Annals of the Fondazione Luigi Einaudi
Volume LI, June 2017: 249-268

ON THE RELEVANCE OF KEYNES TO THE CONTEMPORARY WORLD: POST-CRISIS VIEWS ON ECONOMIC POLICY, CAPITALISM AND INTERNATIONAL MONETARY REFORM

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ABSTRACT

The 2007-8 crisis revived interest in the ideas of John Maynard Keynes, contributing to the emergence of a new vast literature about him. This work samples part of this literature, focusing on a series of books, which discuss Keynes's views on economic policy, theory, capitalism and international monetary reform. The main conclusion emerging from this reconstruction is that Keynes's ideas, with their insistence on uncertainty, stabilization, and fairness, offer relevant insight and possible solutions to many of today's economic problems at the national and international level. Naturally, this offers no guarantee that the current Keynesian revival will last. Many obstacles exist in this direction, from the resilience of prevailing economic doctrines to the persistence of the *status quo*. Overcoming these obstacles, as Keynes himself would suggest, will require a disposition to experiment and "be bold", drawing inspiration from Keynes's pragmatism, sense of history and strong ethical vision as well as from his economics.

Keywords: Keynes, Uncertainty, Stabilization, Global imbalances, Love of money.
JEL codes: B31, E12, F33.

Introduction

Ten years ago, the US subprime crisis plunged the world economy into financial turmoil and recession. This triggered the prompt response of gov-

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ISSN: 2532-4969
doi: 10.26331/1012

ernments and central banks. Monetary conditions became very expansionary and remain so to the present day. Budget deficits and government debts increased significantly, determining, in some cases, confidence crisis and the need for rapid rebalancing. Large external imbalances, which had appeared before the crisis, contributed to raising tensions between creditor and debtor countries. On a different level, the crisis exposed the vulnerability of developed and emerging market economies, alike, to poor regulation, conflicts of interest, distorted incentives and inadequate risk assessment.[1]

The global meltdown, and the policy remedies adopted to contrast it, have sparked new interest in John Maynard Keynes and his ideas about the fragility of capitalism and the stabilizing role of governments:

> After the 2007-8 crisis, the name of Keynes is back on the list of economists deemed worthy of being read again and listened to for their ideas, which is recommendable to follow. After a ban lasting 25 years, spent praising markets and econometric tests, whose aim was to prove the inefficacy or, even worse, the irrelevance of economic policies, Keynes has reappeared in the media, if not on the mainstream academic scene, which continues to be that of the anti-Keynesian restoration, which began in the 1970 and 1980s (Marcuzzo 2017, *our translation*).

In an economy where rational agents react to shocks and formulate optimal inter-temporal plans, based on rational expectations and probabilistic knowledge of the future, efficient allocation naturally obtains, unless market imperfections (e.g. imperfect competition, information asymmetry, price rigidity) prevent this from happening. In this context, price stability, balanced government budgets, low taxation, free international trade and free capital mobility improve the quality of the economic environment and constitute as many objectives for policy makers, together with structural reforms aimed at making economies more flexible, resilient and competitive.

As Skidelsky (2009), among others, argues, the recent crisis exposed major fallacies in this representation of the world and the theories based upon it. Belief in probabilistic knowledge of the future and the efficient market hypothesis leaves no room for elements, including uncertainty, conventional behaviour and confidence, which Keynes considered essential in order to understand human conduct. Neglecting these elements, makes it difficult to explain major shifts in liquidity preference, herd behaviour and the general breakdown in risk evaluation models, as we have observed during the recent crisis. Moreover, exclusive focus on individual decisions makes it impossible to detect coordination failures and fallacies of compo-

[1] On the US subprime crisis see, Buiter 2007, Godley *et al*. 2007, 2008, Mason 2009, Rajan 2010, Stiglitz 2010 and BIS 2011 among many others.

sition, key elements in Keynes's explanation of unemployment equilibrium and financial crisis. Finally, competition and price flexibility may exacerbate market fluctuations, rather than moderate them, with negative repercussions on allocative efficiency.

In this sense, it is reasonable to concur with Skidelsky when he argues that the economics of Keynes provides solid foundations for the reconstruction of economics and the elaboration of models capable of explaining the world as it is, rather than as mainstream economists think, it should be. Advocacy of realistic assumptions and a clear-eyed attitude towards markets and capitalism form integral part of this research agenda:

> If Keynes's vision can be summed up in a phrase, it is that of the 'harmonious society' […]. Keynes's economics of harmony was both national and international in scope. Full employment at home by means of investment and income redistribution would take the pressure off foreign trade, slow down the pace of globalization, and ease the social tensions arising from it (Skidelsky 2009: 190).

Keynes's ideas, with their insistence on uncertainty, stabilization and fairness, offer relevant insight into the economic, social and political tensions that characterise today's world and how to address them. Naturally, this offers no guarantee that the current revival of those ideas, in economic theory and policy, will last. Many obstacles exist in this direction, from the resilience of prevailing economic doctrines to the persistence of the *status quo*. Overcoming these obstacles, as Keynes himself would suggest, will require a disposition to experiment and "be bold", drawing inspiration from Keynes's pragmatism, sense of history and ethical vision, as well as from his economics.

The new post-crisis literature is moving in this direction as it emphasizes, following Keynes, the merits of demand management, and public investment in particular, in lowering unemployment while improving existing infrastructure. High and persistent unemployment, in many countries, combined with environmental and urban degradation, confirms the validity of Keynes's indications in this and other respects (e.g. on international monetary reform). Similar considerations apply to Keynes's critique of extreme inequality and greed as major defects of unregulated capitalism.

Four main strands emerge from the recent post-crisis literature about Keynes. The first strand focuses on Keynes's ideas about economic policy and the stabilizing role of governments and central banks. Many contributions in this field centre on *The General Theory of Employment, Interest and Money*, whose publication, eighty years ago, marked "the emergence of modern macroeconomics from the earlier heritage of monetary theory and business cycle analysis" (Dimand, Mundell and Vercelli 2010: 1). The second strand explores Keynes's opinions on capitalism, its ethical underpinnings and prospects in the long-run. The third strand investigates Keynes's ideas about international trade and finance and his plans for the reform of the international monetary system. Finally, the fourth strand traces back the inadequacy of pre-crisis risk modelling techniques (and regulation) to the hiatus between prevailing economic theory and the economics of Keynes.

Building on these considerations, this survey focuses on a series of recent books, many of which written by academics for a wider audience, which discuss Keynes's relevance to the contemporary world. In particular, Section 1 addresses Keynesian ideas regarding economic policy and stabilization. Section 2 is devoted to Keynes's analysis of the ethical dimension of capitalism and focuses on the notion of love of money. Section 3 concentrates on Keynes's proposal for the reform of the international monetary system in view of containing external imbalances and ensure fair treatment of creditor and debtor countries alike. Section 4 briefly deals with the relationship between prevailing economic theory and the economics of Keynes in the wake of the 2007-8 crisis. Section 5 concludes the paper.

1. Keynes on Economic Policy and Stabilization

Keynes witnessed many economic crises during his lifetime. The stand-off over German war reparations, the 1926 general strike, which took place after Britain had returned to the Gold Standard in 1925, the disruption of international economic relations during the inter-war period, the Great Depression, economic disorder caused by rearmament, the end of British imperial prerogatives and global financial power. The solutions Keynes proposed to these problems reflect his acumen, scholarship and direct acquaintance with financial and commodity markets,[2] as well as the underlying historical and intellectual context, whose reconstruction is essential to understand those proposals (De Grauwe 2010).

> There never was a timeless 'Keynes', whom we can demonise or mythologise at whim. Instead the historical Keynes inevitably found his current thinking influenced by immediate economic policy and also about the very foundations of theoretical economics [...]. The context of his own times and his own life is where we need to begin if we want to understand his continuing relevance and to make sense of John Maynard Keynes (Clarke 2010: 19).[3]

[2] On this see, Cristiano and Marcuzzo 2016 among others and the reference cited therein.

[3] As an example of the relevance of this methodological approach, Cristiano 2014, puts the young Keynes into his broader political and economic context. Viewed in this perspective,

As the US sub-prime crisis plunged the global economy into a situation, which, at least initially, resembled the Great Depression, it is not surprising that the world turned to the man, whose ideas had inspired the policies that underpinned post-war prosperity and economic stability until, at least, the 1970s.[4] As Bateman, Hirai and Marcuzzo (2010) underline, however, the idea that stabilizing the economy requires *ad hoc* policies pre-dates the 2007-2009 crisis:

> Following the collapse of the dot-com boom at the beginning of the decade, finance ministers and central bankers across the industrial democracies began to actively use government budgets and interest rates to attempt to steer their economies away from the shoals of trouble. And to a large extent they were successful. […] This largely unnoted shift marked both the end of the influence of the 'policy ineffectiveness' school and the return of a moderate form of Keynesian ideas (Bateman, Hirai and Marcuzzo 2010: 2-4).

As these words imply, there is more to Keynes than depression economics and "coming out of foxholes".[5] Policies in the spirit of Keynes consist of deliberate and reasonable actions – useful policies as Temin and Vines (2014) call them,[6] whose main objective is to reduce uncertainty and enhance prosperity of individuals as well as of nations.

> [Keynes] was concerned with the world economy and with interactions between countries. […] although Keynes focused on the short run […] his theories were complemented by clear understanding of the process of long-run economic growth. These interrelated aspects of Keynes's insights can help us today in a global economy (Temin and Vines 2014: XI-XII).

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the main influences that turned the young mathematician and philosopher into an economist were Alfred Marshall, Keynes's own early involvement with Liberal politics, and the active role he played in the management of the Indian gold-exchange standard before WWI.

4 While Keynes's ideas on economic stabilization formed the subject of debate, in the 1920s and 1930s, possibly more in the US than in the UK, their first application took place in Britain during the wartime period, in connection with the publication of *How to Pay for the War*.

5 On the connection between Keynes and depression economics, see Krugman 2009 a, b among others. The sentence about foxholes comes from R. Lucas who, in response to a question about Keynes's comeback, is reported to have said: "Well I guess everyone is a Keynesian in a foxhole, but I don't think we are there yet. Explicitly temporary tax cuts do nothing: people just bank them. Supply side tax cuts are fine with me, but they take time to work and at some point we need the revenue to run the government". (Source http://business.time.com/2008/10/28/bob-lucas-on-the-comeback-of-keynesianism/, accessed April 21, 2017).

6 Temin and Vines 2014 deserve particular attention for connecting their reconstruction of Keynes's evolving ideas to the relevant historical context and to pre-Keynesian economic theory (Hume and Marshall in particular). The book follows up on Temin and Vines 2013 where the authors draw comparisons between the 1930s, when the eclipse of Great Britain as world economic leader took place, and the present day, characterized by doubts about US hegemony.

Discretionary intervention, rather than rules, was always Keynes's preferred approach to economic policy design. This is particularly evident in the case of monetary policy. In 1923, in the *Tract on Monetary Reform*, he advocated discretionary monetary measures in view of stabilizing the domestic price level rather than the exchange rate, as participation in the Gold Standard required.[7] In 1930, in the *Treatise on Money*, closing the gap between investment and full-employment savings became the main target of a policy, which should influence interest rates at different maturity dates. In 1936, the *General Theory of Employment, interest and Money* recommended to maintain long-term interest rates at the lowest possible level, in view of stimulating investment and reduce unemployment. This might require combining monetary policy with national debt management, as Keynes advocated in 1936 and again in 1940 in his testimony to the National Debt Enquiry.[8]

As Kregel (2013) observes, it is possible to draw comparisons between Keynes's proposals regarding monetary policy and the conventional and unconventional measures, which many central banks adopted in response to the recent crisis. Reference to the opportunity of resorting to open market operations *à outrance*, with the aim of influencing the entire term structure, resembles the combination of quantitative easing and ordinary refinancing operations, which many central banks, including the European Central Bank, have adopted. At the same time, as Kregel points out, Keynes became increasingly aware of the limits of monetary policy and the need to combine it with *ad hoc* fiscal measures, expansionary in case of recession, restrictive to stave off inflation.

Regarding fiscal policy, recent literature clarifies how Keynes was no advocate of deficit spending *per se*, as often mistakenly claimed, nor of the kind of fiscal fine-tuning that many advocated, for example, in the 1960s. Keynes recommended the use of public investment as an instrument to lower unemployment, improve infrastructure and reduce economic uncertainty. As Backhouse and Bateman (2011: 102-104) among others recall, since the 1920s, Keynes had been advocating splitting the government budget into two parts: The Exchequer budget would cover current expendi-

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[7] As Humphrey 1981 reconstructs, price stability always concerned Keynes. In the *Tract*, he expressed the belief that, price stability could be achieved by means of monetary policy alone, consistently with a quantitative approach. In the *Treatise* and the *General Theory*, unit labour costs acquire an increasingly relevant role in determining prices, whose stability was to be assured by avoiding inflationary government finance.

[8] Tily 2010 provides essential reference on Keynes's advocacy of low long-term interest rates and more generally on the primacy of monetary measures in connection with the theory of liquidity preference.

ture and revenues and the public-capital budget would cover the government's investment. While the Exchequer account should always balance, deficit finance made sense in the case of public works, on the assumption that money borrowed to buy capital goods would yield a revenue, which would make it possible to pay off borrowed funds.[9] Modern discussions about public finance and the possible application of golden rules reflect this approach.

Keynes's advocacy of monetary and fiscal policy in view of domestic economic stabilization came together with his support for managed exchange rates and control of international capital movements. Regarding the regulation of international trade, his early support of free trade gave way to a more nuanced position in later life, when he espoused moderate protectionism and capital controls.

> 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: 322) about protection, his "practical protectionism", as Radice (1988) calls it, are to be explained. When Keynes advocated protectionism, he did so 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)" (Carabelli and Cedrini 2015).

Keynes was neither a supporter of regulation *per se* nor of "big government" and nationalisation. He did not oppose markets in general but rather the idea that markets always work well and are capable of self-adjustment in response to shocks. In the field of financial regulation, he was clearly opposed to the idea of laissez faire approach to finance and favoured imposing limits on purely speculative transactions. At the same time, he was not particularly involved in the construction of British welfare state even if the full-employment policies he designed were part of Beveridge's plans.

As Skidelsky (2009: 152) underlines, Keynes's innovative proposals, in the 1930s and 1940s, especially regarding stabilization, marked a step forward with respect to the positions he had expressed in the 1920s about the need to find a middle way between unbridled laissez faire and Soviet-style economic control, preserving capitalism, while purging it from its techni-

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[9] In the *General Theory* and later contributions, this proposal became part of Keynes's advocacy about the need to "socialise investment". This did not imply full-scale nationalisation of private industry but rather the creation of schemes that could guarantee rapid resource mobilization.

cal defects. This went together with his insistence on the need to purge capitalism of its worst defects, both technical and ethical, while preserving its advantages.

2. Love of Money and the Ethics of Capitalism

Backhouse and Bateman (2011) explore Keynes's vision of capitalism in a particularly effective way. The two authors recall how Keynes believed that capitalism was not an end in itself but an essential means to attain material prosperity and preserve individual freedom. As a means, however, it was fragile and in need of regulation and repair.

While accepting capitalism as a necessity, Keynes raised technical, moral and aesthetic objections against it (Moggridge 2005). Technically, capitalism was prone to stagnation, inequality and instability. As he had observed in the first chapter of the *Economic Consequences of the Peace*, the success of pre-war capitalism depended on the fact that private saving, the motor of *individualistic* accumulation, depended on distributive inequality, on people accepting to live frugal lives, on perceived fairness in rewards, on the stability of the value of money. If one or more of these elements failed, the delicate and complex machine of capitalism would cease to function.

On aesthetic grounds, the main defect of capitalism lay in its disregard for valuable things that paid no money: art, friendship, the contemplation of beauty and the free pursuit of knowledge, things which Keynes, with his Cambridge and Bloomsbury background, valued most (Goodwin 2006).[10] On the moral side, it was 'love of money' that Keynes found most detestable.

> Keynes came to believe that the irrational love of money was the very motor of capitalism. The majority of human beings desire money for itself, and some prove themselves willing to transgress all moral boundaries to acquire it […]. To enrich oneself becomes to accumulate without end. There is no limit to the amount of money one can possess. The mark of success, of power, of notoriety, becomes a sum of money. We are 'worth' the sum (Dostaler 2009).

Love of money is, primarily, love for endless accumulation. In this sense, though objectionable on moral and aesthetic grounds, it contains a constructive element; it is the motor of investment, growth and material progress. At a second level, the money-motive, is love for conspicuous

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[10] On the Keynes's ethics and his connection with Bloomsbury see also Dostaler 2007, Chapter 1 and Interlude 1 in particular.

remuneration and wealth, as marks of personal success and recognition. Love of money, in this second sense, can lead to social division, unequal distribution and resource misallocation. At a third level, the *irrational love of money for itself*, is the love for economic security and hoarding.

Dostaler and Maris (2011) explore connections between love of money, accumulation and the instability of capitalism, in the context of the recent crisis, focusing on the psychoanalytic dimension of the love of money. Many of the essays contained in Pecchi and Piga (2008) address the same issue, as they comment Keynes's *Economic possibilities for our grandchildren*.[11]

Phelps (2008), for example, regards Keynes's disdainful attitude towards the quest for wealth as *unusual for an economist,* emblematic of anti-materialism and blind to the intellectual satisfactions in business life. Ohanian (2008: 112) describes Keynes's attitude towards accumulation as that of a "Judgemental and critical social commentator who uses his economist's pulpit to make a rather puritan-based vision of the future in which he feared that wealth would lead to lives of unproductive leisure and unhappiness". Boldrin and Levine (2008) relate love of money to the notion of money illusion and continue by negatively comparing Keynes's ideas about money and wealth accumulation with those of Adam Smith. Friedman (2008) expresses similar conclusions.

For mainstream thinking, as represented by these comments, Keynes's criticism of love of money is either pointless or wrong for at least three reasons. First, love of money, with its moralistic tinge, is incompatible with the status of economics as a deductive science, neutral with respect to moral and aesthetic issues. Second, it is not money (and savings) that rational individuals, free of money illusion, seek but the goods and services that money can buy. Money is only a medium and never and end in itself. Third, if love of money induces individuals to maximise their efforts in creating wealth, we should welcome rather than decry it, as a manifestation of the invisible hand.

The first criticism entirely forgets that for Keynes, the last great economist in the tradition of philosopher-economists, as Backhouse and Bateman (2006) describe him, economics was not a deductive but rather a moral science, dealing with motives, expectations and psychological uncertainties, and that:

> Keynes's beliefs about material wealth, money, avarice, and greed were standard beliefs based to a considerable extent on what he learned from the philo-

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[11] The essays collected in Pecchi and Piga 2008 also address Keynes's opinions regarding distributional issues, hours worked, conspicuous consumption and society. The tone of the essays resembles that used to discuss love of money.

sopher G.E. Moore during his student years at Cambridge […]. [For Keynes] the objects of life were, or should be, love, truth, beauty, timeless contemplation, and the pursuit of knowledge (Meltzer 2009: 761).

The second criticism assumes uncertainty away, and with it the role than Keynes attributes to money, a role, which is totally unrelated to the notion of money illusion. Akerlof and Shiller (2009) include money illusion, together with confidence, fairness, corruption, bad faith and disposition to believe stories, among 'animal spirits', irrational feelings, whose existence contributes to explaining the recent crisis. As Nuti (2009) observes, the identification of animal spirits with irrational behaviour and non-economic motives is neither necessary nor useful. Choices taken based on trust (confidence), shared narratives (stories), concern for fairness, corruption and bad faith, are compatible with both standard economic rationality and behavioural economics. The same applies to the fact that contracts, wages, prices and interest rates are expressed in nominal terms (money illusion).

Finally, in response to the third criticism, we may quote Friedman and Friedman (2009) as they recall the point made by Joan Robinson that the pursuit of self-interest may be harmful to society. In actuality, Smith believed that society could not subsist among those who are at all times ready to hurt and injure one another. "Raw self-interest without a foundation of morality is not what Adam Smith is all about" (Robinson 2007).[12]

3. International Monetary Reform

Emphasis on fairness and reciprocity also characterizes Keynes's plans for the post-war international monetary order, as he presented them at the Bretton Woods conference in 1944. In recent years, these plans have attracted considerable interest, especially after the governor of the Chinese central bank appealed to Keynes's authority as he advocated an expanded use of Special Drawing Rights in international transactions, as a more stable alternative to the US dollar.[13]

As Fantacci (2016) reconstructs, until the outbreak of World War I, convertibility into gold and free capital mobility implied that countries run-

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[12] On the difference between the notion of self interest in Adam Smith and the concept of selfishness see, among others, Roncaglia 2006: 122-123.

[13] On this see http://www.cfr.org/china/zhou-xiaochuans-statement-reforming-international-monetary-system/p18916 (accessed April 21, 2017). On the possibility of applying Keynes's ideas about international monetary reform today see also Alessandrini and Fratianni 2009.

ning balance of payments deficits faced the constant risk of capital flights, provoked by fear of devaluation, combined with deflationary pressures, caused by the need to maintain interest rates at a high level in order to stem those fears. Reluctance by surplus countries to increase their imports exacerbated the problem, forcing deficit countries to adopt protectionist measures, ranging from punitive tariffs to bilateral trade. This contributed to the aggravation of existing imbalances and foment conflicts, which would eventually lead to the war.[14]

In 1940, as the British government called upon him to formulate plans for the post-war international monetary order, Keynes devised the *International Clearing Union* as an instrument to surmount this situation and promote free trade, peaceful harmonization of national interest and global economic development. The Clearing Union would credit each member state with a balance proportional to the value of the country's external trade. This balance would be denominated in *bancor*, a pure unit of account, an international currency, which could not be identified with the national currency issued by any country. Over time, the balance of exporting countries *vis à vis* the Clearing Union would improve, while that of importing countries would fall and eventually become negative. In order to prevent the formation of structural imbalances, Keynes's plan envisages a scheme whereby all countries with balances exceeding one fourth of their initial balance in absolute value, would have to pay 1% of the excess to the Clearing Union irrespective of whether the country ran a balance of payment surplus or deficit.

Countries running structural deficits were allowed to orderly devaluate their currencies, avoiding the kind of unilateral moves, which had contributed to the disruption of international trade in the 1930s. Surplus countries, instead, would discuss with the Clearing Union governing body how to balance their accounts, being free to choose between domestic expansion, reevaluation, reduction of tariffs and concession of international loan.

Equal treatment of surplus and deficit countries is one of the pillars of Keynes's innovative proposals, the other pillars being limitation of short

14 Amato and Fantacci 2012 investigate Keynes's proposal for the establishment of an International Clearing Union, in the context of a comprehensive reconstruction of some key episode in the history of money and finance (Part II). The book deserves special attention for this reconstruction, but also for the analysis of the principle of liquidity, as opposed to that of clearing (Part III). According to the first principle, epitomized by the Gold Standard, money is a good, which functions principally as medium of exchange and store of value, which can be horded indefinitely, leading the demand for goods and services to fall. According to the second principle, as embodied by bancor, money is a pure unit of account, which cannot be stored and circulates as long as traders need it. Amato and Fantacci connect these two principles to the notion of payment and discuss the advantages of the second over the first one.

run capital mobility, gradual liberalization of international trade and, naturally, bancor. Keynes insisted on the merits of his proposal to help deficit countries to overcome their balance of payments difficulties gradually, rather than thorough draconian adjustment. At the same time, imposing limits on the strength of surplus countries and their ability to accumulate foreign assets was in the interest of free trade, international economic equilibrium and peace.

Steil (2013) reconstructs the negotiations that led to the Bretton Woods, the bargaining, the outcome, and subsequent events including the US loan to Britain. This book focuses, in particular, on Harry D. White, the principal US negotiator, and on J. M. Keynes, White's sparring partner.

In his treatment of Keynes, Steil relies on Skidelsky's biography and other sources, mostly American. The picture he draws is that of an aged and physically weakened man, who directed his powerful intellect and eloquence to achieve the best bargain in Britain's interest – *an enlightened nationalist, but a nationalist all the same*. In drawing this portrait, Steil focuses on Keynes's role as the world's greatest public intellectual as well as on his purported intellectual arrogance and preoccupation for his own reputation. The result is a conventional portrait where shadows abound and where, as Moggridge (2014) observes, imperfections are present regarding Keynes's career and opinions on flexible exchange rates in particular.

Steil's book also offers useful comparative analysis of Keynes's plan for an International Clearing Union and White's project for an International Stabilization Fund.

> The basic mechanics of what became known as the 'Keynes Plan' were more complex, and certainly more ambitious, than those of the White plan […]. In the end, the plans that emerged from Washington and Whitehall were either timeous twins or clashing cousins, depending on whether on viewed them at 35,000 feet or at a ground level (Steil 2013: 143-147).

Steil combines both perspectives, as he emphasises "architectural" similarities between the two plans then to discuss differences, mainly dictated by political considerations.

Differing from Steil, Carabelli and Cedrini (2014) describe Keynes's proposals at Bretton Woods as *fighting through Britain*. According to this view, Keynes made the most he could of his position as chief negotiator for Britain. Building on his own reputation and Britain's residual prestige, Carabelli and Cedrini see Keynes devising and trying to bring through an innovative, ambitious and reasonable scheme,[15] reflecting his understand-

[15] On the notion of reasonableness, as distinct from rationality, and on its application to international negotiations see Marcuzzo 2010.

ing of international economic relations and their complexity.[16] In this respect, Keynes was neither the patriot who "died for Britain", while trying to overcome American tight-fisted approach, nor a disinterested internationalist, but rather someone who worked on the assumption that Britain's best interest lay in devising a scheme that could allow all countries, including Britain, to find their own way towards domestic economic prosperity and external equilibrium.

Carabelli and Cedrini insist on Keynes's opposition to the idea that all countries ought to adopt the same economic policies and his advocacy, later in life, of moderate pragmatic protectionism and restrictions to capital movements as seen above. Keynes's attitude is the opposite of that adopted by supporters of the Washington Consensus and more recently of austerity and structural reforms in Europe. The fact that both doctrines contributed to increasing economic disorder, financial crises and misery is one reason, among others, to discard them in a favour of a new approach, heedful of Keynes's intuitions. In this sense, the words Keynes uses in *General Theory* to recall the efficiency of private enterprise and individualism also apply, even if in a different context, to his proposals for the reform of the international monetary order

> But, above all, individualism, if it can be purged of its defects and its abuses, 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, and the loss of which is the greatest of all the losses of the homogeneous or totalitarian state. For this variety preserves the traditions which embody the most secure and successful choices of former generations; it colours the present with the diversification of its fancy; and, being the handmaid of experiment as well as of tradition and of fancy, it is the most powerful instrument to better the future" [Keynes 1973 (1936): 380].

4. Mainstream Economic Theory and the Economics of Keynes in the Face of the 2007-8 Crisis

If Keynes's ideas about international monetary reform may be gaining acceptance, as they offer viable solutions to the problems caused by current global economic imbalances, the same seems not to be true in the case

[16] As Carabelli and Cedrini 2013 point out, Keynes's international macroeconomics reflect his 'complexity approach' to international economic relations, with its emphasis on relevant interrelations, potential conflicts and the role of "motives, expectations, psychological uncertainties" in determining them.

of his economic theory. As Chick and Tily (2004) recall, for mainstream economics Keynes is dead. Standard macroeconomics is now classical economics, even though it may appear to be constructed from Keynesian components.[17] Over the past four decades, economists have largely developed and come to rely on models that disregard key (Keynesian) factors — including uncertainty, heterogeneity of decision rules, revisions of forecasting strategies, and changes in the social context – that drive outcomes in asset and other markets.

This appears with particular clarity, as the current academic agenda has largely crowded out research on the inherent causes of the recent financial crises, as Colander *et al.* (2009) point out. Mainstream explanations regard the US-subprime crisis as the consequence of episodic illness, including anomalous financial conditions, regulatory failures, conflicts of interest, and competitive de-regulation, which affect an otherwise sane economic system.

According to this approach, "Financial crises and deep depressions arise from one of the following: non-essential institutional flaws which prevent the market from working its wonders, the system of intervention contains openings which allow some dirty rotten scoundrels to operate or external shocks dislodge the economy" (Minsky 1991: 5). Leijonhufvud (2009) relates the blindness of the mainstream profession *vis à vis* the deep causes of the recent crisis to its reliance on the market efficiency hypothesis, rational expectations and the representative agents.

Building on Keynesian intuitions, Davidson (2009) adopts a similar approach, focusing on the concept of non-ergodicity. According to Davidson, the ergodic axiom, underlays the efficient market hypothesis. This axiom presumes that there exists an unchanged probability distribution governing past, present, and future events. In a world of efficient financial markets, holders of market-traded assets can readily liquidate their position at a price close to the previously announced market price whenever any holder wishes to reduce his/her position in that asset. Keynes's theory on the other hand presumes that the economic future is uncertain. Consequently, the classical ergodic axiom is not applicable. In a non-ergodic world, current or past probability distribution functions are not reliable guides to the probability of future outcomes, and money acquires a non-neutral role.[18]

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[17] On different versions of the neoclassical synthesis of Keynesian thought, see Arena 2010 among others and the literature cited therein.

[18] For a critique of Davidson's ergodic/non ergodic (ENE) approach to Keynesian uncertainty, as opposed to the human abilities and characteristics (HAC) approach, see O'Donnell 2014-2015 and Davidson 2015. As O'Donnell 2013 clarifies, "Within post-Keynesianism […], two contrasting understandings of uncertainty and its cognate concepts have emerged over the last few decades. These are the Human Abilities/Characteristics approach and the Ergodic/

If individuals suddenly believe that the future is more uncertain than it was yesterday, their fear of the future increases. Thus they will try to reduce cash outflow payments for goods and services today in order to increase their liquidity position so as to be better able to handle any uncertain future events. […] Faced with this decline in market demand, businesses are likely to reduce hiring of workers (Davidson 2009: 49-50).

As De Cecco (2010) clarifies, the essence of money and its special role as a measure of value (endowed with contractual settlement power) is best understood in the context of Keynes's theory of asset holding as presented in Chapter 17 of the *General Theory*. That chapter, which De Cecco regards as containing not only the core of Keynes's *magnum opus* but also the main tenets of his new theory of money, focuses on the concept of liquidity-premium in connection with the other elements that determine the return of all assets (convenience yield, storage cost and expected price change). These concepts, "a product of Keynes's joint reflections on probability theory and on the behaviour of commodity and financial markets after the First World War" leads immediately to the definition of developed economies as monetary production economies where:

Money plays a part of its own and affects motives and decisions and is in short, one of the operative factors in the situation, so that the course of events cannot be predicted, either in the long or in the short, without a knowledge of the behaviour of money between the first state and the last [Keynes 1973 (1933): 408-409].[19]

Taylor (2010) elaborates on this point, arguing that Keynes's ideas about uncertainty, liquidity preference, effective demand, asset prices and behavioural patterns of different categories of economic agents, provide a more useful framework to understand how developed economies work than standard macroeconomic models, e.g. of the DSGE type. Taylor presents Keynes's ideas in their historical, cultural and institutional context. As argued above, this is the correct approach if one wants to make sense of those ideas, of their relevance to the present but also, most importantly, of Keynes's insistence on economic theory having to build on close obser-

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Nonergodic approach, which are often portrayed as epistemological uncertainty and ontological uncertainty respectively. According to the former, uncertainty is ultimately grounded on certain inescapable limitations in human knowledge and abilities to acquire knowledge, regardless of the ontology of the domain being investigated. According to the latter, uncertainty is ultimately grounded on the ontology of the domain being investigated, regardless of any limitations in human knowledge or ability".

19 De Cecco 2010: 233. On Keynes's theory of probability, see Roncaglia 2009 among others. On the notion of monetary theory of production in connection with Keynes's contributions in the field of the theory of finance, including interest rate parity and the theory of futures prices, see Kregel 2010 among others.

vation of a continually shifting reality. Secondly, Taylor correctly identifies connections between Keynes's contributions to economic theory and policy and those of other economists, including prominent Cambridge Keynesians, such as R. Kahn, N. Kaldor, J. Robinson, but also H. Minsky, M. Kalecki and P. Sraffa.

Pasinetti (2007) contributes to mapping this complex field of connections, focusing on Keynes and the Cambridge Keynesians. After elaborating on the impact of Keynes's break with economic orthodoxy, Pasinetti offers his readers a series of perspicuous bio-bibliographical sketches of Keynes's "pupils of the first hour". He also elaborates on their contributions to economic theory and on connections between those contributions and the possibility of constructing a theoretical paradigm to represent an expanding production economy.

Taylor's reflections on the relevance of Keynes's economics, and the final chapter of his book, in particular, nicely connects with Eatwell and Milgate (2011) but also with Hirai, Marcuzzo and Mehrling (2013), who present an interesting collection of essays about the relevance of effective demand, money, finance and policies in the context of the present crisis.

Marcuzzo (2013), in particular, reflects on the state of economics and discusses examples of possible topics for post-crisis Keynesian research agenda, focusing on finance theory and regulation. In this spirit, Marcuzzo concludes that:

> A new research agenda is needed to provide food for thought to those skeptics who doubt the utility of Keynes's ideas in rebuilding an alternative paradigm, and also to admirers who have little and narrow acquaintance with Keynes's writings [...]. The hope is that Max Planck's dictum (1950: 33) quoted in Kirman (2009) applies not only to a 'new' but also to an 'old' theory: 'a new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because it opponents eventually die, and a new generation grows up that is familiar with it (Marcuzzo 2013: 19).

Conclusion

In recent years, financial crisis together with the emergence of large external imbalances, notably between the USA and China and within the European Union, have revived interest in Keynes's ideas. With the outbreak of the euro area crisis, and the ensuing tensions, the European Central Bank has been acting as a kind of *de facto* Clearing Union, through its Target2 System. However, the absence of compensative mechanisms (as envisaged by Keynes's original plan) and of barriers to speculative capital movements have made it impossible to find a viable solution to this problem, foment-ing resentment and lack of confidence in the effectiveness of European institutions.

This provides an example, of a situation where Keynes's ideas about international economic relations, with their emphasis on the conciliation of conflicting interest in a complex economic environment, might find useful application today. Contrasting unemployment and inequality, "the two outstanding faults of the economic society in which we live" (Keynes 1973 [1936]: 372) provide other two examples in the same direction.

As Skidelsky (2011: 13) points out it "We do not need a new Keynes; we do need the old Keynes, suitably updated. He will not be our sole guide to the economic future, but he remains an indispensable guide". The "old" Keynes tried to make sense of a complex world, using models based on realistic assumptions and a subtle combination of mathematical and verbal argument. At the same time, he maintained an open and pragmatic mind and was willing to change his opinions about the best means to achieve given ends if reality required it. This vigilant attitude rested on a subtle combination of economic analysis, economic history (including the analysis of data) and the history of economic ideas. Keynes himself showed constant interest not only in contemporary facts but also in the history of all countries and all epochs, and used historical comparison to gain relevant insights into current economic problems.

As the literature surveyed in the present work indicates, finding solutions to the economic problems of today's world necessitates a new research agenda, heedful of Keynes and his intuitions. Building up this agenda will require not only extensive knowledge of what Keynes wrote but also, and more importantly, a disposition to experiment and "be bold", drawing inspirations from his pragmatism, sense of history and clear ethical vision.

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