when money started to act as a 'cloak' disguising the real character of economic transactions" (Heckscher 1933: 337). "Fear of goods" was the other element of a dichotomy opposing it to the medieval "hunger for goods", or "fear of scarcity". Keynes himself significantly quotes a passage of *Mercantilism* wherein Heckscher argues that "fear of goods" is "the most natural attitude of the 'natural man' in a money economy", and that only laissez-faire has succeeded in overcoming this belief (CW 7: 350). In short, Keynes borrows the idea of "fear of goods" as socio-psychological attitude, as was for Heckscher, who presented the mercantilist mentality as characterized by a tendency to dispose of goods by whatever means (Magnusson 1994).

2. "Fear of goods" as socio-psychological attitude

It is true that the preceding quote from Heckscher could not but please Keynes, in his struggle against laissez-faire. More in general, however, that the concept of "fear of goods" might strike a chord with Keynes as critical thinker of capitalism can

be easily understood. After all, the notion has clearly to do with “money fetishism”, for it is conceived to “reflect the transition from barter to money economy” (Magnusson 1994: xxxii). And on money fetishism is based Keynes’s critique of capitalism as an economically efficient system – or, more precisely, an “indispensable” (reported in Backhouse and Bateman 2006: 659) economic system which *has* to be efficient – which is “morally inefficient” (ibid.). In Keynes’s fully anti-utilitarian ethics (see Carabelli and Cedrini 2011), capitalism is simply necessary. To attain the universally and intrinsically desirable, ultimate ends and values of “speculative ethics”, such as love, friendship, beauty, truth, and knowledge (the elements of Keynes’s Aristotelian conception of good and happy life), material and institutional preconditions are required. Capitalism (accumulation, material progress, wealth generation) is indispensable to solve the "economic problem" (CW 9: xvii) of scarcity and want, thereby which is in its turn the precondition for human flourishing. Moreover, capitalism offers a stimulus to decentralization of initiative and taste, to personal independence as well as to internationalism (Backhouse and Bateman 2011).

But capitalism is morally questionable. It is intrinsically unjust, and is both based on, and the cause of bad instincts. A social system which is “efficient economically *and* morally” is one wherein “the area of monetary comparisons” is diminished, rather than increased, with respect to capitalism, as Keynes maintained in some notes on “love of money” of December 1925 (reported in Skidelsky 1994: 240-1). Capitalism rests on the use of a “test of money measurement [which] constantly tends to widen the area where we weigh concrete goods against abstract money. Our imaginations are too weak for the choice, abstract money outweighs them” (ibid.). Hence “the sanctification of saving” (ibid.), which is evidently the great enemy of Keynes’s *The General Theory*, and the tendency to "sacrifice the present to the future", without being sure that the exchange is worthwhile (ibid.). Love of money becomes the rule. Not "love of money as a means to the enjoyment and realities of life" (CW 9: 329), but "love of money as a possession", favouring rentier-like behaviours, purposiveness and greed, “with the social appeal to the

hoarding instinct as the foundations of the necessary provision for the family and for the future" (CW 9: 268).

Note the opposition between "concrete goods" and "abstract money", coupled with the one between love of money as an end and love of money as a means (and one can substitute "modern capitalism" for love of money in this sentence, to observe, with Keynes, that "regarded as a means [capitalism] is tolerable; regarded as an end [it] is not so satisfactory", CW 9: 329). In the *Economic Possibilities for Our Grandchildren*, of 1930, Keynes describes love of money (as a possession) as "a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease" (ibid.). Also for biographical reasons, Sigmund Freud is a major influence on Keynes (see Dostaler and Maris 2009, on which what follows rests). "Fear requires a definite object of which to be afraid", famously wrote Freud in *Beyond the Pleasure Principle*, of 1920. Dostaler and Maris convincingly show how Keynes's vision of the "economic problem", with the related issues of purposiveness and liquidity, in particular, may be fruitfully analysed by means of the Freudian concepts of "fear of want" and "fear of death".

The former, the fear of scarcity, explains accumulation and growth, but also the fear of running short of money, and that of unemployment. And Keynes relates the love of money to the fear of death, by continuously referring (as Aristotle did), in his writings, to the curse of Midas. Capitalism refuses death, and in so doing, it accumulates indefinitely. As Keynes observes when dealing with animal spirits in *The General Theory*, the "healthy man" must put aside "the expectation of death" (CW 7: 162). Hence purposiveness: "the 'purposive' man is always trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time. He does not love his cat, but his cat's kittens; nor, in truth, the kittens, but only the kittens' kittens, and so on forward for ever to the end of catdom. For him jam is not jam unless it is a case of jam tomorrow and never jam today. Thus by pushing his jam always forward into the future, he strives to secure for his act of boiling it an immortality" (CW 9: 330). Hence, also, liquidity: in a monetary

economy of production, money is "a subtle device for linking the present to the future" (CW 7: 294). The preference for liquidity is but a psychological propensity of men living in conditions of radical uncertainty about the future. "The possession of actual money lulls our disquietude; and the premium which we require to make us part with money is the measure of the degree of our disquietude", writes Keynes (CW 14: 115). A "conventional or instinctive" feeling which operates "at a deeper level of our motivation", with respect to our "calculations and conventions concerning the future"; "it takes charge at the moments when the higher, more precarious conventions have weakened". (CW 14: 116).

Now, to Keynes the social philosopher, write Chick and Dow (2013), solving the economic problem meant providing "enough to allow for the good life to take precedence in our concerns over getting and spending. But as an economist, he was concerned to make the economic system work, and work better". This means that capitalism may sometimes fail even as technology, so to speak, devised by men to solve the economic problem. This is what Keynes meant in *National Self-Sufficiency*, of 1933: "the decadent but individualistic capitalism, in the hands of which we found ourselves after the War, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn't deliver the goods" (CW 21: 239). This apparently simple sentence – capitalism does not do what is required, it does not come up to expectations – may hide, in truth, multiple symbolic meanings. For it is true that the polemical target of the article, written at an epoch of prolonged depression, with the upcoming World Economic Conference in mind, was international laissez-faire, and the resulting "competitive struggle for liquidity" (CW 21: 40), on which we will come back later on. But the final element of the sequence indirectly reminds readers of the general problems that capitalisms appears to have with goods and commodities, which Keynes analysed in *A Treatise on Money* and will address later, in *The General Theory*.

3. On the problems of capitalism with goods

Remarkably, Keynes thought that capitalism has a problem with *holding*, even

before delivering, goods and commodities. In the *Treatise*, chapter 29, dealing with fluctuations in the rate of investment, Keynes concentrates on "liquid capital", that is "the goods" – raw materials, commodities, final goods – "in stock, which are yielding nothing but are capable of being used or consumed at any time" (CW 6: 116). In other words, "surplus stocks" (104), redundant stocks, which are the result of miscalculations as regards the dynamics of demand and supply (overproduction) or of the decision to be able to profit from unforeseen future opportunities. Keynes is here discussing, in general, Hawtrey's theory of credit cycle as a "purely monetary phenomenon", and criticizing him, roughly speaking, for neglecting the difficulties of expansionary monetary policy in extracting the additional goods required to satisfy consumers without causing inflation. Hawtrey believes that "dealers in commodities who are holding part of their stock in trade with borrowed money are very sensitive to changes in bank rate and are easily induced to reduce their stock by a higher bank rate and to increase them by a lower rate" (117). Wrong, writes Keynes: "before the slump has touched bottom the decrease in working capital far outstrips any increase in liquid capital, with the result that the liquid stocks existing at the bottom of the slump only suffice to provide for the very earliest stages of the recovery" (118).

Of particular interest for our purposes is that the (three) reasons why the fluctuations of liquid capital cannot assist as required in compensating the fluctuations of investment in working capital include "the heavy costs of carrying them" (ibid.). Carrying costs derive from four factors: first, deterioration in quality and suitability (a problem of "unpredictability of the precise specifications which will be required when demand recovers", 121), which causes that such goods "cannot be carried in stocks except at the risk of such heavy loss"; second, warehouse and insurance charges (lack of storage facilities); third, interest charges; fourth, remuneration against the risk of changes in the money value of the commodity. As regards this last point, Keynes observes that the risk is unpredictable: "the anticipated normal price, and also the length of time which will elapse before stocks are absorbed, are matters, not of certainty, but of conjecture" (ibid.). "Here there is

a risk which someone must bear" (ibid.), writes Keynes, adding that the price must fall by a great amount if it is to provide the carrying charges for the period before the stock is reabsorbed, and the incentive to speculators to hold stocks of commodities (and run the related risk) with them.

For speculators, who in organized markets act essentially as risk-bearers (Fantacci et al. 2012), this rate of anticipated profit is surely "very high" (123). For instance, "six months' stocks of an important commodity represent an enormous sum of money", while "the amount of capital available for speculative operations of this kind is limited". Moreover, in case of slump, "outside speculators are discouraged and timorous, whilst professional dealers in the commodity are impoverished" and cannot tolerate "considerable" brokerages and other dealing expenses, "even in the broadest and steadiest markets" (ibid.). In sum, Keynes is directing the attention towards peculiar commodities, requiring strategic treatment by specialised dealers in organised markets, which may be inexistent, as inexistent are futures or complete markets. Speculators cannot bear the risk related to long term holding period stocks, and price fluctuations should be simply too high, to allow them to bear it. Moreover, markets present a "short-period organisation" (125) which cause redundant stocks to exercise "a disproportionate effect on prices and therefore on new production: such stocks exercise a tremendous pressure on the market to get themselves absorbed as soon as possible" (ibid.).

Forward markets do exist, however, for some, at least, of the goods that make up liquid capital: commodities and raw materials. Still, these are markets characterized by excess supply and redundant stocks, where, that is, the "normal conditions" (that is, when demand and supply are balanced, 128) which should ensure backwardation are in truth not present (Fantacci et al. 2010). Forward prices rise therefore above the spot prices, creating a "contango" (129) equal to the sum of the costs of warehouse, depreciation and interest charges of carrying the stocks. Therefore, the existence of futures markets does not prevent, and might not be sufficient to avoid, significant fluctuations in spot prices, which due to contango, expose speculators to potential losses that are more likely and more costly;

moreover, it raises further uncertainty (and risks to be bore) as to the fundamental prices of commodities (see also Rivot 2014). To conclude: "owing to the existence of high carrying charges of one kind or another, our present economic arrangements make no normal provision for looking after surplus liquid capital" (129-30). To use words that are more evocative, "our present economic system abhors a stock of liquid goods. If such a stock comes into existence, strong forces are immediately brought into play to dissipate it. The efforts to get rid of surplus stocks aggravate the slump, and the success of these efforts retards the recovery". This, Keynes remarks, introduces "an important factor of instability … into our economic life" (130).

The General Theory shows that in Keynes's vision, capitalism has a general problem with holding goods, and it has one with investing in capital assets, which include stock and commodities. A fear of goods that derives from the excessive, unbearable risks of carrying commodities, amplified by the conditions of radical uncertainty about the future in which economic agents – including those who *should*, in "normal conditions", be able to bear those risks – operate. Stocks are kept to a minimum, and cannot contribute to recovery. A possible response to this unsatisfactory state of affairs lies in what Keynes defined, in the *Treatise*, as "concerted action" (124): someone has to manage money and commodities, as happened in wartime, when Governments directly held stocks: "in certain cases valorization schemes to provide by concerted action for the carrying of costs are inevitable and defensible" (126). For sure, laissez-faire is the problem, not the solution. A growing recent literature (having in Dimand and Dimand 1990 a relevant antecedent; see Fantacci et al. 2012, and Rivot 2014) sees in Keynes's proposals of buffer stocks agreement a powerful illustration of how Keynes's theory may effectively address the capitalist fear of goods.

In chapter 17 of *The General Theory*, Keynes deepens the understanding of the fear of goods treated in *A Treatise on Money*. The high carrying costs of commodities are shown to play a fundamental part not only in delaying recover from a slump, as in the *Treatise*, but in causing underemployment and the related impossibility, in laissez-faire conditions, to escape a suboptimal equilibrium. Since it is impossible

to derive profits from producing new capital goods whenever the rate of interest exceeds the marginal efficiency of capital, these latter are simply not produced. This owes exactly to the carrying costs of commodities, that are excessive if compared with money, which, on the contrary, offers the advantage of (much) higher liquidity. As Keynes remarks, "what matters is the *difference* between the liquidity-premium and the carrying-costs" (CW 7: 237); "and in the case of most commodities … the carrying-costs are at least as high as the liquidity-premium" (ibid.). In a monetary economy of production, a money-wage economy wherein the interest rate is not the *deus ex machina* providing stability to the system by adjusting investment to saving, barter, contrary to what classical and neoclassical economics maintains, is an "illusion" (Dillard 1988). In a world characterized by uncertainty, especially as regards the prospective yields from investing in durable assets, money acts also as store of wealth, and liquidity (differently from risk) offers a premium which increases the "sense of comfort and confidence" (CW 29: 294). This peculiar concept is illustrated in the famous letter to Townshend of 1938, where Keynes, drawing on his *A Treatise on probability*, distinguishes between risk premium and liquidity premium. While risk premium, in fact, which Keynes associates with probability strictly speaking, "is expected to be rewarded on the average by an increase return at the end of the period" (293), liquidity premium "is not even expected to be so rewarded" (ib.). This is because Keynes associates this notion with what in the *Treatise* is defined as "weight of the argument", that is "the amount of evidence upon which each probability is founded" (CW 8: 312). Therefore, liquidity premium "represents the sacrifice to which we consent in terms of prospective yield to insure ourselves against a change of value of [the] asset because of a revision of our expectations – the extent of this revision being as yet unforeseen" (Rivot 2014: 403).

"The weakness of the inducement to invest has been at all times the key to the economic problem" (CW 7: 347-8). Fear of goods manifests itself in various forms, in a monetary theory of production. For instance, in the chapter on mercantilism, Keynes tells us that "to-day the explanation of the weakness of the inducement [to invest] may chiefly lie in the extent of existing accumulations; whereas, formerly,

risks and hazards of all kinds may have played a larger part" (348). "But the result is the same. The desire of the individual to augment his personal wealth by abstaining from consumption has usually been stronger than the inducement to the entrepreneur to augment the national wealth by employing labour on the construction of durable assets" (ibid.). In truth, as Keynes himself shows in his writings concerning the Great Depression, from "The Great Slump of 1930" to *The General Theory* itself, risks and uncertainty truly play a fundamental role, when capital goods are produced with borrowed money (see Carabelli and Cedrini forthcoming). He saw the "fundamental cause" of the crisis in "the lack of new enterprise due to an unsatisfactory market for capital investment" (CW 9: 131): this derived from the "attitude of lenders", who asked for terms which were simply unbearable for borrowers, but also by the combined attitude of lenders and borrowers. A "wild gulf" (132) of ideas separated them, with the result that savings were used to finance losses instead of new capital works. "Borrower's risk" (CW 7: 144), in the jargon of *The General Theory* – where borrowers, as always with Keynes, are the productive elements of the society – was "a real social cost" to which one should add "lender's risk", as a "pure addition" and even a "duplication" of a proportion of it.

Uncertainty and risk cause investment to lie well below the social optimum. Reducing them would amount to raising income and employment, lowering liquidity preference and the demand for money, and finally, lowering interest rates. Lenders prefer a short-term habitat, which, in a society wherein economic prosperity "is excessively dependent on a political and social atmosphere which is congenial to the average business man" (162), goes to the detriment of the production of capital goods through borrowed money by entrepreneurs who act on the bases of expectations about the future. In *The General Theory*, Keynes believes that the influence of uncertainty over investment decisions is simply overwhelming. The marginal efficiency of capital is the factor through which, mainly, "(much more than through the rate of interest) … the expectation of the future influences the present" (CW 7: 145). The rate of interest itself, being essentially a monetary

phenomenon, is an expected magnitude, reflecting “the uncertainty of the future” (CW 7: 145, n1). “Uncertain knowledge” (CW 14: 113) compel investors to embark on investment as “way of life” (CW 7: 150), so that their decisions are the result of a complex of motivations made up of conventional judgements and intuitions, or “animal spirits”.

4. Keynes’s commodities plans: government storage and buffer stocks

The solution lies in concerted action. Hence the proposal (made by Keynes in *The General Theory*) of socializing investment: by providing stability, this measure lowers risk, eliminates moral hazard, thereby lowering lender's risk, and stimulates investment itself. Hence also the proposal of a monetary policy that, by adequately managing long-term expectations, sets the “euthanasia” (CW 7: 376) of rentiers as its ultimate objective. Hence also, as regards the more specific problem capitalism has with holding goods, the proposal of buffer stock agreements, to counteract fear of goods in a direct way. As Fantacci et al. 2012 argue, Keynes was an active supporter of government storage of raw materials and foodstuffs. Already in 1926, he saw them as possible solutions to the “inability of the market to carry surplus stocks” (CW 29: 549), able to “supplement the deficient carrying power of the market” (550). But Keynes himself was the author of a buffer stock scheme, presented in 1938, and then of the “Commodity control” plan, for the Bretton Woods order, both aiming, in general, at stabilizing commodity prices with the expressed aim of reducing producers’ risks and of smoothing the trade cycle (Dimand and Dimand 1990). In fact, as early as 1923 (as demonstrated by a memorandum on “Stocks of Staple Commodities” edited for the *London and Cambridge Economic Service*) was Keynes aware of the general character, so to speak, of the evils of price fluctuations (coupled with the preference for money as store of value) in commodity markets. Fluctuations in fact generate a significant demand for credit by both producers and traders, to cover carrying costs for the period until stocks reach final consumers. Rises in commodity prices thereby

increase the cost of credit, and produce the conditions for a possible crisis (see Fantacci 2013).

In the 1938 scheme, the core of the *Economic Journal* article "The Policy of Government Storage of Foodstuff and Raw Materials", Keynes developed a scheme to promote private storage in public warehouses. Government storage, according to Keynes, could significantly reduce costs, and be cheaper than private storage (with lower risk of default, reduced borrowing costs, and relevant economies of scale; see Dimand and Dimand 1990). Depositors would be allowed special conditions: absence of warehouse charges (they would be subject to nominal charges only) and the possibility to profit from an (interest-free, or low-interest) advance by the government up to 90% of the market price of the stocked commodities. In Keynes's opinion, the scheme presented "the policy of holding liquid stocks of raw materials as a natural evolution of the policy of holding liquid stocks of gold outside the banking system" (CW 21: 469). Once indirect rather than direct (these latter consisting in lowered carrying-costs and price fluctuations, with significant increase in private holding of stocks) effects of such measures are considered, Rivot (2014) argues, the plan appears to achieve multiple objectives. First, future prices become more predictable, and the liquidity premium of commodities are greatly increased; second, private holders can now avoid insuring themselves against liquidity risk – the insurance premium results greatly reduced. In short, the proposal amounts to increasing the liquidity premium of surplus stocks of commodities, by raising confidence in expectations: while public authorities must lower the liquidity premium of money through adequate monetary policy, buffer stocks reduce carrying-costs and thereby increase the liquidity premium of commodities (ibid.).

The Commod Control proposal prepared by Keynes (between January 1942 and February 1943; see Hirai 2009) for the postwar period transfers this line of reasoning to the international level. The main idea was that international buffer stocks would limit price fluctuations for a set of key commodities. International organizations (Commod controls) composed by representatives of producing and

consuming countries and managed by technical, independent experts would fix the initial basic price following the existing conditions and adjust it by selling and buying at a price within 10% below or above the basic price. Keynes had introduced the 1938 proposal of private storage in public warehouses noting that "it is an outstanding fault of the competitive system that there is no sufficient incentive to the individual enterprise to store surplus stocks of materials, so as to maintain continuity of output and to average, as far as possible, periods of high and of low demand" (CW 21: 456). Still, it clearly showed sign of Keynes's attempt to devise, to use words he himself later wrote in presenting the Commod control, "a middle course between unfettered competition under laissez-faire conditions and planned controls which try to freeze commerce into a fixed mould" (CW 27: 111). The Commod Control scheme is more explicit, in this regard. Stabilization should merely "avoid the dire consequences of free market mechanism" (Fantacci et al. 2012), which tends to ensure "the quickest, but at the same time most ruthless, adjustment of supply or demand to any change in conditions, however transitory" (CW 27: 131). But the aim was exactly the same, namely to increase the liquidity attached to commodity stocks.

5. Fear of goods at the international level

The explicit connections established by Keynes between the Commod control scheme and the plan for an International Clearing Union are not to be overlooked. As Fantacci et al. (2012: 463) maintain, "one of the main feature of the Clearing Union was to charge a fee on positive accounts of surplus countries, thus introducing a sort of carrying-cost on international money balances. The two institutions, Commodity Control and Clearing Union, were therefore intended as complementary and synergic solutions to the major causes of instability indicated in Chapter 17 of the *General Theory*".

This ideally brings us back to the problem of fear of goods in relation to mercantilism. Let us recall the above quote from *National Self-Sufficiency*, where Keynes states that capitalism may fail to deliver the goods. In the article, Keynes

comes to accept national self-sufficiency as "a luxury we can afford if we happen to want it" (CW 21: 238). In his words, "there is no prospect for the next generation of a uniformity of economic systems throughout the world, such as existed, broadly speaking, during the nineteenth century; … we all need to be as free as possible from interference from economic changes elsewhere, in order to make our own favourite experiments towards the ideal social republic of the future; … a deliberate movement towards greater national self-sufficiency and economic isolation will make our task easier" (241). Now, the background picture is, as said, that of a decadent international capitalism, lacking a true global leadership, wherein self-regarding economic behaviours has become the norm, owing to the "selfishness and folly with which the international gold standard is being worked. Instead of being a means of facilitating international trade, the gold standard has become a curse laid upon the economic life of the world" (CW 20: 600). Creditors countries were acting as functionless rentiers, hostile to long-term investment and unwilling to lend their surplus "as Great Britain used to do in the past" (ibid.).

The only countries who could dispense with building up excessive reserves, in the interwar gold standard, were conversely hoarding resources, bringing about "a big increase in liquidity preference" (Skidelsky 2009: 180) at the international level. More precisely, however, they were deepening "fear of goods" attitudes. At least, this is what Keynes writes in an article of April 1932 divulging a "philosophic reflection on these matters" (CW 21: 78). To represent metaphorically the United States hoarding behaviour, Keynes told the story of "a Senator from the Middle West who cried in a loud voice to Europe: 'We do not want your goods. We will not have your bonds. We have already got your gold. What we want is your money'. The Senator may be mythical, but there still remained a logical alternative left to Europe which he overlooked, namely, for the rest of the world to get on as best it can without buying the exports of those countries which have an unbalanced creditor position" (ibid.). The solution Keynes had exposed in a previous article of September 1931, immediately after sterling's devaluation: on creditor countries "will fall the curse of Midas. As a result of their unwillingness to exchange their

exports except for gold their trade exports will dry up and disappear until they no longer have any either a favourable trade balance or foreign deposits to repatriate" (CW 9: 247).

Mercantilism was the essence of the early Thirties: creditors had caused a "competitive struggle for liquidity" (CW 21: 42). Each government was trying "to make its international balance sheet more liquid by restricting imports and stimulating exports by every possible means, the success of each one in this direction meaning the defeat of someone else. Moreover every country tries to stop capital development within its own borders for fear of the effect on its international balance. Yet it will only be successful in its objects in so far as its progress towards negation is greater than that of its neighbours" (40). Keynes had already advanced, in the past, strong arguments against mercantilism, both as individual (defensive or aggressive) strategy and as widespread practice in an international system. In *Indian Currency and Finance*, of 1913, while proposing a European monetary reform along the lines of India's gold exchange standard, he had criticised the "prejudice" about gold reserves stemming directly from ("various stirring of") "the original sin of mercantilism" (CW I: 125-26). Discussing the irrationality of India's exchange reserves policies, he argued that gold reserves are to be used, not shown, "in times of difficulty, and for the discharge of pressing obligations" (125). Still – note that he would have made the same point ten years later, in *The Monetary Reform* – "wonderfully few . . . countries have yet learn that gold reserves, although no doubt they serve some purpose when they are held for show only, exist to much better purpose if they are held for use also" (ibid.).

Keynes had described the enormous accumulation of gold reserves before the 1914 crisis as the combined result of "blind fashion" (CW 11: 312) and of pre-war currency arrangements: his aim was to promote a monetary reform imposing "schemes conceived by the mind" on "undesigned outcome[s] of instinct" (CW 17: 453). But the above-mentioned condemnation of creditor countries in the early Thirties have find other antecedents in Keynes's approach to international finance at the end of World War I, wherein one can find the bases of his criticism of

mercantilism as *modus vivendi* in an international setting. While advancing his proposal of Inter-Allied debts cancellation as means of solving the problem of German reparations and revamping international trade on sound bases, thereby contributing to European recovery, Keynes warned the United States that the policy of exacting payment of Allied debts would have finally damaged America's own interests (in general, see Carabelli and Cedrini 2010a). The United States should be prepared to "scrap" her own export industries, without even being sure that the Allies would pay (CW 17: 274). The same for European creditors: by "milking" Berlin, obliging Germany to develop a trade surplus to pay reparations, the Allies would have damaged their own export industries, to the detriment of their own workers.

And Keynes did his best as negotiator to overcome the impasse of food supply to Germany (the French position was that Germany should not use for food foreign reserves or gold that might be available for reparations) at a time of naval blockade on the part of the Allies, at the beginning of 1919. It is Keynes himself to explain his role in the episode in *Dr. Melchior. A Defeated Enemy* (see also Elcock 1975). The episode involved a typical "fear of goods" problem: the armistice left the Americans with redundant surpluses of grain, pork, oils and diary products, which should be disposed of, to avoid collapses in domestic prices (Broehl 1992). It was Keynes to unblock the impasse, by persuading Lloyd George to struggle French resistances. Curiously enough, Keynes offered a vivid ironic representation of the American surplus pork as conceived by Hoover, later president of the United States, at the epoch Food Administrator. The passage perfectly symbolizes the nature of such surplus as unwanted, and something to fear: "when Mr Hoover sleeps at night", Keynes wrote, "visions of pigs float across his bedclothes and he frankly admits that at all hazards the nightmare must be dissipated" (CW 16: 394).

In 1919, Keynes argued that without an all-round cancellation of Inter-Allied war loans, "a serious obstacle will exist to future trade relations between the Allies (424): Britain should necessarily attempt to stimulate exports to the United States and imports from the Allies, and therefore oppose trade flows in the opposite

direction. *Tertium non datur*: London should choose, in the future, between importing US goods and repaying interests on the American Debt. "If we are to be repaid, we can only be repaid in goods; if we are to repay, we can only repay in goods; which means that trade must be mainly one way" (ibid.). A schizophrenic America, determined to exact payment of the European debts but undisposed to renounce its policy of export stimulation, should then inevitably choose between debt forgiveness and "buy more and sell less" (CW 17: 275). A "severe" rather than moderate readjustment, "injurious to important interests" (276), would have compelled European countries to devalue their currencies and to "disorder" (277), as a consequence, US export industries. But the American foreign lending policy that, in the following decade, helped to smooth the required adjustment was only a memory in the early Thirties. Keynes forecasted that the undermining of creditor countries' competitiveness would be the obvious effect of their mercantilist policies – a "response to their own request; – or, at any rate a case of poetic justice" (CW 21: 45). This time, the Americans had "willed the destruction of their own export industries … The United States had, in effect, set the rest of us the problem of finding some way to do without her wheat, her copper, her cotton, and her motor cars. She set the problem and, as it had only one solution we have been compelled to find" (CW 9: 248-49).

Now, it would be easy to retrace in *National Self-Sufficiency* Keynes's solution for this generalized conflict, brought about by uncertainty and the prevailing of conventions – of which fear of goods, protection and accumulation of reserves are perfect illustrations. It is not so. In *National Self-Sufficiency*, Keynes exposes a philosophy of "practical protectionism", as Radice (1988) aptly calls it, stating that full employment in national economies is the primary objective, and may even require, the case being, protection. Where "the case being" means that the international system may function in such a way as to repress, rather than safeguard, the policy space each nation requires to protect its social contract and manage its economy. Protection may go, therefore, in reaction to an interwar gold

standard lacking responsible leadership and "submitting national wage-policies to outside dictation" (CW 26: 33).

But fear of goods, at the international level, is a problem in need of a solution: mercantilism is a wrong solution stemming from a correct analysis of the problems of capitalism. It may work in the short run and as individual solution, but yields in the longer run, when it proves to be a self-defeating strategy. In *The General Theory*, Keynes presents it as a possible way out of the "dilemmas of the international system" dealt with in *A Treatise on Money*, opposing the advantages of the stability of national currencies in terms of the international standard to the benefit of national autonomy over the domestic rate of interest. In modern jargon, says Kregel (2008), the dilemma concerns exactly policy space. The true solution to the dilemma, however, lies in the core of *The General Theory* itself: "It is the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum level of domestic employment which is twice blessed in the sense that it helps ourselves and our neighbours at the same time. And it is the simultaneous pursuit of these policies by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment or by the volume of international trade" (CW 7: 349). However, the heterogeneity of policy required to implement such national programmes in an international environment demands, in its turn, "international management", without which "the task of individual governments would become indefinitely more difficult". Countries need to operate "within a framework of international institutions planned and managed for the common good" (Cairncross 1978: 46).

Now, Keynes presents the results of the application of *The General Theory* to the international environment in the terms of a radical alternative to mercantilism. "If nations can learn to provide themselves with full employment by their domestic policy … there need be no important economic forces calculated to set the interest of one country against that of its neighbours … International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by

forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantages" (CW 7: 382-82). In short, fear of goods and mercantilism need to be eliminated. In this light, notwithstanding necessary qualifications on his actual support to this "philosophy" (on which see Skidelsky 2003), Keynes's references to Schachtianism in the proposal of an International Clearing Union (ICU; the first draft dates back to September 1941) cannot but strike the imagination.

6. From Schachtianism to the International Clearing Union

Keynes presents the ICU as a satisfactory approach to the "secular international problem" (CW 25: 21) of disequilibria in the balance of payments, which only the reasonableness of Britain as world creditor and leader had succeeded in solving during the harmonious pre-war gold standard. The "intensive laboratory experiment" (ibid.) of the interwar period had offered only one successful attempt to get rid of those "laissez-faire currency arrangements whereby a country could be bankrupted, not because it lacked exportable goods, but merely because it lacked gold" (CW 25: 12). Keynes had in mind the system of bilateral payments agreements with capital controls established by Hjalmar Schacht, Hitler's Minister of economic affairs between 1934 and 1937, with European and Latin American countries, to conduct trade without foreign exchange, as an international barter centred on Berlin. What Keynes found revolutionary in the "Schachtian system", admittedly a source of inspiration for his own plans, was the clearing principle on which it rested.

True, having constructed the world economy of the gold standard, Britain had already come, de facto, to a Schachtian solution by 1940 (Skidelsky 2003), with the aim of fighting the war as financial pivot of the anti-Nazi alliance. Sterling area countries had in fact accepted to centralize reserves in London, and sterling

balances were inconvertible into hard currencies; Britain had negotiated bilateral agreements with neutral countries in Europe and Latin America. And Keynes's appreciation of Walter Funk's "New Order", the post-war economic system imagined by the economics minister of the German government, must evidently be put in context. Keynes could but praise the virtues of a plan that, explicitly rejecting the laissez-faire solution, avoids imposing undue pressures on debtor countries, and prevents undesired capital flows from debtor to creditor nations. Moreover, as Mini (1994) has observed, Keynes's Schachtianism owes to the need to imagine a world left alone by the United States, which he felt, with pessimism, after his 1941 visit to the country (Moggridge 2002). But Funk's plan – Germany would establish a payments union with fixed exchange rate and free multilateral trade (made possible by the clearing principle) within the area; imports from the United States would perfectly matches in value exports from the area – had in Keynes's view a meritorious potential. That is, it revamped "the virtue of free trade", which depends on "international trade being carried on by means of what is, in effect, *barter*" (CW 25: 8), whereas "after the last war *laissez-faire* in foreign exchange led to chaos" (ibid.). Keynes saw in fact the "essence of the [New Order] system" in "trading goods against goods" (12).

In a draft attached to the *Proposals to Counter the "New Order"*, and later in a letter to Ashton-Gwatkin of the Foreign Office, Keynes exposed his desiderata for the post-war system, clearly inspired to the "sound and good idea" (8) of Schacht and Funk. Remarkably, in describing how to adapt Funk's plan to a Britain-led non-authoritarian scenario, Keynes made reference to the clearing principle to foster multilateral free trade within the area. Britain "will open all our markets to every country, great or small, alike, and will give equal access for each to every source of raw material which we can control or influence, on the basis of exchanging goods for goods" (12). And London would act so as to promote employment in other countries, by "radical measures" (ibid.). Moggridge (1992) is right in regarding the plan as an anticipation of the International Clearing Union. For the purposes of the present article, the process that led Keynes to recommend the adoption of the ICU

plan is remarkable also for other reasons. The story of the planning of Keynes's schemes for global reform intertwines with that of his attempts to secure American financial assistance to the new alliance against Germany. In a 1939 memorandum destined (but never sent) to President Roosevelt, Keynes endeavours to establish a principle of "common cause" for the new financial arrangements between the Allies. His suggestion to the "Four empires" was to establish a "joint purchasing board for the proper regulation of prices and profits" (CW 22: 26) based on a structure of interest-free credits. America's credits should not be repayable, he added, for they "should constitute a part of the contribution of the United States to the post-war reconstruction of Europe" (27).

Remarkably, Keynes asked the United States to support a plan of 'unprecedented generosity' (28) – words directly borrowed from the *Economic Consequences of the Peace*, and with the same intention, that of persuading the United States of the need of an "act of farseeing statesmanship" (CW 2: 93; see Carabelli and Cedrini 2010a). The Americans should provide further gold resources as a "measure of responsibility ... for the terms of peace" (CW 22: 28), to be used as bank reserves in the countries to be reconstructed. On that occasion, Keynes branded the existent American gold stock as "lunatic" (27). The same term he had used to explain preference for liquidity (and stigmatize, at the same time, rentiers-like attitudes) when wondering "why should anyone outside a lunatic asylum wish to use money as a store of wealth" (CW 14: 116). The United States did not accept to be part of the scheme. But all this is indicative of how Keynes regarded the gold stock accumulated by the Americans in the intewar period. An element of the Funk plan he certainly liked was that the American gold stock would become useless in the New Order. After all, as Keynes himself had observed, "the U.S.A. already hold the greater part of the gold in the world. The only value of gold is as a means of settling international balances. If the convention – for it is no more – by which gold is used for this purpose comes to an end, the U.S. Stock of gold becomes valueless. But the convention depends on not all the gold being in one hand. When in the game of 'Beggar my Neighbour' all the cards belong to one player, that is the signal

for the game to come to an end. The pack becomes worthless paste-board; the fun is over” (CW 22: 25-26).

All this serves also to say a few words about the relationships between the Commod Control plan and the ICU. This latter aims at multilateralizing international imbalances. The ICU issues a newly created bank money (bancor) as the new international unit of account destined to serve as the ultimate reserve asset of the system. Bancor can be held only by central banks of participating member states and be exchanged between central banks and the ICU itself (so that individuals cannot hoard it as a store of value). Member countries keep therefore their national currencies domestically, but are assigned a current account denominated in the new standard, without having to previously subscribe capital to the institution. The idea behind the plan is to apply to the international level the essential principle of banking of “the necessary equality of credits and debits, of assets and liabilities. If no credits are removed outside the banking system but only transferred within it, the Bank *itself* can never be in difficulties” (CW 25: 44). Each nation can draw up to its own bancor quota, equal to half the average value of its total trade for the last five pre-war years. Deficits and surpluses are settled through centralized clearing accounts: the ICU grants credit in the form of overdraft facilities that finance trade deficits and thereby help global trade to expand on multilateral bases. The ICU can thus create reserves in such an amount as to accommodate the needs of international trade from surplus to deficit countries.

Ultimately, the plan aimed at reabsorbing imbalances. Creditors should therefore share the adjustment burden with debtor countries, as the only possibility to “make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces" (CW 25: 449). Therefore, the scheme allows and, the case being, requires creditor countries to revalue their currencies and unblock foreign investments. Credits exceeding in amount a quarter of their quota are charged rising interest rates; those exceeding the quota itself at the end

of a year would have been directly transferred to the ICU. Symmetrically, debtor countries are allowed or asked to devalue their currencies, to sell gold and to prohibit capital exports; their excessive debts are charged interests, though lower than those applied to creditors' excessive balances. The proposal envisages therefore fixed but adjustable exchange rates.

As Keynes himself observed, everything in his plan was ancillary to the re-establishment of multilateralism. To secure this result, he believed it necessary to prevent rentier-like forms of behaviour, by making the possession of capital of little, if any, importance. Creditors were asked to use, or make available to deficit countries for purposes of adjustment, those resources that they may otherwise leave idle. But they would be free to choose how to employ surpluses – expansion of credit and domestic demand, wages increase, abatement of trade restrictions or foreign lending for development – and would gain access to wider markets, while exerting "an expansionist, in place of a contractionist, pressure on world trade" (CW 25: 74; see Davidson 2009). Now, Keynes's holistic approach to the problems of international economic relations endows the world with a veritable "global macro-manager" (Skidelsky 2005: 21). The ICU scheme included a series of ancillary international institutions engaged in combating the evils of the trade cycle, to be financed by extra overdraft facilities, transfers from the Reserve Fund of the ICU, and by direct contributions by surplus countries. Keynes envisaged a Relief and Reconstruction authority, a Board for International Investment or Development Corporation, a Super-national policing body; and, finally, the scheme for commodity stabilization.

As Harrod observed, the synergy between the ICU, the Commod Control and the International Investment Board was quite natural: rather, "it is clearly important", he argued, "that the measures devised by each of the three institutions should be part of a common concerted policy" (reported in Fantacci 2013: 25). Concerted policy: the solution to fear of goods. "Together with the Clearing Union and the Investment Board, the Commod Control would have been an instrument of monetary policy. The buffer stock would have acted as a sort of official reserve:

an increase would have implied a monetary expansion and any decrease a contraction" (Fantacci 2013: 25). The Bank of England strongly opposed the idea that the ICU could fund the buffer stocks, claiming that creditor countries should not be obliged to entrust the newborn ICU with their reserves, all the more so if locked up in commodities. As Fantacci (2013) explains, however, the Bank was here completely missing the revolution of Keynes's plan. Which is, in our view, the revolutionary result of his multidimensional struggle against fear of goods. Credits, in fact, "only arise thanks to the existence of the clearing centre: just as the latter affords debtor countries the facility of spending money that they have not previously earned, symmetrically it allows creditor countries to sell goods or services that they would not have otherwise been able to sell. In other words, the 'reserves' kept with the clearing centre exist only thanks to the clearing centre itself. That said, if part of those assets are backed by commodities, it should be all the better for the safety of the creditors" (Fantacci 2013: 26). And the world, we add, would have killed two birds (perhaps more) with one stone.

7. In guise of a conclusion

A concept borrowed from Heckscher without excessive (euphemism) consideration for the accuracy of the historic reconstruction proposed in *The General Theory* chapter on mercantilism, "fear of goods" may perhaps play the role of organising concept, in Keynes's economics. At least, what this paper has tried to demonstrate is that the expression may be taken as an encompassing notion, establishing strong connections between concepts that are apparently only weakly related in Keynes's thinking. On the contrary, Keynes's overall work against the "economic problem" is truly one (though not exclusively) against the "fear of goods". To summarize: while the literature has rightly insisted on liquidity preference, and in general the troubles caused by liquidity itself as a characteristic of money in a monetary economy of production, it seems possible and useful to consider also the other (real) side of the problem. Keynes saw "fear of goods" as a (Freudian) "socio-psychological" attitude naturally favoured by laissez-faire capitalism, with its stress

on purposiveness and love of money for money's sake rather than for enjoying the fruits of prosperity. He also pointed out that capitalism has an economic problem with goods, owing to the enormous risks and the uncertainty inherent to holding goods in a market economy that wants to dispose of redundant stocks, even thought, in a medium-long run, such surpluses do contribute to recovery or, more in general, to national welfare.

Keynes's philosophy of solution to these evils rests on the concept of concerted action. Once again, while the literature tends to concentrate on socialization of investment and anti-rentier monetary policy, this paper has focused on the more specific but illustrative proposal of buffer stock agreements to counteract "fear of goods" directly. This brings us ideally back to the use Keynes makes of "fear of goods" to discuss the need to find an alternative to mercantilism as *modus vivendi* in a global environment, one that offers a way out of the dilemmas of the international system, but cannot raise to the status of generalized rule of the system itself. "Fear of goods" thus becomes an explanatory concept for Keynes's fascination for the Schachtian solution of recurring to international barter, bypassing the role of money in international trade, but also, and above all, for his attempt to construct a new global order wherein mercantilism itself, (as – but more importantly – bilateralism, to borrow from Williamson 1983) is simply unnecessary. This means that the roots of the International Clearing Union Plan are truly to be found in chapter 23 of *The General Theory*, although the closed-economy analysis of the volume may induce to opposite conclusions.

It seems reasonable to argue that the Bretton Woods world, shaped not by Keynes's reform plans but by Harry Dexter White's fully "American" schemes, has functioned nevertheless very well. This owes to the American pragmatism, which led the Administration to follow, *de facto*, Keynes's recommendations about the need of a responsible creditor at the international level. After defeating Keynes even in the negotiations of the American Loan (see Carabelli and Cedrini 2010b), the United States contributed to revive world economy by granting the Marshall plan to a distressed Western world, thereby helping Europe and Japan to adopt successful

export-led growth policies. The mercantilist flavour, to a certain extent, of the adopted solution made a great service to world growth, both because, as said, the Americans accepted their responsibility of world creditor power (see Davidson 2009), and because the Bretton Woods system raised "embedded liberalism" to the status of guiding philosophy of global integration in the post-war period (see Rodrik 2011).

Conversely, the last decades of global history since the demise of the Bretton Woods system have witnessed a return to troubled economic dynamics of the kind of those Keynes tried to counteract in his work of international economist and negotiator. Thus, the Washington Consensus philosophy has produced "a global environment where *each* nation independently sees significant national advantages in a policy of export-led growth" (Davidson 2004-5: 213), despite the evident resulting fallacy of composition. It "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" (217). The current Eurozone impasse is de facto imposing the German mercantilist model (see Uxó, Paúl and Febrero 2012 for a discussion of Germany's "malevolent" mercantilism) to the whole continent, despite the practical impossibility to generalize it. This shows that "fear of goods" cannot be a solution, all the more so in an economic environment that has voluntarily adopted, with the triumph of the austerity doctrine, an explicitly anti-Keynesian model of *dis*embedded liberalism. In view of all this, an old, abused, and equivocal notion such as that of "fear of goods" as used by Keynes in his work might be really worth rediscovering.

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