John Maynard Keynes: The Intellectual Pragmatist

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Introduction

If we accept that John Maynard Keynes stands on the podium of the three best-known economists of all time (1), along with Adam Smith and Karl Marx, then we might wonder at the fact that both Keynes and Marx considered themselves philosophers rather than economists, and that the word 'economist' did not even exist when Adam Smith came to fame with 'The Wealth of Nations' (2). Perhaps all economists should be philosophers first, for how else can they position the purpose of economics with its ethical and moral implications when applied to society? As Keynes himself states:

> The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regards. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. (3)

There are also very few economists who have been so implicated in acting on the real world. Marx saw communist societies grow up in rebellion against government, but he was always working outside the state, whereas Keynes was a statesman who negotiated major changes in the world in which he lived (Versailles Peace Treaty, UK government policy, New Deal, Bretton Woods etc.). Keynes did not simply write an economic theory and see it applied more or less successfully within national economic policies around the world – Keynes was regularly on stage – in the heat of political and economic warfare. This meant that sitting in an ivory tower of theoretical considerations was out of the question. He was constantly involved in negotiating in the real world – negotiations which were of the utmost importance in shaping the world in which we now live.

Keynes was present at the Paris Peace Conference (often referred to as the Versailles Peace Conference) in 1919 as a member of the British Treasury, where he represented British economic interests after World War One. It was during this treaty that the conditions for peace with Germany were established. He was so appalled at the proposed conditions which he felt would not only destroy Germany economically, but also humiliate them. He left the conference in protest and wrote perhaps his most important work, The Economic Consequences of the Peace (4) in which he foretold the likelihood of further war since the proposals were not economically possible for Germany. Keynes was also the principal British interlocutor during the final months of World War Two to negotiate the US-British Lend-Lease programme and the Marshall Plan loans (5, 6). He would have disapproved the Morgenthau plan (7) to destroy German industrial capacity in 1945, but would have surely approved James Byrnes's 'Speech of Hope' in Stuttgart in September 1946 after his death in April of the same year, which declared a change in US policy to cancel some of Germany's debt and relaunch its economy.

Keynes was, with the American Harry Dexter White, responsible for the Bretton Woods negotiations and the founding of a new economic and political order (8). This was perhaps his most difficult role, given that the USA held all the cards (and the gold) and the British Empire was on the verge of economic collapse due to its massive debts incurred during the First and Second World Wars. Harry Dexter White and the Americans got what they wanted – and Keynes watched as his proposals were rejected, the British Imperial Tariff Preference (the Ottawa Agreement) was broken up, the Exclusive Sterling Trade Area was dismantled, and the UK became indebted not only to the US, but was also tied to a New World Order under the GATT agreement, the World Bank and the International Monetary Fund. No-one could have done better than Keynes to secure British interests, but he had no decent cards to play.

Keynes's policy was also at the heart of Roosevelt's New Deal to rescue the USA and the world from the Great Depression following the 1929 US stock market crash. He also managed British interests in the 1930s to reduce the impact of the decline in world trade on the British economy.

Keynes was, therefore, unlike analytical economists who deal with observation and explanation (economists that he disapproved of - with their curves and diagrams that were out of touch with reality), an applied economist dealing with the actual application of economic theory that underpins the organisation of society – and that requires constant adjustment – not just of the mechanism itself but also of the underlying paradigm. This required flexibility and pragmatism. It is perhaps this flexibility that came from his considerable intellect that makes Keynes difficult to study. Quite simply – he often changed his mind and opinions when faced with global realities or realpolitik. For example, at Cambridge University (1902-1905) he strongly supportd Free Trade, but in 1915, Keynes helped UK Chancellor of the Exchequer Reginald McKenna prepare his first budget that saw the introduction of the McKenna duties: a 33.3% duty on luxury imports! He then changed again in 1923 when he attacked the Conservative party's demand for protection, stating "If there is one thing Protection cannot do, it is to cure unemployment" (9). A few years later, with British unemployment growing, the solution he advocated was – protectionism! Under the pressure of reality, he had become a staunch protectionist! This protection helped defend the British car and lorry industry from international competition.

Keynes was homosexual, but then married a Russian ballerina (Lydia Lopokova), strongly supported full employment and social welfare but considered himself to be bourgeois, not a socialist, opposed currency speculation that threatened economic stability, but himself started a speculation club with his Bloomsbury friends! This is symptomatic of the paradox that is Keynes. Rules and norms were to be applied to others, not to himself, since he considered himself above such things.

In the neo-liberal post 1980s we might be tempted to look back at Keynes and consider him politically socialist since his policies, particularly visible in Roosevelt's New Deal, were socialist in character. A neo-liberal, monetarist policy is supply-based and looks to control the value and quantity of money, whereas Keynes insisted on the demand side which meant full employment and fair wages. He, like Marx, understood that workers were also consumers. Was this solution purely an economic answer? I doubt it, since he was first and foremost a philosopher, and was concerned with the welfare of society as a whole and believed, somewhat naively, that greater national wealth would benefit all society and lead to fewer working hours and more leisure for everyone, and not be hoarded by an over-wealthy elite (10, 11). But, although convinced of the social, political and economic importance of full employment, and a somewhat unhappy member of the Liberal Party, he opposed the Labour Party of the day as much as he opposed the Conservatives:

> Labour "is a class party", he wrote, "and the class is not my class. If I am going to pursue sectorial interests at all, I shall pursue my own... the class war will find me on the side of the educated bourgeoisie" (12)

Skidelsky suggests that:

> But let's get Keynes and Keynesianism right. In the U.S., more than in Britain, he is considered a kind of socialist. This is wrong. Keynes was not a nationalizer, nor even much of a regulator. He came not exactly to praise capitalism, but certainly not to bury it. He thought that, for all its defects, it was the best economic system on offer, a necessary stage in the passage from scarcity to abundance, from toil to the good life. (13)

It is perhaps not quite as black and white as Skidelsky suggests, since Keynes actually urged Roosevelt to nationalise key industries and services in the USA as part of The New Deal. We can perhaps identify some of this idiosyncratic personality from his upbringing. He came from a family of staunch baptists with strong values for truth and morality, though was not religious himself. His education at Eton, a very elite independent boarding school in England, followed by Cambridge University and a Cambridge University-based group of artists and intellectuals known as the Bloomsbury Group, allowed him to interact with exceptional minds. He was strongly influenced by

G. E. Moore (philosopher), Bertrand Russell (philosopher) and Ludwig Wittgenstein (philosopher) as well as Virginia Woolf (writer), E. M. Forster (writer) and Lytton Strachey (biographer) as well as W. H. Macaulay (mathematician).

> 'Rules, rules, what are rules for?' Macaulay would ask himself before answering himself: 'to be broken, to be broken'... The sentiment that creative minds were justified in breaking rules, when the results might be productive, was to underlie Keynes's rethinking of economic laws after 1924. (14).

It was perhaps this irreverence, this feeling of intellectual superiority, that allowed him later on to break with standard moral codes (homosexuality was illegal at the time), to break with standard economic theory to create his own, and even to break with his own ideas when he found them impractical.

> 'We had no respect for traditional wisdom or the restraints of custom. We lacked reverence... for everything and everyone'. (15)

This rebel, however, managed to work within the corridors of power without too much trouble. This is what can surprise us most. Take a look at a portrait of John Maynard Keynes – he looks like the icon of an obedient Edwardian civil servant – a cog in the wheel of a vast and powerful empire. Yet Keynes the rebel, Keynes the risk taker, Keynes the lover, Keynes the flexible changer of his own ideas is there. Perhaps that is why he still commands such interest. If he had remained in the Military Department of the India Office where he started work in 1906, even though it was only for 20 months, he would never have changed the world as he did. He was brilliant, he was different, and he did not suffer fools lightly.

> “When facts change, I change my mind. What do you do Sir?” (16)

But he was part of the intelligentsia with a mission. He could easily have settled back into relative wealth and comfort, but he took on his mission of finding economic and political solutions with an extraordinary sense of duty, despite his battles with hierarchy and government. He was also a great speaker – most notably in his speech to the House of Lords in 1945 (17) concerning the lamentable terms of the American loan to a British government, a government that still thought it ruled the waves; he required diplomacy, convincing economic arguments, and a mastery of rhetoric – and he had them all. He clearly understood during the First World War that the world as he knew it was about to change, being one of the few people that understood not only the economic and political details, but who was also able to place these details within a global framework. Employed in the Treasury Department, in 1917 he wrote to his wife:

> “My Christmas thoughts are that a further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. I am on the whole not sorry. The abolition of the rich will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of general impoverishment. In another year's time we shall have forfeited the claim we had staked out in the New World and in exchange this country will be mortgaged to America'. (18)

There is so much to write about this extraordinary man, that some selectivity imposes itself. This article will concentrate on two major events in Keyne's life, the Paris Peace Conference and the Bretton Woods negotiations. The economic blindness and obduracy of the negotiators in the Paris Peace Conference will be compared to the Troika's economically-blind and obdurate current dealings with the Greek government and the problem of Greek sovereign debt. During the Bretton Woods negotiations, many economists and politicians were impressed by Keynes's proposals to resolve trade imbalances via the creation of a virtual money, the Bancor, and an international money-clearing unit. This article will see to what extent these ideas could be used to resolve current international trade imbalances and also how the Euro zone could resolve structural weakness via a system of financial transfers similar to that suggested in his Bretton Woods proposals.

1. The Paris Peace Conference

Keynes's first major economic and philosophical battle took place at the Paris Peace

Conference (Treaty of Versailles) in 1919. The conference was to decide the fate of Germany after the First World War, and Keynes was the principal UK treasury representative from January to June 1919 before resigning in disgust. Hard-liners wanted to destroy Germany's capacity to re-industrialise, and basically wanted to ruin them economically by imposing war reparations that would simply not be possible for a de-industrialised Germany. This also would mean that Britain would benefit by removing German industrial competition. To boot, if the Germans could not pay, then the allies would have the right to take steel, coal or any other resource in lieu of payment. Keynes understood that reparations should be based upon Germany's capacity to pay them, and that therefore Germany's industry should not be destroyed. Keynes perceived the situation from a European perspective, rather than through blinkered sovereign interests. Not only, he argued, would an impoverished Germany be dangerous, but the added humiliation would lead to nationalism and revenge as the German people would fall easy prey to nationalism.

> “The Peace is outrageous and impossible and can bring nothing but misfortune... If they (the Germans) do sign, that really will be the worst thing that could happen, as they can't possibly keep some of the terms, and general disorder and unrest will result everywhere.
>
> … Anarchy and revolution is the best thing that can happen, and the sooner the better” (1)
>
> “It must have been an agony of frustration and impotence, for at close quarters he watched while Wilson was outmanoeuvred by Clemenceau and the ambition of a humane peace replaced by the achievement of a vindictive one.” (2)

This is perhaps Keynes at his very best: he writes well; he does not hesitate in being politically incorrect, and is extremely critical of President Woodrow Wilson “intellectually weak” and Georges Clemenceau “obstinate and obdurate”; he takes a strong pragmatic position; he takes a strong moral position. One can feel his anger at the stupidity of a treaty that was never going to work. Keynes did not get his way and was not really listened to. He resigned in despair. Just before the signing of the treaty, he published his riposte, explaining why the Treaty was not only economically, socially, morally and politically wrong, but why it was also dangerous and could lead to further war. He wrote The Economic Consequences of the Peace (3). It was a great success and made his name. Obviously, once World War Two broke out, as he had predicted, many people remembered Keynes and realised that he should perhaps be listened to more attentively. This certainly improved his esteem when dealing with the Bretton Woods negotiations in 1944.

> In *Economic Consequences of the Peace* he recommended that French war debts to the United Kingdom and the United States should be waived; that reparation claims by the London government should be deferred until those of the devastated areas of Belgium and France had been met; and that surplus coal from England, Wales and Scotland should be allotted to the League of Nations for distribution to France and other European countries in need. These ideas were the work of a man not hobbled by narrow notions of national sovereignty, but someone who saw Europe as a whole. (4)

To get a feel for Keynes's style and attitude, here is part of the introduction to The Economic Consequences of the Peace:

> The power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. On this sandy and false foundation we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, civil conflict in the European family. Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples have run the risk of completing the ruin, which

> Germany began, by a Peace which, if it is carried into effect, must impair yet further, when it might have restored, the delicate, complicated organization, already shaken and broken by war, through which alone the European peoples can employ themselves and live (3).

What Keynes foresees here will come about during the interwar years. Macroeconomic policy was yet to be invented and used, and 'beggar-thy-neighbour' rounds of national devaluation in order to gain export advantage had disastrous effects on international trade.

Keynes was shocked that the terms under which the Germans had come to the negotiating table were outrageously corrupted, ignored and unconsidered. President Wilson's speech to Congress on February 11, 1918 (5) which was considered as the ground rules of the contract with the enemy, including that there should be “no contributions” and “no punitive damages”. This is the opposite of what happened. The allies cheated and the Germans were not even allowed to join in the discussions as the committee decided its fate. But Keynes is not just full of argument and rhetoric; he clearly sets out the data of coal, steel, exports, imports and income possibilities via production and trade, whereby it is clear to see that Germany could never pay its reparations. The detail is so clear that it is significant that Wilson and Clemenceau ignored such well-founded arguments – they had their own plans – and saving Germany, and hence Europe, was not on their agendas.

> But it is evident that Germany cannot and will not furnish the Allies with a contribution of 40,000,000 tons (of coal) annually. Those Allied Ministers, who have told their peoples that she can, have certainly deceived them for the sake of allaying for the moment the misgivings of the European peoples as to the path along which they are being led. (6)

Keynes does not hold back in criticising those responsible:

> Apart from other aspects of the transaction, I believe that the campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible. To what a different future Europe might have looked forward if either Mr Lloyd George or Mr Wilson had

apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers or sovereignties but in food, coal, and transport. Neither of them paid adequate attention to these problems at any stage of the Conference. (7)

Keynes goes on to state:

There can have been few negotiations in history so contorted, so miserable, so utterly unsatisfactory to all parties. I doubt if anyone who took much part in that debate can look back on it without shame. (8)

One can well understand why Keynes had resigned from the British delegation before venting his anger and frustration; no-one could have stayed in the British team while being so critical of his own government. The British delegation was led by Prime Minister David Lloyd George as one of the 'Big Four' (USA, Great Britain, France and Italy). We shall end this section with the final part of the summary:

I cannot leave this subject as though its treatment wholly depended either on our own pledges or on economic facts. The policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable, - abhorrent and detestable, even it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole of civilized life of Europe. Some preach it in the name of Justice. In the great events of man's history, in the unwinding of the complex fates of nations Justice is not so simple. And if it were, nations are not authorized, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers (9)

As Marx stated

History repeats itself, first as tragedy, second as farce (10)

And how suitable that quotation is when we see that following World War Two, the allies wanted once again to destroy Germany under the Morgenthau Plan (11).

> Germany will not be occupied for the purpose of liberation but as a defeated enemy nation. Your aim is not oppression but to occupy Germany for the purpose of realizing certain important Allied objectives... You will estimate requirements of supplies necessary to prevent starvation or widespread disease or such civil unrest as would endanger the occupying forces. Such estimates will be based upon a program whereby the Germans are made responsible for providing for themselves, out of their own work and resources. You will take all practicable economic and police measures to assure that German resources are fully utilized and consumption held to the minimum in order that imports may be strictly limited and that surpluses may be made available for the occupying forces (12)

Fortunately the London Debt Accords of 1953, led by the Americans, resolved the problem of over-indebtedness of the German people and allowed them to recover industrially and economically.

2. A comparison of the Paris Peace Conference and the Troika's handling of Greek debt

Keynes strongly criticised the Paris Peace Conference that insisted on economically impossible targets of reparation for political reasons in order to crush the German people and economy. He showed clearly in Economic Consequences of the Peace that the terms were not only unrealisable, but that they would lead to the humiliation and social destruction of a nation. History repeats itself! We can clearly see in the Troika's dealings with Greek sovereign debt, a level of deceit, a level of stubbornness, and a level of humiliation – all of which is politically-based and is economically impossible – but this time to a fellow state of the European Union, not a defeated enemy who had started a World War!

Following initial debt engendered by the Generals' Junta following the US-backed overthrow of the democratically-elected parliament in 1967, further debt arose due to a bank-rescue following the 2008 sub-primes crisis. Government sovereign debt rose from around 103% GDP in

2007 to a level of 159% by 2016 (1). The Troika was made up of the European Commission, the European Central Bank (represented by the Eurogroup) and the International Monetary Fund. European banks (especially French and German) were heavily indebted to Greece. The Troika's bailout basically imposed a drastic austerity programme in Greece and bought private debt from the banks who had been lending at outlandish rates, and made the debt public – i.e. European taxpayers now held the debt.

The austerity conditions for the bailouts were imposed upon Greece, even though only 10% of the bailouts went to the Greeks themselves. The Greek people voted in an anti-austerity government, Syriza. Yanis Varoufakis, the new Greek Finance Minister became the head negotiator, and plays the role of Keynes in clearly demonstrating that the Troika's solutions are economically impossible and that they will worsen the situation in Greece. His book Adults in the Room. My Battle with Europe's Deep Establishment (2) describes his encounters with Wolfgang Schaubel of the Eurogroup and Christine Lagarde of the IMF. His inside story shows clearly how the agenda is similar to the Paris Peace Conference. The agenda is political. The intention is not to rescue Greece at all, but for Greece to serve as a lesson to any other country that might dare suggesting a haircut to sovereign debt. The intention is also to rescue the French and German banks that had leveraged loans of 40-1 and could have collapsed the whole European banking sector if Greece defaulted – though this motive must never be admitted. The Greek government is allowed probably no more democracy than the Germans had in the years following World War One and World War Two. The voice of their people counts for nothing; their banks can be closed down overnight by the Eurogroup (already tested in Cyprus in March 2013); the Troika took over control of the Greek tax office, the customs office, and the newly organised privatisation office. This is democraticide and the results are what Varoufakis had predicted:

There are 10 million Greeks living in Greece (and falling fast due to migration).

2,3 million have a debt to the Tax Office that they cannot service.

- 1 million households cannot pay their electricity bill in full, forcing the electricity company to ‘extend and pretend’, thus ensuring that 1 million homes live in fear of darkness at night while the electricity company is insolvent. Indeed, the Public Power Corporation is disconnecting around 30,000 homes and businesses a month due to unpaid bills.

● For 48.6% of families pensions are the main source of income, expected to be cut even further. The €700 pension has been reduced by about 25% since 2010 and is due to be halved over the next few years.

● The minimum wage shrunk (on the Troika’s orders) by 40%.

● Unemployment has risen 160% so that now 3.5m employed people have to support 4.7m unemployed or inactive

● Of the 3 million people constituting Greece’s labour force, 1.4 million are jobless.

● Of the 1.4 million jobless only 10% receive unemployment benefits.

● Of those employed in the private sector 500,000 have not been paid for more than three months.

● Contractors who work for the public sector are paid up to 24 months after they provided the service and have pre-paid sales tax to the Tax Office.

● Half of the businesses still in operation throughout the country are seriously in arrears visà-vis their (compulsory) contributions their employees’ pension and social security fund.

● 34.6% of the population live at risk of poverty or social exclusion (2012 figure)

● Household’s disposable income has contracted 30% since 2010

● Health care cuts of 11.1% between 2009-2011 – with a significant rise of HIV infections, tuberculosis, still births. (3)

In Germany after World War One, if the country couldn't pay its reparations, allies were allowed to take goods in exchange. In Greece, in order to pay its debts, the Troika-run privatisation board is selling off public land, goods and services. In The Economic Consequences of the Peace, Keynes warns that the humiliation and economic destruction of Germany would likely lead to social disruption, nationalism and eventually war. What can we see in Greece today? The humiliating treatment of Greece has seen the rise of Golden Dawn, a fascist, neo-nazi party, that was virtually inexistent before the Greek debt crisis. They scored their first major victory in the 2012 national elections on a programme concentrated on anti-austerity, anti-immigration and pro-employment. 7% of the national vote was enough to allow them to enter parliament for the first time with 21 seats. By 2015 this fascist party has become the third largest party in the country. Keynes would be quoting Marx – “History Repeats Itself”. Will we now see a repetition of the London Debt Accords, since the current situation is not only economically absurd, but the torpedoing of social rights and national sovereignty is simply immoral. Keynes will be turning in his grave, wondering why we have learnt nothing from the past. As Hoerber states (4),

> Keynes argues that the state has a moral obligation to invest in order to serve the people. The mass unemployment experienced during the Great Depression has to be avoided in the future, because of its dire consequences – of which the Second World War was seen as the most serious.

In the same way, the European Union, whether represented by the Council, the Commission or Parliament, has a moral obligation to find positive solutions for Greece rather than driving it deeper and deeper into recession and poverty.

3. Keynes vs Dexter White at Bretton Woods

The British position at Bretton Woods had strength in the brilliant ideas and plans of Keynes, but the weakness of a failing British Empire. In 1914, Britain was the biggest trading economy in the world. It was also the largest supplier of credit for investment. The First World War dented this trade supremacy and as the effects of the US Great Depression hit the UK, the British set up the Imperial Preference Scheme which guaranteed that members of the Empire buy and sell in pounds sterling, keeping them away from trade with the USA. After World War Two the situation was even worse; the USA held most of the world's gold resources, had debt control over most of its allies, and was the only country with an intact major productive infrastructure. The Americans used the Lend-Lease programme to break up the British Empire by insisting on the removal of the Imperial Preference Scheme, without which the British lost the last of their commercial power. They were in no position to impose terms at Bretton Woods. The British via Keynes and the Americans via Dexter White agreed on most points. The world had suffered greatly under currency instability after World War One as countries devalued their national currencies to gain markets for their exports. A managed global economy was needed to stabilise exchange rates, stop devaluations and avoid speculation. The two men, however, proposed different mechanisms for this new global economic structure. Keynes promoted an International Clearing Union using a virtual currency – the Bancor:

> Each item a country exported would add bancors to its ICB account (International Currency Bank), and each item it imported would subtract bancors. Limits would be imposed on the amount of bancors a country could accumulate by selling more abroad than it bought, and on the amount of bancor debt it could rack up by buying more than it sold. This was to stop countries building up excessive surpluses or deficits. … Once initial limits had been breached, deficit countries would be allowed to depreciate, and surplus countries to appreciate, their currencies. This would make deficit country goods cheaper, and surplus country goods more expensive, with the aim of a rebalancing of trade. (1)

The Americans, however seized their chance to impose the dollar as the world's exchange and reserve currency. Instead of the Gold Standard, all currencies would have fixed rates with the dollar, and the dollar would have a fixed rate to Gold. In this way banks could store dollars instead of gold. The American people, wary of funding European debt, supported the American position, as we can read in this report in The New York Times:

> The kid who owns the ball is usually captain and decides when and where the game will be played and who will be in the team. While international monetary stabilization is not baseball, it is a game. Gold is as necessary to that game as the ball is and bat are to baseball. Since the US now owns some twenty-two billions of the world's reported twenty eight billions of gold, we think Uncle Sam is going to be the captain of the team or there will be no game... and the idea of "supplanting gold as the governing factor" and apportioning voting power on the basis of pre-war trade, which would give Britain about fifty per cent more voting power than the U.S., not only is not good baseball – it is not even cricket" New York Times, March 30, 1943. (2)

The USA would enormously benefit from being able to print the world's reserve currency. There were other differences as well. The British government under Prime Minister Clement Atlee was nationalising essential sectors of the economy (transport and energy) whereas the Americans wanted Britain to be part of a free-trade, capitalist Europe. In short, Keynes did his best to defend British interests, but had to swallow Dexter White's American system. The UK needed loans; the USA had the money, so the USA called the shots, and let's face it, the British would have done the same if they had been in the same situation. The rest of the world, perhaps with the exception of Russia, played marionettes to the system; there was virtually no possibility to vote – just to discuss and then agree to the plan that had been prepared long before their arrival at Bretton Woods.

The institutions of a new world order were created: the World Bank to finance long-term projects such as the construction of dams where massive investment was required long before any financial returns were possible; the International Monetary Fund to help countries out of temporary debt difficulties; and the General Agreement on Tariffs and Trade (GATT) that later became the World Trade Organisation (WTO) to ensure that countries would not use protectionism (particularly against US goods since the US held a virtual monopoly of productive capacity). Some see the Bretton Woods institutions as instruments of US capitalist hegemony (3). Keynes's objectives were different. Although he sought international institutions to avoid a recurrence of the inter-war currency and trade crisis, he clearly wanted truly international institutions rather than American-led ones. He also wanted the Bancor to be the basis of an international currency union. Currencies would be tied to the bancor, but would have some flexibility depending on their Balance of Trade. Currency speculation (and devaluation) would hence be stopped. Excessive creditors and debtors would not exist either since the terms of trade would become more and more difficult for countries in trade credit and the opposite would happen for those in trade deficit. This would also have the impact of releasing reserves since they would be spent rather than held in reserve. The economics of the Bancor system was considered far better than the American system, but the Americans were certainly not going to give any currency or trade sovereignty to an international institution where they were not the masters of the game. For further details of Keynes's Bancor system, see chapter 6.2 of Reforming the Global Financial Architecture: a Comparison of Different Proposals (4)

4. A Keynesian proposal for an International Money Clearing Unit (ICU)

Keynes understood that free-floating currencies were dangerous for the world economy since he had seen the beggar-thy-neighbour practices of devaluation in the inter-war years. He also understood that a fixed-system like the gold standard was not a solution either. What was needed was 1. An internationally-controlled currency system that avoided a currency roller-coaster and currency speculation.

2. A method of controlling balance of trade excesses to avoid major currency creditors and debtors.

3. A flexibility system to allow changes in productivity to feed back into the system to avoid the rich becoming richer and the poor poorer.

Our globalised trade is currently working within a highly unstable system, with high levels of currency speculation, massive trade imbalances, a worsening debtor-creditor situation, and wider and wider wealth gaps. How would Keynes deal with our current structural problems? Well, most of it has already been done with his Bretton Woods proposals. Unfortunately very few people are aware of his proposals since history is written by the winners, not the losers!

Here are main principals of Keynes's Bancor system.

1. Member countries will agree on their currency in terms of Bancor and gold. These rates can change slightly without permission. Large changes need permission from the board. (This is similarly to the EU's European Monetary System where pre-EMU members should 'tie' their currencies to the average within an agreed band.)
2. Each member will have an agreed quota with the ICU to be adapted every year according to its average volume of trade.
3. A member with an excess or debit of more than 25% it will be charged 1% p.a. with an extra 1% if it exceeds 50%. Member states in debt can borrow from countries in credit to avoid these payments.
4. A country with a persistent deficit (over 25% annually) should devalue its currency in terms of Bancor by not more than 5%.
5. A country with a persistent surplus (more than 50% of its quota), should a) increase domestic credit and demand, b) appreciate its currency in terms of Bancor or increase wages, c) reduce import tariffs, d) provide international loans for developing countries.
6. Gold can be credited as Bancor, but not the reverse. The ICU board can distribute gold to countries with bancor credits.
7. Non-member countries should have an account at the ICU but cannot have overdrafts and cannot vote.
8. Countries can resign with one year's notice after settling their accounts.

A country does not have to maintain a trade balance with other members, simply with the ICU. The plan also includes capital controls:

There is no country which can, in future, safely allow the flight of funds for political reasons or even to evade domestic taxation or in anticipation of the owner turning refugee. Equally there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment. In this way FDI can continue, but not speculation. Given the estimated world losses in tax revenue through tax fraud via tax havens, estimated at 5% of the world GDP (2, 3)

An international money clearing unit along Keynesian lines has been proposed by Paul Davidson (4, 5). The trade architecture is Keynesian, but he suggests avoiding a supranational central bank that he feels is politically not conceivable.

The US trade balance was in credit after the Second World War and remained balanced during the 50s and 60s. But by 2017, it is nearly 44$ billion in deficit. China's trade balance was steady until 2004 (introduction of private property rights) and by 2017 is 42$ in credit. Obviously the resultant imbalance is reflected in employment levels and the Chinese purchase of US debt. Under Keynes's Bancor system, this would not be possible since China would have to steadily increase the value of its currency leading to a reduction of exports and increase in imports. The USA would have to do the opposite. Daily spot-trading in currencies is over 5$ trillion. This massive and rapid speculation would simply not exist with the Bancor system since devaluation or revaluation would only occur under the auspices of the International Clearing Union. This would help stabilise the world economy.

5. A Keynesian proposal to resolve intra-Eurozone trade imbalances

The ICU was designed in 1944 before the creation of currency zones such as the Eurozone. Yet the Eurozone has a serious structural weakness – there is no flexibility. Members of the Eurozone can no longer depreciate or appreciate their currencies to reflect their comparative productivity. Even non-EMU members are constrained since if they are members of the ERM II system, they have to tie their currecies to an agreed value band in relation to the Euro. In theory, more productive countries such as Germany should have inflation that should lead to higher wages and hence increase the cost of their exports and increase imports. But this has not happened. Germany actually benefits from the Euro which constitutes an average of EMU productivity – and hence has been able to avoid the appreciation of the German Mark that would have resulted if there were no Euro. In the same way, France has been unable to continue its pre-Euro depreciations, and hence is stuck with a Euro that is possibly more expensive than the French Franc would be. We now have considerable imbalances among EU members: since 1999 (the introduction of the Euro), German trade surplus has increased considerably to 19.5€ billion (annual to July 2017) (1). This is in comparison to France which was positive in 1999, and has now shrunk to a deficit of 6€ billion (annual to July 2017) (2).

If there were an ICU, then it would be the European Central Bank that would be a member, not individual nations, therefore the Bancor system would effect the Euro as a whole, but not resolve intra-EMU problems.

If currency is fixed, and productivity varies, then there are only two mechanisms to regulate the system, financial transfers and labour costs. In terms of financial transfers, the transfers exist already under the Regional Funds that flow mostly to the poorer countries of the EU (this represents about 40 of the EU budget). However, these are vastly insufficient. Each member provides the equivalent of 1% of its GDP to the EU budget. Some get more back than they put in, some the reverse. This is the 'solidarity model' whereby Germany pays more in than it gets back, but the poorer countries get wealthier and buy German goods – at least that is the theory! But Germany gets back about half of its money, so it actually only transfers 0.5% of its GDP to the poorer countries. If financial transfers were to have a real impact on the European economy, then transfers should be much higher – which in turn means increasing the GDP % going into the EU budget, at least twice as much, and fixing better rules on where the money goes in order to avoid some of the richer countries receiving funds because they lobby better in Brussels! The regional or structural funds could also have rules concerning the provision of goods and labour whereby the maximum of these should come from within the recipient country and not from outside, when possible. For example, if the EU were to establish a major investment in solar farms in Greece, then it should be accompanied by financing the factories to produce those panels rather than importing them from China.

Another problem is that the EU created the EMU – Economic and Monetary Union, but only succeeded with Monetary Union, the Euro, and failed to provide the Economic Union via harmonised macroeconomic policy and a harmonised fiscal policy.

Let us take a look at the problem between Germany and France, then see what Keynes might have suggested. Germany is the richest country in the EU, but its per capita average income is only 2,225€ in comparison to 2,180€ in France (3). Germany's trade surplus and growth (2.1% vs 1.6%) (4) has not led to an increase in salaries. Under the Hartz Plan that started in 2003 (5) medical benefits were cut, pensions reduced, and unemployment benefits drastically cut and labour 'flexibility' was increased. If you add to this that a minimum wage was not introduced until January 2017, then we can understand why German labour costs have remained relatively low with many precarious job situations. Poverty (60% line) in Germany has increased from 11% in 1992 to 15.7% by 2015, (6, 7) in spite of GDP growing steadily. So therefore we can understand that low unemployment is related to poorly-paid jobs or part-time jobs. If we do not use the previous financial transfer solution, then why not a labour cost solution? Intra-European trade imbalances could be to tied mathematically whereby trade balance surpluses would be tied to minimum wages rather than currency conversion against a Bancor or financial penalties. On the other hand it would be socially unacceptable to reduce minimum wages in countries with a deficit. Over time the labour costs in trade surplus countries would increase, improving their standard of living and increasing their imports from the other countries. Obviously this would be difficult for a German government to accept, but it would be much cheaper than the cost of the break-up of the Eurozone which is the direction we are going in if nothing is done to introduce a transfer system. For Germany to go back to the Deutsche Mark would be very expensive as its currency would appreciate strongly. Perhaps we could summarise a return to Keynesian policies for the European Union:

1. The priority of full employment. The current levels (7.8 in September 2017) are socially, economically and morally unacceptable.
2. Recreate a European solidarity model and reverse the current debt-predatory model.
3. Create an international currency union along the lines of the Bancor system to stop speculation and control the balance of payments among members.
4. Introduce a transfer model within the EU, either in terms of greater financial transfers within the regional funds or by linking trade surpluses to minimum wages to increase wealth and prices.
5. Introduce the necessary trade regulations or protection to guarantee full employment with the EU.

In a globalised world, a country or trade group that maintains Keynesian policies of high employment cannot compete under Free Trade since its production costs are inevitably higher. Some sort of balancing or protectionism is necessary, as applied by Keynes in the UK to maintain employment. Under neoliberalism since the 1980s, whether in the USA or in the EU, the old mantra of avoiding inflation, opening free trade, and ignoring unemployment has been the unhappy creed.

Conclusion

If we asked Keynes's ghost today what he thought of our current state of affairs, the first thing he would point out, was that GDP growth in the world was much better under Keynesian policy (from the 1940's to the late 1970's) than under the neo-liberal policy that started in the late 1970's under Reagan and Thatcher (1) if we ignore Friedman's previous neoliberal experiments under dictatorships in South America (2). During the Keynesian era, France and Germany saw their GDP grow by 4.0% and 4.9% respectively. The UK and US also had high growth rates. Under the neoliberal Washington Consensus era, growth had collapsed to 2.1% for the UK, 1.9% for the US, 1.6% for France and 1.8% for Germany. The lack of post-Keynesian growth is evident – even though different economists might disagree about cause and effect. Keynes would point to the fundamental market error of increasingly high wealth discrepancies under neoliberalism. Poor wealth distribution does two harmful things: it leaves too much wealth at the top that cannot be spent and seeks investment opportunities. In Keynesian days this would have produced profitable capitalism as capital would find good returns in industry; this is no longer the case since the West has de-industrialised, and spare money goes into financial speculation which adds exactly to the boom and bust problem of capitalism. The other problem with increasingly unequal wealth distribution as visible by worsening Gini scores (see https://www.equalitytrust.org.uk/about-inequality/scale-and-trends as an example (UK) showing a clear reduction in inequality during the Keynesian policy years until 1979 when Margaret Thatcher was elected Prime Minister – and income distribution almost immediately worsened). Keynes understood that workers are consumers. High unemployment levels, and poorly paid workers removes demand from the economy. Now some people suggest that budget deficits due to countries bailing out their banks and then hiding debt under quantitative easing is Keynesian due to the printing of money (or nowadays, the electronic creation of virtual, fiat money). But this is a mistake. For Keynes, it is the spending of money, not printing it, that is the solution. Providing cash to banks does not create jobs, it keeps those who created a failing system healthy and wealthy. Keynes would be turning in his grave. Keynesian era employment was high in comparison to a post-Keynesian world. In the UK an average of 1.6% of workers were unemployed, in France only 1.2%. After the late 1970s, UK unemployment rose from 1.6% to 7.4%; in Germany from 3.1% to 7.5%.

Perhaps the most glaring failure has been that of the very institutions that Keynes oversaw at Bretton Woods. The International Monetary Fund and the World Bank were designed specifically to reduce international inequalities. Keynes insisted that they be international in nature. He lost and they became US-dominated and part of the current neo-liberal paradigm (do not forget the continuing IMF restructuring in Greece as part of the Troika's 'rescue plan'). Perhaps Keynes would join the 50 Years is Enough organisation (3) which asks exactly how well these two institutions have done after 50 years (now over 70 years) – the results make dismal reading. In the same way that the Paris Peace Conference refused to look at the facts presented by Keynes, the Troika refuses to accept the facts presented by Yanis Varoufakis, and today we are refusing to understand what is staring us in the face, the Neo-liberal paradigm simply hasn't worked, isn't working and will not work in the future.

It is time for Keynesian policy, Keynesian philosophy and Keynesian morality to take centre stage in a New World Order – and where better to organise that meeting than in New Hampshire – Bretton Woods II.

To complete this paper, I shall leave the final words to John Maynard Keynes himself, the intellectual pragmatist, with words of warning that he wrote in a book of hope: Economic Possibilities for our Grandchildren:

> There are changes in other spheres too which we must expect to come. When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, 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. (4)

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