SHRINKING POLICY SPACE, GLOBAL IMBALANCES AND WORLD RECESSION: A REVISITING OF OUR TROUBLED TIMES WITH AN EYE TO KEYNES

Anna M. Carabelli & Mario A. Cedrini

Dipartimento di Scienze Economiche e Metodi Quantitativi
Università del Piemonte Orientale - Via Perrone 18, 28100 Novara (Italy)
anna.carabelli@eco.unipmn.it - mario.cedrini@eco.unipmn.it

Paper prepared for the conference

The World Economy in Crisis - The Return of Keynesianism?
30-31 October 2009, Berlin

Macroeconomic Policy Institute (IMK) at the Hans-Boeckler-Foundation,
Research Network Macroeconomics and Macroeconomic Policies (FMM)

Abstract

The paper argues that the new popularity of Keynes's plans for the reform of the global architecture in the troubled times of the financial crisis should be supplemented by a revisiting of the general approach and method he developed for the analysis of the global economic order throughout his whole career of international macroeconomist and negotiator. By revisiting some neglected episodes of Keynes's economic diplomacy with special concern for the methodological issues involved, we reassess his work, from *Indian Currency and Finance* to *The Economic Consequences of the Peace* to the plan for an International Clearing Union, as the attempt to cope with the dilemmas of the international system in such a way as to promote multilateralism and coordinated adjustment, and suggest the possibility to draw on Keynes's vision and monetary reform for a new international order using discipline as the means to promote, rather than repress, freedom and policy space.

Introduction

Keynes is "becoming fashionable again", to use the very words Keynes himself wrote in a letter to his wife in November 1929, after being named to the Macmillan Committee. A number of volumes (Skidelsky, 2009; Davidson, 2009; Clarke, 2009; Marcuzzo, Bateman and Hirai, 2009) have recently appeared proclaiming the "Keynes comeback" (Economist, 2009) of current troubled times. After decades of government-as-the-problem, neo-liberalism, monetarism and unregulated financial markets, government regulation and "Keynesian" fiscal policy are advocated by both academic economists and policymakers as the only available solutions to the big crash of 2008 and its painful repercussions on world economy. When it comes to national policies, the resurrection of Keynes's ideas is, in a way, the repudiation of their repudiation. Called upon to fight stagflation in the Seventies, the counterrevolution of monetarism and laissez-faire has failed to restore the growth patterns ensured by Keynesianism during the Glorious Thirty and rather performed quite inadequately, as shown by the so many financial crises occurred in the name of the free market paradigm. The irresistible strength of the anti-Keynesian dogma having left little or no margin for the emergence of non-mainstream approaches, there seems to be no historic alternative to the "Keynes solution" (Davidson, 2009). For sure, it has to prove its continued effectiveness with changed times and circumstances – financial globalization and its effects, scarce appeal of public institutions and of mixed-economy models, political and economic constraints on fiscal-stimulus policies, and so on – to the extent that after reading the three essays on the Keynes comeback, *The Economist*'s reviewer has no clear idea of how the ideas of Keynes, appropriately revised to counter their "bastard Keynesianism" grotesque misrepresentation, should be applied to contemporary economic policy.

The Keynes comeback is not less problematic when it comes to the issue of the global economic integration. Rodrik (2009) explains that to take capitalism "to its next phase", Keynes's mixed economy national model must be transposed to the global dimension to revitalize a Bretton Woods world, or to discover new patterns of international economic relations based on that same "embedded liberalism" which governed global economy during the Golden age. In short, a new system directly inspired to the spirit of the order established in 1944 and consciously designed to overcome the shortcomings produced by the recent, unintended evolution of our world toward a "Bretton Woods 2" (Dooley, Folkerts-Landau and Garber, 2003) model. Notwithstanding the impression of *déjà-vu* brought about by the return of issues already dealt with in the aftermath of the Asian crisis (see Eichengreen, 2009), evidence of the continued relevance of the reform plans

Keynes designed for the Bretton Woods world can be easily found by their recurrence in current proposals for international monetary reform not having direct reference to the Post-Keynesian tradition (for Post-Keynesian analyses and reform proposals, see the *Journal of Post-Keynesian Economics*, Vol. 26, No. 4, Summer 2004).

Shifting part of the responsibility for international imbalances to creditor countries and the establishment of a true supranational currency, the two main pillars of Keynes's project for an International Clearing Union, are now widely debated with unusual passion by experts committees of international institutions, as shown by both the preliminary report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (UNPGA, 2009), informally named "Stiglitz Commission", and the last *Trade and Development Report* of the United Nations Conference on Trade and Development (UNCTAD, 2009). Aiming at supporting growth in emerging markets and developing economies, the G-20 London Summit of April 2009 has proposed substantially increasing the resources available to the IMF to boost global liquidity, a problem the signers of the Bretton Woods agreement would have avoided had they not dismissed Keynes's plans. A number of economists are arguing that special drawing rights might become a kind of the supranational money Keynes was searching for (see Williamson, 2009) and revolutionize the global reserve system. The International Monetary Fund is pulling together information about efforts to reform the international financial system. The most surprising revival of Keynes's ideas is probably included in a famous recent speech by the Governor of the People's Bank of China, Zhou Xiaochuan (2009), calling for the dethronization of the dollar and "the creation of an international currency unit, based on the Keynesian proposal" (ibid., p. 2), the bancor. Finally, the proposal of controlling destabilizing capital flows revamping Keynes's view of finance as "primarily national" is gaining considerable attention (see Rodrik and Subramanian, 2008; UNCTAD, 2009).

This Keynes comeback is favoured by the fact that his plans for international reform have not been tested yet, so that their implementation can legitimately aspire to launch a true revolution in global management. However, their unprecedented appeal and now manifest (or apparently so) viability should pose a challenge to economists, and particularly economic historians and historians of economic thought, for long engaged in the research of the motives lying behind Keynes's defeat at Bretton Woods. The subtitle of the third volume of Skidelsky's (2000) biographical work comes to mind: who, or what was Keynes fighting for? To put it in simpler words, was there a "critical ambiguity", as Skidelsky argues, in Keynes's plans? "Was 'the heart of

the matter' to 'encourage balance of payments adjustment' ... Or was it to secure huge overdraft facilities for Britain and other debtors in the immediate post-war years?" (ib., p. 208). More in general, what is there, in Keynes's plans and work as an international economist and negotiator, that might come to rescue our troubled world? It seems to make a big difference if our call upon Keynes's insights is due to recognition that his economic diplomacy in the Forties was public-spirited and directed toward the establishment of a "sounder political economy between all nations" (*The Collected Writings of John Maynard Keynes*, Vol. 25, p. 43 – hereafter: *CW*), rather than self-interested and devoted to rescue a financially exhausted debtor country, engaged in the attempt to save the Empire from the "American conception of the international system" (*CW* 24, p. 61).

In the attempt to banish such doubts, we provide reasons to believe that the new popularity of Keynes's plans should be supplemented by a revisiting of the general approach he developed throughout his whole career for the analysis of the global economic order. As Kirschner (2009) aptly remarks, "contemporary political science and economics would be well served by a greater familiarity with the full breadth of Keynes's own writings and thinking" (p. 530). We center on what David Vines (2003) defines as the "focus and method" (p. 358) of Keynes's work as an international macroeconomist, that is on his vision "of global capitalism as an *inter*-national system" (p. 357) deriving from "an extraordinarily clear understanding of how pieces of the global economy interact, driven by the policies of autonomous nations, in an only partly coherent manner" (p. 339). By revisiting some less well-known (or usually considered of little help for the purposes outlined above) episodes of Keynes's economic diplomacy with special concern for the methodological issues involved, we try to show the relevance of his analysis and method for today's world. The paper re-examines *The Economic Consequences of the Peace* (1919) as a model of international adjustment deriving its stength from full awareness of the constraints posed by global interdependence. It proceeds by noting that Keynes was to use this same model in his *Overseas Financial Policy in Stage III* 1945 memorandum for addressing the international imbalances at the end of the Second World War, making it clear that the need for shared-responsibilities approaches to the dilemmas of the international system – as he wrote in the *Treatise on Money* – is the true essence of Keynes's plans for Bretton Woods. This model is then adopted to deal with current global imbalances, and suggest a coordinated way out of them. Then the article shows that the second pillar of Keynes's international economics, that is the search for a "rational" reform of the international monetary order, traces back to *Indian Currency and Finance* (1913), and argues that

the legacy of this early essay by Keynes is still relevant in the times of the so-called "Bretton Woods II" system. Finally, the outcome of Keynes's efforts is contrasted with the evolution of the non-system in recent decades, suggesting the possibility to draw on Keynes's vision for a new international order using discipline as the means to promote, rather than repress, freedom and policy space.

1. Keynes's method to deal with the complexity of international economic relations: the *Economic Consequences of the Peace*

In a series of previous papers, we have tried to show that many of the most relevant episodes of Keynes's economic diplomacy and of the theoretical anaylises he used throughout his main works to suggest reform plans of the global architecture reflect the use of a peculiar "method", i.e. a way of reasoning in (international) economics (Carabelli, 1988), consistently with the conception and practice of economics that qualify Keynes as a "thinker of complexity" (Marchionatti, 2009). In his exchange with Roy Harrod concerning the latter's *Scope and Method in Economics*, Keynes defines economics as a "moral science", "a branch of logic, a way of thinking ... in terms of models joined to the art of choosing models which are relevant to the contemporary world" (*CW* 14, p. 297). It is in the "nature of economic thinking", he observes in the *General Theory*, that to cope with the complexity of the economy without abstracting from variability, "after we have reached a provisional conclusion by isolating the complicating factors one by one, we then have to go back on ourselves and allow, as well as we can, for the probable interactions of the factors among themselves" (*CW* 7, p. 297).

The literature concerning the continuity between Keynes's methodological approach to probability and the way of reasoning about the economic material underlying his mature economic writings stresses the centrality, in Keynes's thought, of organic interdependence among economic variables (see Dow and Hillard 1995). Similarities are shown to exist between, on the one side, the focusing of *A Treatise on Probability* on problems of measurement and comparison of magnitudes, which derive from probability being regarded as an organic, complex and incommensurable magnitude, and on the other side, Keynes's attempts to cope with theoretically vague, indefinable in logical terms, non-homogeneous through time and space, incommensurable and quantitatively incomparable, multidimensional economic magnitudes and the uncertainty which is associated with them (Carabelli 1988, 1991). In *A Treatise on Money*, Keynes refers to core economic magnitudes, like purchasing power, which "are complex or manifold in the sense that they are

capable of variations of degree in more than one mutually incommensurable direction at the same time" (*CW* 5, p. 88): heterogeneity in dimension, he observed in the *General Theory*, prevents the comparison between two complex magnitudes. As Keynes pointed out in his 1926 *Essay on Edgeworth*, complexity combines with organic interdependence so that

> the atomic hypothesis which had worked so splendidly in physics breaks down in psychics. We are faced at every turn with the problem of organic unity, of discreteness, of discontinuity – the whole is not equal to the sum of the parts, comparison of quantity fails us, small changes produce large effects, the assumptions of a uniform and homogeneous continuum are not satisfied (*CW* 10, p. 262).

On a more general level, it is possible to argue that Keynes's macroeconomics lies on the attempt to counteract the negative effects of complexity in terms of the dilemmas, fallacies and paradoxes that shape the conflict between individual and social interests (Carabelli and De Vecchi, 2001). Following Vines, we find that a salient peculiarity of Keynes's work as an international macroeconomist rests exactly on the use of a method of investigation that seems to reflect his vision of international economic relations as a complex object, requiring a theory enabling him to tackle organic interdependence among the variables of a system characterized by openness, incompleteness, indivisibility, contingency and chance, without theoretically reducing the latter's complexity. In other words, we remark the consistency between Keynes's refusal to apply the "atomic hypothesis" to probability and economics, as shown by his methodological criticism of the classical theory, that fails to deal with organic interdependence (Carabelli, 1991), and his attempt at copying with the complexity of international economic relations. We thus proceed to examine as such *The Economic Consequences of the Peace* (see Carabelli and Cedrini, 2008), and subsequently in his WWII economic diplomacy, seeking for a response to Skidelsky's doubts about the "heart" of Keynes's Plans for Bretton Woods and, more importantly, for valuable lessons as regards the problem of current global imbalances, with the aim of suggesting a Keynes-inspired way-out of it.

Keynes's 1919 bestseller was to remind politicians and the public opinion that the European system was an organic world. He was persuaded that the Treaty of Versailles

> ignores the economic solidarity of Europe, and by aiming at the distruction of the economic life of Germany it threatens the health and prosperity of the Allies themselves (*CW* 17, p. 58).

The "economic unity of Europe" rested in fact on the economic and territorial integrity of Germany, the heart of the European "body" (*CW* 2, p. 2):

> "round Germany as a central support the rest of the European economic system grouped itself, and on the prosperity and enterprise of Germany the prosperity

> of the rest of the Continent mainly depended. The increasing pace of Germany gave her neighbors an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements at a low price" (pp. 9-10).

The introduction of the atomic hypothesis for the convenience of a clear-cut settlement of Europe, masking the Allies' desire to impose on Germany the unworkable clauses of the Treaty and the whole burden of the costs of the war, was destined to transform inter-European relations into a social conflict of the "lose-lose" kind.

Keynes's main concerns were for the Treaty's highly punitive dispositions about German coal and iron, i.e. the key factor of industrial growth and "organization" (p. 9) in Central Europe. The coal settlement was leading European policymakers into a "real dilemma" (p. 58). Due to the "desperate" (ibid.) European overall coal position, France and Italy would have done their best to secure their reparations in kind from Germany. Their case, Keynes conceded, possessed "unanswerable force from a certain point of view": "It may be admitted that the surrender of the coal will destroy German industry, but it may be equally true that its non-surrender will jeopardize French and Italian industry" (ibid.). A conflict was thus bound to arise between different ethical claims which could scarcely be weighted one against the other – justice for the Allies, and Wilson's plea for a peace of magnanimity. In case of surrender of German coal, Northern Europe and Austria-Hungary would have been deprived of their supplies and the latter brought to ruin, while Germany's neutral neighbours should have necessarily recurred to the "extraordinary complication" (p. 60) of "international barter" (p. 59), which nevertheless "may produce the coal where other devices would fail" (p. 60). Still, France and Italy could not have tolerated Germany resorting to international barter to buy vital imports against its coal unless treaty obligations were met first.

> In this there will be a great show of justice, and it will be difficult to weigh against such claims the possible facts that, while German miners will work for butter, there is no available means of compelling them to get coal, the sale of which will bring in nothing, and that if Germany has no coal to send to her neighbors she may fail to secure imports essential to her economic existence (p. 60).

But then, with France and Italy allowed to secure their shares of German coal, and the rest of Europe contented with what is left,

> the industrial future of Europe is black and the prospects of revolution very good. It is a case where particular interests and particular claims, however well founded in sentiment or in justice, must yield to sovereign expediency (ibid.).

The existence of a plurality of moral ends and values moving into opposite directions and yet all of them making claims upon the decision-makers, thus engendering the possibility of an irreducible clash between them, is typical of the ancient Greek tragedy and classical dramas, which had shaped Keynes's tragic view of ethics and aesthetics and stimulated his interest in moral and rational dilemmas (Carabelli, 1998). Dilemmas concern Keynes's treatment of probability as the hypothesis upon which it is reasonable to act and a guide of life, but enter the realm of economics as well, since they are based on those same incommensurability and non-comparability of moral or rational reasons for action which characterize situations of radical uncertainty (Carabelli and De Vecchi, 2001). A moral conflict for the European body charged with the settlement of the continent (which Keynes defines as an "impending catastrophe" with "all the elements of ancient tragedy", *CW* 2, p. 3), the coal settlement assumes the forms of a rational dilemma for France and Italy, bound to recognize that

> If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds (p. 2).

Nationalism and "private interest" (p. 60) were to impose new "economic frontier[*s*]", which were required by "sentiment and historic justice" (ibid.) but destined to diminish the economic efficiency and organization of the continent. Keynes pictured this struggle between "particular interests and particular claims" (ibid.) in metaphorical language:

> men have devised ways to impoverish themselves and one another and prefer collective animosities to individual happiness (p. 62).

In Keynes's thought, conflicts of this kind are brought about by individual initiatives which "if taken by an individual [...] would benefit him, but do not benefit anybody if they become shared, that is if everybody adopts them" (Carabelli and De Vecchi, 2001, pp. 231-32). Due to uncertainty and ignorance, individuals are induced to shape conventional expectations, so that, as Keynes made clear in *The End of Laissez-Faire*, "it may even be to the interest of individuals to aggravate the disease" (*CW* 9: pp. 290-91) to their own disadvantage, as in "so complex a phenomenon" (*CW* 2, p. 160) such as the affaire of reparations. Britain too, having financed the Allies' war, was unable to escape the dilemma: Lloyd George's hopes to burden Germany with the entire cost of the war

> set him at variance with the [*US*] President, and on the other hand with competing interests to those of France and Belgium. The clearer it became that but little could be expected from Germany, the more necessary it was to exercise patriotic greed and

> "sacred egotism" and snatch the bone from the juster claims and greater need of France or the well-founded expectations of Belgium (p. 92).

The only possibility to avoid the continent's distruction lay in accompanying the reduction of reparations by "a readjustment of its apportionment between the Allies themselves" (170). Due to Inter-Allied debts, France and the other claimants caught in the dilemma could not recede from asking *impossible* indemnities; hence Keynes's proposal for an all-round debts cancellation. He asked Britain – a net creditor, having lent much more than borrowed, but in debt with the United States, a lender only – to renounce its share of reparations (£900 million) to the advantage of France (who had borrowed much more than lent), Belgium and Serbia (borrowers only). This would have rendered it possible to make an onerous (£2 billion) "appeal to the generosity of the United States" (p. 93). The financial sacrifices of the United States, Keynes argued, had been comparatively lower with respect to the European ones; though not a "compelling argument", this could show that in asking for debt forgiveness, "an Englishman is not seeking to avoid due sacrifice on his country's part" (p. 175). Was Keynes "veiling the controversy" with "dubious moral attitudes" (*CW* 18, p. 296), as argued by the editors of the American review "New Republic" in response to an article by Keynes in 1928, or was he, believing that "interdependence required management, and that a 'leader' was a great asset (if not an essential one) in doing this" (Markwell, 1995, p. 209), attempting to "imbue the new hegemonic centre, the US, with the behaviour and ethics which pertain to the world creditor power" (Ferrari Bravo, 1990, p. 407, our translation)?

In our interpretation, Keynes was rather stating that the only solution to the impasse could come from actors lying outside the borders of the European conflict: the United States and, to a certain extent, Britain (whose difficulties were "of a different kind altogether from those impending on Europe", *CW* 2, p. 2). In *The End of Laissez-Faire*, Keynes holds that the cure for the fallacy of composition between particular and general interests which is typical of worlds characterized by complexity and interdependence lies "outside the operations of individuals" (*CW* 9, p. 291); it has a social character and is provided by public institutions able to "exercise public action grounded upon deliberate and reasonable [...] judgement" (Carabelli and De Vecchi 2001, p. 234). This is the model Keynes was to use in proposing an international cure for the world slump in 1931, remarking that

> Reasoning by a false analogy from what is prudent for an individual who finds himself in danger of living beyond his means, he is usually, when his nerves are frayed, a supporter, though to his own ultimate disadvantage, of national contraction (*CW* 9, p. 232).

The "competitive struggle for liquidity" (*CW* 21:42) he was trying to counteract was

> an extreme example of the *disharmony* of general and particular interest. Each nation, in an effort to improve its relative position, takes measures injurious to the absolute prosperity of its neighbours; and since its example is not confined to itself, it suffers more from similar action by its neighbours than it gain by such action itself (ibid., p. 52).

The supra-national cure was found in a renewed British leadership. As a public institution, possessing the "experience or the public spirit" (*CW* 9, p. 236) to occupy that position, London "should regain its liberty of action and its power of international initiative" (*CW* 21, p. 57), which she alone could use to the "general advantage", helping others to expand by expanding her own purchasing power. "*We* must set the example" (p. 62), he contended.

Keynes conceived WWI Inter-Allied debts forgiveness as an "absolutely essential" (*CW* 2, p. 171) precondition to solve the problems generated by the war: Britain and the US should have entered "deeply [...] into the economic and financial situation as a whole" (pp. 92-93) and display "inevitable" (p. 92) generosity, to be used by European creditors as an "alternative mode of escape from their troubles" (p. 94). Debts cancellation "would be an act of farseeing statesmanship for the United Kingdom and the United States, the two Powers chiefly concerned, to adopt it" (p. 93). The "force in this mode of thought" (p. 179) lay in that "expediency and generosity agree together, and the policy which will best promote immediate friendship between nations will not conflict with the permanent interests of the benefactor" (p. 179). The seemingly less important premise for US generosity, to be stimulated "provided Europe is making an honorable attempt in other directions, not to continue war, economic or otherwise, but to achieve the economic reconstitution of the whole Continent" (p. 173), is on the contrary *both* a result of and a necessary condition for US assistance:

> the financial problems which were about to exercise Europe could not be solved by greed. The possibility of *their* cure lay in magnanimity. Europe, if she is to survive her troubles, will need so much magnanimity from America, that she must herself practice it. It is useless for the Allies, hot from stripping Germany and one another, to turn for help to the United States to put the States of Europe, including Germany, on to their feet again (p. 92).

Failure to show magnanimity on the part of European countries would have turned their attempts to liquidate debts against their own interests as well as against those of the United States itself. "If the loans are to be met, a serious obstacle will exist to future trade relations between the Allies" (*CW* 16, p. 424): Britain should necessarily attempt to stimulate exports to the United States and

imports from the Allies, but America would not have been disposed to "scrap" her export industries to the benefit of debts settlements (*CW* 17, p. 274). This was a perfect illustration of the intimate bound linking the settlement of the inter-Allied debts with the reparation settlement: it was to Keynes "nearly impossible ... to settle the one question without the other" (p. 277).

Keynes's proposal for an international loan, expecting winners, losers and even neutral countries to take part in the "grand scheme for the rehabilitation of Europe" (*CW* 16, p. 428) he presented as a second-best alternative to debts forgiveness – caught in another "dilemma" (p. 439), "vainly trying to solve the problem of assisting Germany without assisting us" (pp. 439-40), the United States soonly rejected Keynes's plan – lies in continuity with and logically follows the plan to eliminate Inter-Allied indebtedness. The European conflict could not be settled unless an ignition key provided by US assistance to the continent allowed a spiral movement of "magnanimity" to spread along, and progressively expand, the chain of countries disposed to take part in Keynes's shared-responsibilities "grand scheme". Lacking a gift element, the starting engine of this figure of complexity, the "grand scheme" could not materialize or work properly, as the unhopeful words Keynes later spent to comment the launch of the Dawes Plan made clear.

2. *Fighting through Britain*. Keynes's quest for a new global order

Striking similarities seem to exist between, on the one side, Keynes's diagnosis of the first post-war impasse and the character of the solutions he recommended to overcome it, and, on the other side, the vision of international economic relations he offered in the reform schemes of the Forties to revive global multilateralism in a context of huge international imbalances. In the American edition of the last volume of his biography of John Maynard Keynes, however, Skidelsky explains that the British subtitle *Fighting for Britain* "was designed to remind readers ... that national interests do not disappear just because the cause is noble" (2001, p. xiii), freedom being the noble cause. Skidelsky argues that in fighting a lost battle, Keynes mistakenly

> persuaded himself, against all the evidence, that he could obtain a large gift from the United States to cover Britain's temporary post-war balance of payments deficit, without any unacceptable strings (2000, p. xvi).

A life spent trying to improve the quality of London's leadership, Keynes the "defender of the Empire" (Boughton, 2002, p. 12) would have been finally defeated, "in the attempt to construct an international economic environment which would help Britain to adjust to a lesser role" (De Cecco, 1977, p. 23), by the definitiveness of the shift in global hegemony after WWII. Academics focusing

on the global perspective of Keynes's diplomacy tend on the other hand to emphasize the economist's success in creating a consensus on the need of a Keynesian order, and insist on the similarities between White's and Keynes's reform plans (Gardner, 1956; Ikenberry, 1993; De Long, 2002) or remark the latter's efforts to come to an agreement despite the sacrifice of his proposal (Williamson, 1983). In line with Roy Harrod's "good, coherent narrative" (Newton, 2000, p. 190), Keynes the history-maker becomes the happy father of Bretton Woods, his partial defeat in negotiating the new order and the American Loan, which Skidelsky regards as the symbol of an "American malevolence" (DeLong, 2002, p. 160), being the necessary tribute of Keynes's political naïveté to "the greater power of the United States" (ib.).

The "Fighting for Britain" approach is thus challenged by what we define as the "Fighting despite Britain" view, which sees Keynes fighting for a new enlightened order despite Britain's difficulties to play a major role in it. Difficulties in reconciling these clear-cut approaches induce to foster an alternative explanation. Though the attempt at offering the world a "sounder political economy between all nations" (*CW* 25, p. 43) is the real target of Keynes's theoretical contributions and practical diplomacy, his disappointment with both the final settlement of Bretton Woods and the Anglo-American Loan negotiations can scarcely be undervalued. Either regarding Keynes's scheme for an American Gift to Britain as a purely strategic move aiming at saving his country from untolerable financial subordination to the United States, or as "the capstone of the great constructive effort on which [*Keynes*] embarked in 1941 to create a world-wide multilateral financial system" (Clarke, 1982, p. 6), both views tend to downsize the theoretical relevance of Keynes's call for a gift rather than a business assistance to Britain. A re-examination of the "gift dimension" of Keynes's diplomacy as the attempt to fight "through" Britain, i.e. at coping with the dilemmas engendered by the complexity of international economic relations, may on the contrary help to restate Keynes's fighting for Britain as a major component of his fighting for the whole world, and the true telltale sign of the defeat of his overall reform project (see Cedrini, 2008b).

With the proposal for a European, London-led gold exchange monetary regime, regulating its standard "on a more rational and stable basis" (CW 1, p. 25), *Indian Currency and Finance* (1913) is the first of a series of reform plans attempting at reviving, under different forms, the "lost paradise" (Dimand, 2006, p. 175) of the pre-1914 internationalization Keynes described in the opening pages of the *The Economic Consequences of the Peace*. Multilateralism and dynamic (De Cecco, 1979a), relying on Britain's ability to make the Empire finance its deficit with Europe and

the US, and on the use of the discount rate as a means of attracting gold from the continent to match the "new" countries' rapid development, the system allowed its reserve countries the possibility to face their short term balance-of-payments deficits while investing long term in peripheral countries. As Keynes would later recall in his memorandums for the International Clearing Union, Britain provided the international system a leadership able and willing to behave responsibly, i.e. to act in such a way as to limit the strict discipline of the classical mechanism and allow member countries the possibility to live and develop in a global multilateral economy. Awareness of the slowness of the specie-flow adjustment mechanism was at the basis of Keynes's 1923 attempt, in *A Tract on Monetary Reform*, to reshape the international system so as to free monetary policy to point at price stability. In 1930, on discussing the desirability of an international standard in *A Treatise on Money*, Keynes reforged the "dilemma of an international system" (*CW* 6[2], p. 272) as the double need

> to preserve the advantages of the stability of the local currencies of the various members of the system in terms of the international standard, and to preserve at the same time an adequate local autonomy for each member over its domestic rate of interest and its volume of foreign lending (ib.).

Owing to the unbalanced international distribution of gold which resulted from war and uncooperative accumulation policies in the creditor countries, the United States and France, Britain was no more able to influence the world credit conditions and for the first time in recent history, found herself exposed to the constraints of the dilemma. After declaring, during the sterling crisis of 1931, the end of the gold standard, Keynes ended up with exalting national self-sufficiency and threatening "a partial departure from international monetary system in the direction of barter" (*CW* 20, p. 615). His proposal for a revenue tariff was motivated by the need to resume Britain's leadership. Once off the gold standard, Britain could play "the part of a reasonable creditor" (ib.: 247) and pose an end to the competition "towards negation" (*CW* 21, p. 40) brought about by the "anti-social" (p. 53) behaviour of "America and France ... [who] have not lent their surplus balance on international account as Great Britain used to do in the past" (*CW* 20, p. 600). Progressively elaborating a view of economic history as a permanent conflict between creditors and debtors (De Cecco, 2001), Keynes came to assign himself in the Thirties the task of sketching a model of national behaviour consistent with the general interests of the system (Moggridge, 1986). In the *General Theory*, he argued that countries regaining control over the interest rate would have helped themselves and their neighbours to reach and maintain full employment at home. The problem

was now to construct a new order allowing its members to adopt "twice blessed" (*CW* 7, p. 349) policies of this kind.

Keynes's projects for global cooperation in the Forties were inspired by the belief that an international institution could remedy the lack of a leading country willing to use its power in order to improve the chances of a generalized multilateralism by defending each country's ability to endorse it. As Cairncross (1978, p. 46) puts it,

> In an anarchic world he accepted the need for each country to preserve its freedom of action ... Without international management, however, the task of individual governments would become indefinitely more difficult ... individual countries would find it hard to keep in internal and external balance and maintain full employment unless they operated within a framework of international institutions planned and managed for the common good.

At the very beginning of WWII, Keynes asked in vain the Americans, in a memorandum destined to President Roosevelt, to yield their "lunatic" gold excesses, with a spirit of "unprecedented generosity" (*CW* 22, p. 28), as "a part of the contribution of the United States to the post-war reconstruction of Europe" (p. 27). The significant departure from the "purely business aspect of things" (*CW* 23, p. 62) offered by the Lend-Lease agreement in March 1931 is at the basis of the close connection between American war-time assistance and post-war contribution to the future ordering of the world established in the second draft of the ICU plan, where Keynes argued that

> The assistance for which we can hope must be *indirect* and a consequence of setting the world as a whole on its feet and of laying the foundations of a sounder political economy between all nations (*CW* 25, p. 43).

To solve "the outstanding economic problem of the post-war world ... [i.e.] how the U.S.A. is to redress her unbalanced creditor position" (*CW* 27, p. 19), an "ambitious plan of an international complexion, suitable to serve the interests of others besides ourselves" (ib.) was required, relying neither on a temporary redistribution of the US gold, nor on the luckily accident of a second New Deal, but on the American participation in "a system of general and collective responsibility, applying to all countries alike" (*CW* 25, p. 47).

The interwar pediod had instructed Keynes about the risks a system has to tolerate when it depends so critically on the willingness of its most powerful members to respect the rules of the game. His suggestion was then "to achieve by multilateral cooperation what Britain leadership of the international economy had once done (Markwell, 2006, p. 261). While his previous proposals were mostly directed to help deficit countries alleviate their short-term balance-of-payments problems "in the hope that surplus countries would allow the adjustment mechanism to operate"

(Moggridge, 1986, p. 71), the ICU plan directly asked creditor countries to make available the resources they choose to leave idle or accumulate due to a lack of investment opportunities at home. Unprecedented sanctions were posed on surpluses. Instead of the latter's "automatic surrender" (in Skidelsky, 2000, p. 213), Keynes clarified, the plan was seeking for rules denying uncooperative nations the possibility to impose rigid constraints on other countries: he was truly making a case for the disarmament in international economic relations (Moggridge, 1992). This may help explain how the ICU, a "refinement and improvement of the Schachtian device" (*CW* 25, p. 24) – a system of bilateral clearing agreements established by Germany in wartime with European and Latin American countries to conduct trade as an international barter centred on Berlin – came to represent the ideal alternative to Schachtianism itself. The solution for countries no more willing to tolerate the dramatic relationships of an international society dominated by the principle of scarcity, and prone to find safety in closed worlds like those invoked by Keynes himself in the most dramatic phases of the interwar period, Schachtianism could serve against attempts by major economic players to act against the "interests of the restoration of international equilibrium" (p. 25). Concessions could be made to the American conception of the international economic system in return for US assistance only if, as Vines (2003, p. 346) maintains, "the trade were freer, and international finance were managed, on a *global* basis". But "Keynes's 1941 visit to the US left him deeply pessimistic as to the ability of that country to play anything other than a *de*stabilizing role in the international economy" (Moggridge, 2002, p. 118).

"[A] piece of highly necessary business mechanism", the "banking principle" (*CW* 25, p. 277) of the ICU should contribute to revive the advantages of the pre-war order, when "the system of international investment pivoting on London transferred the *onus* of the adjustment from the debtor to the creditor position" (*CW* 25: 21), since loans from "old established" to "newly-developing" countries – i.e. the process, Keynes argued in his 1929 lectures, "by which rich countries spread the proceeds of their wealth over the world, and thus is internationally desirable" (in Fleming, 2000, p. 142) – were "self-liquidating because they themselves created new sources of payment" (*CW* 25: 22). That Keynes developed "a theory of how the system *as a whole* would behave" (Vines, 2003, p. 349) though starting from a national perspective (Newton, 2000) sounds less surprising, once the ICU reconsidered to the light of the dilemmas of the international system Keynes had exposed in the *Treatise*. Awareness of Britain's decline and commitment to a freer trade required him to "remake the whole world" (Vines, 2003, p. 346). Fear either of a global restraint after the war, or that the US could make use of other means than increased domestic

demand to sustain full employment, led Keynes to envisage a fully accommodating global monetary policy in a context of fixed but adjustable exchanges and capital controls, with exchange policies free, under given circumstances, to point at internal equilibrium. The *General Theory* transforms adherence to international discipline into a choice of freedom, that to pursue interest rate and investment policies with a view to ensuring full employment, so that "the simultaneous pursuit of these policies by all countries together ... is capable of restoring economic health and strenght internationally" (*CW* 7, p. 349). Unlike laissez-faire, and not dissimilarly from the benefits a Schachtian order allows to countries submitted to its discipline, the ICU would have reduced the "secular" economic problem. Yet, by placing emphasis on the virtues of economic interdependence, its "system of general and collective responsibility" can afford the same task without locking each country in "a position of particular obligation towards others" (*CW* 25, p. 46). "Keynes set his mind to devising a post-war system where bilateralism would be unnecessary and multilateralism would again be practicable" (Williamson, 1981, p. 542). "Everything else in the plan", wrote Keynes (*CW* 25: p. 270), "is ancillary" to multilateralism.

The beneficiary of the United States' and Canada's assistance under the Mutual Aid agreements, which nonetheless required London to reciprocate and which were bound to expire at the end of the conflict, a financially exhausted Britain had held the European fort alone for years and incurred enormous debts with the sterling area countries to finance their common war. Scarcity of reserves and prospected cease of exchange controls in sterling countries to limit drawings on the dollar pool centralized in London combined with Britain's expected peacetime difficulties in exporting goods and services to minimize the chances of balancing the country's external account in the transition period while returning to sterling convertibility. At the beginning of 1944, Keynes prompted for a "'Sterling Area' Solution for the Interim Period" (*CW* 24, p. 3) to limite the convertibility of the sterling balances to current earnings. The proposal rested upon US assistance of $2 billion, and on Britain's resisting "a market operation" (p. 16). Keynes predicted that Washington would offer more than it was reasonable for Britain to accept, conditional to the adoption of the "American conception of the international economic system": "[i]t is not the *quantity* of the accommodation about which we need worry. It is the *terms* and the consequences of losing our financial independence which should deeply concern us" (ib.).

With his 1945 memorandum "Overseas Financial Policy in Stage III", Keynes attempted to offer a "bold scheme for an international policy of multilateralism in trade and payments that would simultaneously make sterling's problems more manageable and justify Britain in seeking

and America in giving financial assistance" (Pressnell, 1986, p. 237). A lack of American assistance, he stated, would have compelled Britain to a "Starvation Corner" unilateral policy of austerity and isolationism. Since the sterling area was going to run an overall deficit after the war, London had to resort to foreign borrowing to finance the £3 billion debt it had contracted with its creditors: it was not "a well-chosen moment for a declaration of our financial in dependence of North America" (*CW* 24, p. 271). Though strategically relevant, the *Starvation Corner* was in fact a third-best option: "Is not the use of our position as a great consumer, to force our goods out on to the world in return for what the world wishes to sell us, the only new weapon in our armoury and one we cannot do without?" (p. 274). What is more, the *Starvation Corner* and its Schachtian consequences would have favored "not merely the acceptance but the advocacy . . . of a system of international economy after the war of a kind to which all sections of opinion, not only in the United States but also in Canada, are bitterly opposed" (pp. 271-72).

As an alternative to isolationism, Keynes first envisaged American financial assistance in the form of a loan ($5-8 billion) on easy terms allowing Britain the breathing space to face the transition to the new order and to approach its debt problems with the sterling area ("Temptation"). In exchange for the loan, London would have guaranteed free multilateral clearing within the area from the outset and the dismantlement of the empire. Besides expressing concerns for a further, huge, debt in addition to the existing one, Keynes believed it right to reject such an agreement, since "the sweet breath of Justice between partners" in the war "would have been sacrificed to some false analogy of 'business'" (p. 279). *Temptation* was clearly reminiscent of the criticisms Keynes had made of the American debt settlement at the end of the First World War. He was well aware that by strengthening Britain's financial dependence on the United States, the loan would compel London to accept the "American conception of the international economic system", which Roosevelt had already established as the price of the Lend- Lease agreement.

Keynes's own favorite option, "Justice", required "a general re-consideration of the proper burden of the costs of the war" allowing Britain to be the Americans' partner "in setting up a post-war international economy of the character on which they have set their hearts" (p. 280). The United States should have granted Britain $3 billion as a sort of retrospective Lend-Lease agreement and a $5 billion credit line at easy conditions. In exchange, London would have ensured the de facto convertibility of sterling, after approaching its sterling area creditors with a tripartite program of eliminating (£880 million), funding (£1.5 billion), and freeing (£750 million) the £3 billion balances. Not only the late entry of the United States into the war but also the profits

realized by the dominions from British war expenditures were among the "number of good reasons" why Britain had to tolerate "a post-war financial burden entirely disproportionate to what is fair" (ibid.). In the memorandum, Keynes was careful to present *Justice* only after a passionate discussion of the only apparently similar option of *Temptation*, embodying his concerns about a market settlement on unsustainable terms. He believed that to allow Britain the "real liberty of action" needed "to offer from the start the full multilateralism of trade and exchange which will be the best inducement to the Americans to fall in with our proposals" (p. 276), the loan should necessarily follow a reapportionment of the legacy of war between the Allies. In trying to obtain *Justice*, he wrote, Britain should have stood firm against *Temptation* and strategically prepared itself to adopt voluntarily *Starvation Corner* policies in the transition.

That Keynes's proposal for the "American Gift" has gained little attention by the economic literature is scarcely surprising: at the end of the negotiations, Washington offered a loan and Britain accepted it. Somehow reversing the dressing-up operation envisaged by British negotiators to transform the gift into a market operation and come to terms with the US business morals, historians have argued that Keynes's proposal was but a strategic camouflage of the expected loan: "an attractive marker, to compare the most favourable possible outcome with the least favourable" (Pressnell, 1986, p. 265). Since it was agreed that a generous American proposal should appear solely from the strength of the British case itself, "[t]he aim was to seek at the outset, not unnaturally, preferred British goals" (p. 266). Interrelation between the different issues at stake in Keynes's six missions to America after 1941 (Moggridge, 2002) makes the "gift as tactic" acceptable to both the "fighting for Britain" and the "fighting despite Britain" views. To throw light on Keynes's proposal as distinct from what finally agreed by the British negotiation team, one has to go back the correspondence, in Spring 1945, between Keynes and the treasury representative in Washington, Robert H. Brand.

On commenting Keynes's memorandum, Brand wrote that Britain should refrain from claiming, on the basis of American late entry into the war, that "what we propose is not only Justice to us, but also Justice for them" (*CW* 24, p. 307). The Americans were the only who could help Britain, and had a strong interest in doing it, whereas Britain was not in a position to talk about justice. "If they were to give [*a gift*], the Americans would certainly regard it as an act, not of justice, but of generosity": better to ask for "something that looked a little less like a free gift" (p. 308). According to Keynes, if lacking the gift, Britain could not reach a satisfactory settlement with its sterling creditors and guarantee to the United States the desired measure of convertibility, to

the extent that in that case, he added, "nothing would suit us better than the rejection of Bretton Woods" (p. 315). Since "[t]he various elements in the policy of trying to march with the U.S. in the post-war economic set-up all hang together", only a gift "would enable us to march with them side by side" (p. 316) towards a new world, whereas the "distasteful" second-best policies imposed by *Temptation* option would prove "objectionable" (ibid.) to the United States and carry the risk of an "unbalanced settlement" (p. 317) with them.

Keynes was firm on the need to reject "anything in the nature of a specific bargain" (p. 324): "The appeal to justice does not necessarily suggest any lack of generosity on the part of U.S. It is a wider conception about the way in which the financial consequences of the war should be liquidated. I ... think that too exclusive an appeal to American self-interest will be misjudged" (p. 360). Since the United States was a "business country where it is a moral duty and not merely a self-regarding act to make any money which the traffic will bear and the law allow", as he later wrote in a memorandum to Hugh Dalton, "some imitation of a normal banking transaction is necessary if the moral principles of the country are not to be affronted" (*CW* 24, p. 548). But a bargain could be said to exist only between the gift and Britain's acceptance of "the kind of post-war world", a multilateral world of free trade that the Americans wanted but, in the absence of a gift, "would fail to get, here and now" (*CW* 24, p. 328). Should the US demand to be reassured about the participation of the Sterling Area countries to the reconstruction of Britain, it could be settled, Keynes stressed, that "the $3 billion from the U.S. should be matched by cancellations by the sterling creditors of an at least equal amount" (p. 324). But Brand was right to observe that the free gift required "an atmosphere totally different from anything like the present one" (p. 332). After reassuring Brand about the possibility to induce the sterling countries to keep their deposits in London instead of remitting them to the United States, and to persuade the Americans on the risk of triggering an insane competition between the area members to get dollar allocations to the detriment of US global exports to the area, Keynes brought forward two non-economic arguments supporting the idea of the gift as an "opening gambit" (p. 339). Not only the plan would be much more acceptable to public opinion in Britain, but also, and more importantly, the gift would facilitate the task of prompting the sterling area countries to fall in with the proposal:

> If America insists on remaining on a strictly economic basis, that makes it harder for the others to depart from it. I attach predominant importance to this psychological atmosphere of the free gift (p. 340).

On 25 June 1945, the newly-appointed Assistant Secretary of State, Clayton, wrote to Vinson, who was to be named Secretary of the Treasure, that "[i]t would be quite unwise… to consider making Britain an outright gift... It would be unwise even to supply the funds as credit without laying down conditions that would insure a sound advance towards our post-war objectives" (in Skidelsky, 2000, p. 397). By the beginning of September, Keynes had became convinced of the need of a "camouflage" (*CW* 24, p. 426), since the British negotiators could not exhibit "the gift of breaking off" (p. 418). In their Press Conference at the British Embassy in Washington on 12 September, Keynes insisted on world economic interdependence while arguing for a resolution of the imbalances which could serve the cause of the newly-born global multilateralism:

> We have to look at the financial and commercial problem of the world as a whole; and, moreover, build up a currency and commercial structure which is in the best interest not only of world prosperity ... but of peace and goodwill amongst men ... so as to avoid the violent disturbance of international commerce which are the road to discontents which can shake the social order and to maintain full employment and good wages everywhere by means that do not beggar but, on the contrary, enrich our neighbours" (p. 465).

As "the financial and commercial arrangements of a considerable section of the world have become almost inextricably intertwined with our own financial and economic affairs in London", Britain should necessarily be posed "in a strong enough position to release to [*our partners and creditors*] as available purchasing power some part of [*their external*] resources" (p. 462). In November, Keynes offered Vinson a bipartite scheme composed by an interest-bearing loan to be used by Britain to face its negative balance of payments vis-à-vis the United States and an interest-free credit to promote multilateralism and free trade in the general interest of the system, involving the whole spectrum of Britain's creditors in the adjustment. But America had already took its decision. The final agreement was on a 3.75 billions dollar loan on easy terms; its last instalment was corresponded by Britain on 31 December 2006.

Keynes's general insistence on the multilateral character of the desired new order is itself at odds with the "Fighting for Britain" narrative. Once seen in continuity with Keynes's attempt in 1919 to provide Europe with a means of escaping from the irreducible dilemmas of reparations and Inter-Allied debts, requiring the "American generosity" as the precondition of a grand scheme for the rehabilitation of Europe, *Justice* appears as a reference model for multilateral international adjustment. The "surprising" involvement of a third actor – European creditors at the end of First World War and the sterling area at the end of the Second – in a process which looks as a bilateral relationship is typical of gift-giving situations. A puzzle Marcel Mauss himself could not

convincingly explain in his *Essai sur le don*, the third actor involved is a key to understand the systemic character of gifts, which link together "many partners in a chain, creating a complex path" (Godbout, 1998a, pp. 130-131). The image of a spiral is used in dealing with the dynamics of the gift to assign a prominent role to giving as the starting mechanism of a "strange law of alternation" (p. 134) requiring the receiver not so much to reciprocate, but to offer himself. The moving from the *Starvation Corner* toward *Justice,* passing through *Temptation,* symbolically represents the progressive enlargement of the spectrum of countries taking part in the adjustment to a more equilibrated world, with the "American Gift" as the starting mechanism of this chain of generosity.

The United States, Keynes wrote (CW 24, p. 272) in the memorandum to explain the rationale of his proposal, could "make us an offer, not so much generous as just, using their financial strength not as an instrument to force us to their will, but as a means of making it possible for us to participate in arrangements which we ourselves prefer on their merits if only they can be made practicable for us". *Justice* reflected Keynes's vision of the international order as a complex structure, characterized by organic interdependence among its variables, irreducible dilemmas, and fallacies of composition requiring "public-spirited" interventions by countries only indirectly involved in such conflicts. It was an imaginative solution to let the main trade partners of a highly imbalanced world regain confidence to take part in global multilateralism, *through* the defence of Britain's economic destiny, as sadly confirmed by the transformation of the American Loan into a non-British demand for American goods, which led to the 1947 sterling convertibility crisis. The spiral mechanism of the American Gift reminds us that *Justice* was the sole possibility for the Sterling countries to revitalize their exchanges with America without repudiating the agreements with Britain. And in a world primarily depending on American home trade, the sterling countries – registering surpluses with Britain but an overall deficit with America – were the only nations, together with Latin America, that could act as stimulators for U.S. exports (De Cecco 1979).

The American Gift's role of "starting mechanism" appears with even more clarity once it is considered in continuity with the systemic character of Keynes's overall reform project. After the defeat at Bretton Woods of his desired "general and collective responsibility" plan, the American Gift acts as a tester of the leader's willingness to comply with the revolutionary spirit of Keynes's desired new system – i.e. to play the part of "a reliable international lender (*CW* 27, p. 19) "as Great Britain used to do in the past" – *despite* the rejection of Keynes's "freedom-enhancing" proposals

for the new order: increased international liquidity, banking principle and drawing rights, technical rather than political character of the new institutions, creation of a new supranational money. *Overseas Financial Policy in Stage III* was really "a trigger mechanism for the creation of a Keynesian world" (Newton, 2000, p. 199). A clear continuity between the American Gift and the ICU plan appears when the "gift dimension" of Keynes's proposal is read with the help of the Twentieth century sociological and anthropological literature on gift-giving. Sahlins's (1972) "reciprocity continuum" comes to help in revisiting Keynes's desired new order as an international system able to leave aside the "negative reciprocity" of the interwar period – participants in the exchange "confront[*ing*] each other as opposed interests, each looking to maximize utility at the other's expense" (p. 195) – to endorse the "balanced reciprocity" which is typical of orders where social relationships depend on material flows. The inherent instability of a perfectly balanced order, however, makes it perpetually tending towards the one or the other of the extremes of the continuum. To avoid falling back to its "negative" pattern, the balanced reciprocity of the "banking principle" in Keynes's scheme must be supplemented by sanction, a task he assigned to the "shared responsibilities" principle embodied in the ICU draft. The only alternative lies in progressively approach positive reciprocity. A principle of "something for nothing" (Gouldner, 1973, p. 266) is required to compensate for the inadequacy of the "norm of reciprocity" (Gouldner, 1996, p. 59). A "shadow of indebtedness" (p. 63) may in fact prove able to enhance social stability, and induce to seek for "mechanisms which induce people to *remain* socially indebted to each other and which *inhibit* their complete repayment" (ibid.). "Something for nothing" as the behavioural norm of the elites provides a starting mechanism "for *stopping vicious cycles* of social interaction" (Gouldner, 1973, p. 274) and "helping to initiate social interaction"; "an ignition key that activates the starting engine (the norm of reciprocity) which, in turn, gets the motor – the ongoing cycle of mutual exchanges – to turn over" (p. 275). A task Keynes may be said to have assigned to the American Gift proposal.

3. Current global imbalances: Might Keynes be of help?

Striking similarities appear between the current international situation and that of the immediate postwar age. Keynes's memorandum offered a dramatic portrait of a former superpower confronted with the depletion of its resources and an unsustainable external debt, due also to the country's century-long decline as an exporter. By far the only creditor country in 1945, holding 75 percent of the world's gold reserves and the historical responsibility of helping deficit countries

restore trade at a global level, America is today the system's deficit of last resort— the record level of $857 billion, 6.5 percent of GDP, was reached in 2006— whereas the rest of the world (ROW) registers a surplus. Not too different from the position of sterling area countries after the Second World War is the key role currently played in the process by emerging Asian countries. The 1997 Asian crisis has taught developing nations that undervaluation-cum-intervention strategies (UNCTAD, 2006) provide a powerful way out of the new Triffin paradox they were caught in during the 1990s, when foreign borrowing to achieve the desired growth rates exposed developing countries to larger external imbalances, raising the risk of reversals in capital inflows and of consequent financial crisis (Kregel, 1999b). Asian countries' accumulation of export surpluses and their foreign lending through exchange reserves have produced "the largest 'foreign aid' programme in world history" (Wolf, 2005, p. 25) and, together with increased surpluses in Europe, Japan, oil producers, and other developing countries, allowed the United States, the world locomotive and importer of last resort, to systematically live above its means. But the leading superpower is now compelled by the financial crisis to a severe readjustment, with extremely painful repercussions for both the American economy and global multilateralism. The very words Keynes used in Washington at the press conference for the negotiations of the American loan – "the financial and commercial arrangements of a considerable section of the world have become almost inextricably intertwined with our own financial and economic affairs in London" might be employed for the current international situation, after replacing London with New York and "a considerable section of the world" with the global economy.

The adoption of different analytical strands to interpret the dynamics of global imbalances and the endogenous character of America's current account balance (Truman, 2005) are responsible for the large range of possible future scenarios which have been offered until the burst of the financial crisis in 2008 to speculate about this surprisingly persistent pattern of international economic relations. These scenarios ranged from alarming concern for the risks current imbalances pose for world economic prospects to elegant theoretical justifications for their persistence with uninterrupted global growth; these were but two extremes on the continuum of analyses. The typical reviews of the literature, however, have paid little attention to the type of adjustment, if any – unilateral, bilateral, or multilateral – each suggested scenario is tied to. Here is where the rediscovery of Keynes's legacy might come in as a helpful preliminary guide to reassessing the nature of the problem and possibly providing a scheme of thought for opening new possibilities to overcome the impasse (see Carabelli and Cedrini, 2009a).

"Made in" views of current imbalances, urging unilateral adjustments by the country that is held to be responsible, easily transform into *Starvation Corner* scenarios like that described by Keynes. Though American economists and the U.S. administration have repeatedly called for the appreciation of Asian currencies, this does not seem to be practical policy for the future, unless Asian nations are prepared to tolerate those same risks of overheating and speculation against which they have self protected since the 1997 crisis. "Gloomy views" about current imbalances thus focus primarily on the global austerity program that a U.S. recession as the current one would likely launch. Keynes's *Temptation* option, based on American assistance to Britain of a business character, provides a meta phor for the "imbalances sustainability" views: market mechanisms relying on the strength of the U.S. economy are argued to be enough to ensure the stable scenario of a revived Bretton Woods system, supplemented by a tacit agreement between the main powers. Today's views that reveal awareness of the multilateral character of global imbalances assume that a problem of collective action dooms a coordinated response, as in the case of the "shared responsibility" plan included in Keynes's *Justice* option.

Some of the most wellknown and assertive views center on one or the other of the two main players – the United States and emerging Asian countries— to enforce adjustments of a wholly, or mainly, unilateral character. Chinn's (2005) "twin deficits" theory finds U.S. tax cuts and large government expenditure responsible for increases in the current account deficit. Assuming that the gap between the dollar's value and the trade balance derives from slow growth rates in the ROW, except for China, the theory calls for a reduction in the budget deficit and foreign oil imports to moderate America's role as the world consumer of last resort; failure to reduce borrowing might "cede to foreign governments increasing influence over the nation's fate" (p. 3). A mirror image of the "twin deficits" theory is provided by Bernanke's (2005) "global savings glut" hypothesis, which focuses on high rates of saving and depressed levels of capital investment in Asia. Recent reversals in capital flows to emerging countries and undervaluation-cumintervention strategies would have stimulated savings outside U.S. borders, helped by high oil prices, financial development and growth in emerging markets, and restricted availability of consumer goods in China. While conventional wisdom states that the United States' external deficits limit investments in the ROW, this view suggests by contrast that excessive savings in the ROW are crowding in U.S. deficits. Foreign lending to the United States is held to be the key variable for global imbalances in this scenario, the U.S. government being required, after the stock market bubble burst, to run a deficit with a view to sustaining domestic demand (Wolf, 2005).

Dynamic emerging countries should be helped to leave mercantilism and to reassume their "more natural" (Bernanke, 2005, p. 10) role as international borrowers through structural and financial reforms.

Though not without benefits for surplus countries, this "exit strategy" is limited by the practical impossibility of moving toward a floating exchange rate without risks of overheating and speculation. *Starvation Corner* scenarios for current global imbalances focus on the unsustainability of U.S. deficits and its net international investment position. The standard analysis based on capitalizing the U.S. debt flows had induced various academics to foreshadow a massive dollar depreciation to shrink the trade deficit to sustainable levels. After acquiring a large part of the country's capital stock, which would cause negative political reactions in America, foreign investors might fear that their claims on the United States would be expropriated. Alternatively, new information could downsize America's seemingly miraculous level of productivity. As known, in truth, a decline in the U.S. trade deficit failed to materialize until 2007. Reduced pass-through to import prices, the mix of U.S. industrial stagnation and strong domestic demand, the rapid evolution in the international division of labor after the Asian crisis, and the inappropriateness of the American production structure for Chinese consumption patterns: all these factors help explain why the adjustment has been so tardive. More recent analyses (Krugman, 2007) found evidence of investors' myopia, which is the basic condition for a dollar plunge. In case of dollar crisis, fears of import-price inflation would persuade the Federal Reserve to tighten monetary policy and to sensibly reduce the U.S. standard of living. The improvement of American net imports would redistribute the recessionary impulse to America's trade partners, coming primarily at Japan's and Europe's expense, although China and emerging countries would suffer from should adjustment through trade hit countries that highly depend on exports to the United States (Eichengreen and Park 2006).

Views about global imbalances showing either natural or structural reasons for their happy persistence rely on the "strength of a debtor" argument, i.e., on U.S. fundamentals and the attractiveness of investing in American assets. These views shared with the *Temptation* option as described by Keynes a declared confidence in the possibility of avoiding painful adjustments. As in the case of the American loan, market mechanisms supplemented by intergovernmental agreement – currently in the tacit form of a revived Bretton Woods order, whose systemic outlook, however, exhibits a fundamental similarity with the rationale of *Temptation* as conceived by the American negotiators – are argued to allow a great economic power to tolerate the imbalances

almost indefinitely over time. The United States' strong deficit, they argue, may depend on the strength of the American economy, rather than its weakness: with financial globalization and the end of home biases, international investors show willingness to operate in foreign countries, which enlarges the U.S. capacity to fund deficits. The attractiveness of American financial assets and country-specific factors would induce economies with banking systems poor at allocating capital to invest their excess savings in the United States (Cooper, 2004). Both the risk profile of foreign claims on the United States and the historical positive gap between American earnings on foreign investments and payments to foreign investors in America would induce the continuation of a large deficit, provided that American economic growth remains high and the ROW continues suffering from a financial asset shortage. A problem with this view, as shown by Eichengreen (2006a), is that productivity is growing faster in China than in the United States and capital inflows are directed toward debt rather than equity markets. Moreover, the rate of return on foreign investments in the United States is probably lower, with respect to returns of American investments abroad, than the theory is compelled to argue (ibid.), and finally, yield differentials may vanish in the long run, as happened to Britain throughout the first half of the twentieth century, and put an end to the country's privilege (Meissner and Taylor, 2006).

For sure, global imbalances appear less troublesome if seen through the lens of the "Bretton Woods II" hypothesis, which argues that the world has never abandoned its most successful monetary system (Dooley *et al.*, 2003). Export-led growth strategies supported by undervalued exchange rates, capital and trade controls, and international reserves accumulation are held to be functional for purposes of Asian countries' desire to cover that same road Europe and Japan traversed in the postwar period to regain a central position in the world economic system. The "trade account" region's desire to export to the United States requires Asian willingness to acquire American securities, whereas the "capital account" region, formed by Europe, Canada, Australia, and Latin America, all currency floaters, is primarily interested in defending its international investment position. Both regions helped the central country finance its deficit, the former through accumulation of dollar reserves and the latter through its investors pushing up the dollar until 2002. Asia is expected to displace Europe in exporting to U.S. markets and to buy out European claims on the United States. Once its path to the center is completed— 200 million underemployed workers still wait to be absorbed into the modern sector— the revived Bretton Woods system will engage in reloading other peripheries, like India. The architectural character of this hypothesis is however challenged legitimate criticisms raised, among other, by Eichengreen (2004): the analogy

between Asia's current per for mance and that of Europe in the 1950s and 1960s overstates the ability of the heterogeneous, weakly institutionalized group of today's periphery to act in its collective interest. Moreover, the euro provides an attractive alternative to the dollar, and the United States has transformed into a bank with negative net capital. As to Asian countries, sterilization appears a costly operation: policymakers are becoming more and more aware that "the world has changed in ways that diminish the attractions of systematic undervaluation designed to promote export led growth" (p. 6).

A number of views hold patterns of global interdependence responsible for the surge and persistence of global imbalances and include requests for multilateral coordination to ensure their orderly unwinding. The parallel is here with Keynes's *Justice* option, that establishes its quest for a multilateral response to imbalances having a multilateral character on the constraints posed by global interdependence. Examining the ongoing dependence of the ROW on net exports to the United States, the so-called "global codependency" views center on the "out of sync" relationship between the United States and foreign economic cycles (Mann, 2005). Low consumption and investment in the ROW in the late 1990s led America to raise its consumption and imports to unprecedented levels, whereas after the 2001 crisis, the U.S. economy was quicker than the ROW in positioning itself on a growth path. Kregel (2006) adds that financial flows accompanying global imbalances are the result of global investment and production decisions that determine the global pattern of trade. Surplus countries invest in the United States to finance their exports, as in the case of pre-World War I Britain's foreign lending and export of capital goods. Europe, Asia and Latin America de facto adopt the same current account surplus-cum-foreign lending strategy as a substitute for the dangerous or unusable device of external and government borrowing. A reappraisal of Europe's and Asia's contributions to global imbalances is however required. Europe's sluggish domestic growth is due to weak investments and consumption, the result of a restrictive monetary and fiscal policies with floating exchange rate supporting both the reform of the welfare state and European firms' low-wages strategies. Though Germany's and Japan's roles in generating the imbalances are rarely mentioned, they account for a considerable percentage of the combined global surplus. China is on the contrary role the major engine of growth in Asia and outstandingly contributes to increased trade among developing countries, so that a slowdown of Asia would likely intensify global price competition on manufactures exported by developing countries and would weaken the expansionary effects of growing demand in the continent. Another reason for the global savings glut lies in the stimulus provided by American growth to

raising incomes abroad: "If the surplus regions were to reduce their financing to the United States, they would not be re-allocating their 'savings' elsewhere, but the process of generating these savings would itself be at stake. In other words, the attempt to repatriate funds may have negative consequences not only in the deficit but also in the surplus economies. This poses a dilemma to surplus regions" (UNCTAD, 2005, p. 18). In sum, the mutual consistency of regional policies with persisting imbalances calls for their revision. A well-managed system should instead help developing countries fill the gap with developed countries by using export-led growth strategies, but this requires that the latter grow through internal demand rather than by policies such as those adopted by developing countries themselves (Kregel, 2006). Interestingly, only a limited number of academic observers underlined that Europe can be a major part of a multilateral solution. Things might have gone (and still might go) differently had Europe played a supportive role (see Wade, 2009).

Multilateral adjustment is in the interest of any key global player. Briefly, a coordinated response to global imbalances would require the United States to boost its saving rate by taking fiscal action and the ROW to counteract the effect of reduced U.S. domestic demand through expansionary policies. China should keep diversifying its economy and reduce national savings through larger budget deficits and orderly appreciation of the exchange rate. Japan should return to a normalized monetary policy: the strong recovery of investment and consumption should promote the rotation of Asian demand from extraregional exports to the region itself. Emerging Asian countries, except China, should expand government expenditures and encourage house hold spending through the development of markets for consumers and mortgage credit. Oil-exporting countries should ramp up spending, while Europe needs to sustain its growth through internal demand (Ahearne, Cline, Lee, Park, Pisani- Ferry and Williamson 2007). Market-induced exchange rate changes may then complement these policy initiatives (Eichengreen 2006b). International consultation with impartial outside mediation such as that provided by the IMF's forum for multilateral consultations and surveillance on global imbalances could help to develop a consensus on common goals. However, the IMF seems reluctant to abandon the praxis of suggesting the Washington Consensus model of long-term structural reforms (Buira and Abeles 2006) to ensure growth and stability, and participants in the IMF multilateral forum have made little progress in implementing policies according to the agreed general road map.

If risks tied to persistently large imbalances are now lower than at the time when the forum was established, this is almost entirely due to the occurrence of the crisis. Due to moderate growth

and a weaker dollar, the U.S. deficit began to narrow in 2007. Feldstein (2008), among others, was sure that the dollar could fall further as private investors realized that this is necessarily required for trade imbalances to be reduced, while gradual recovery in saving rates could occur following reduced household wealth and levels of mortgage borrowing. However, no specific government intervention was accordingly expected, so that it would have been appropriate to revise upward the risks of disorderly market-induced adjustments. As suggested by Eichengreen (2006b), the lack of consensus on the magnitude and the sign of cross-border spillovers may have led the United States to underestimate the risks of a disorderly correction for its trade partners, with the global rebalancing destined to transform into a global slowdown. Disruptions of credit in the United States in August 2007 and the subsequent subprime crisis of March 2008 with associated losses on bank balance sheets appeared as signs of a crisis of confidence in the U.S. financial markets. Financial turbulence in the United States, coupled with tensions in the housing markets and sluggish consumer spending growth since the end of 2006, were responsible for expectations of a dangerous slowdown in global growth indicators. True, what the crisis economists generally expected was different from the one that occurred in 2008. However, this does not alter the substance of the argument here proposed: world economy is suffering from an impressive market-induced adjustment in the form of a major financial collapse seriously endangering economic per for mances, as predicted by "Starvation Corner" analyses, in both developed and developing countries. More surprisingly, the Bretton Woods II system is *de facto* still there (Dooley *et al.*, 2009), suggesting on the one side that the global imbalances have much to do with the current crisis, and on the other that more structural reasons than those usually advanced to explain them likely favor their persistence.

The use of Keynes's international macroeconomics as a framework for today's views about global imbalances increases the relative importance of global-codependency views and strengthens the case for a multilateral response to the imbalances. Although the eruption of the crisis may somewhat paradoxically induce policymakers to focus on purely financial issues rather than on a reform of the system *tout court*, willingness on the part of today's missing third actors, Europe and Japan, to get involved into an orderly correction usually thought of as limited to the United States and Asia – which reduces the chances of its occurrence – might be decisive in this regard. Unfortunately, the packages of fiscal stimulus implemented to counteract the current crisis are following the pattern in the distribution of global demand growth that lies at the origins of today's

global imbalances (UNCTAD, 2009). All key players should direct their efforts toward the design of a new system preventing, rather than fostering or even simply tolerating, chronic imbalances.

4. Global monetary reform. Bretton Woods 2, or expensiveness with instability

A major puzzle of current times the BWII narrative may help to explain is the astonishing process of reserve accumulation that goes along with global imbalances. That capital flow from poor/new to rich/old countries, although contrary to standard economic theory, is not a historical accident of current times but the rule of the post-war period (Kregel, 2004). What is new is that such flows take the form of accumulated international reserves financing the American external deficit at low interest rates. There is widespread consensus on the use of large foreign currency reserves for precautionary motives – the need to avoid currency attacks in the absence of a global lender of last resort – but the reason behind Asian nations' reserves accumulation might simply be, consistently with the BWII narrative and despite the risk of capital losses, mercantilism. It seems difficult to deny that reserves accumulation has played a role in sustaining global imbalances. Developing countries have come to hold more than two thirds of the global international reserves and account for the most part of the increase in global reserves-GDP ratio; their reserve/imports ratio has increased from 44.9% in 2000 to 87.5% in 2007 (IMF, 2009), just before the crisis significantly reduced growth prospects. The traditional rules in this respect – reserves should be able to cover three months of imports, or, following the Guidotti-Greenspan principle, be equal to foreign liabilities coming due within a year – enjoy overdue respect (Rodrik, 2006).

Most observers predicted that a disordered adjustment should induce emerging countries to revalue the costs of their exclusive reliance on export-led growth. Complementarity between the portfolio choices of private and public investors makes it likely that private investors would quickly follow a move away from the dollar on the part of central banks (Roubini, 2006), which, in their turn, would find it more and more difficult to cope with private portfolio adjustments of "nervous" foreigners dubious about the sustainability of the US position (Eichengreen, 2004). Capital losses would prove to be larger than investors are expecting, if the decline of the dollar – gradual but fast enough to prevent not sustainable US debt accumulation – were to pose an end to global imbalances (Krugman, 2007). More direct costs add to the risks just outlined to make international reserves holding a true puzzle. Rodrik (2006) defines the social cost of self-insurance as the spread between yields deriving to central banks from liquid reserve assets and the private sector's cost of borrowing abroad. Excluding from the computation the reserves required to satisfy

the three-months rule, 1 percentage point of GDP annually for developing countries is found to be lost in the process of reserve accumulation. Moreover, he argues, in practice reserves accumulation tends to exclude alternative strategies to increase liquidity such as reducing short-term debt, and creates moral hazard problems and macroeconomic risks (see Cruz and Walters, 2008).

International reserves provides self-insurance against sudden stops, and mitigate the magnifying effects of terms of trade shocks on real exchange rate volatility (Aizenman, 2007). But reserve accumulation is embedded in the general story of shrinking policy space: the strategy "was taken in the context of the decision to adopt or reinforce the neo-liberal strategy of rapid financial liberalisation, unrelated to the development of either deep financial markets or mature and effective regulatory structures" (Cruz and Walters, 2008, pp. 666-67). While self-insurance is certainly the motive for reserves hoarding Latin America, it plays a lesser role in Asia. Aizenman (2007) suggestively advances that in the BWII framework, coordination failures may encage countries adopting export-led growth policies into a "hoarding game" in which each mercantilist country seek to improve its own competitiveness on Western markets at the expenses of its neighbours. The seize of her market, low sterilization costs, a magnitude of growth with no historical precedents would explain why China, in particular, is playing this game. But China perfectly knows that even mercantilist countries could refrain from accumulating excess reserves, were they be able to control capital inflows and prevent appreciation directly and effectively (Rodrik, 2006).

On account of the unexpected stability of the dollar, Dooley *et al.* (2009, p. 1) maintain that "the incentives that drive the Bretton Woods II system will be reinforced by the crisis and, looking forward, participation in the system will expand and the life of the system will be extended". Relying on the reasonable expectation that countries with large reserves may perform better in the context of a global financial turmoil (see Aizenman, 2009; Obstfeld, Shambaugh and Taylor, 2009), they predict that "emerging markets will be even more convinced that reserve accumulation and export-led growth are the safest development strategy in an uncertain world (Dooley *et al.*, 2009, p. 14). If BWII, even after the crisis, still defines the international monetary order, reserves hoarding still defines BWII although seemingly a rational strategy of self-insurance voluntarily chosen by individual countries in an open financial environment, reserves hoarding still has to pass the test of general rationality once it is considered as the outcome of the tacit coordination of BWII itself.

Keynes's proposal in the Forties for a new international currency, the bancor, as the ultimate reserve asset of the system is rightly commanding careful attention from economists and

policy-makers who consider the use of a national currency, the dollar, responsible for the accumulation of needless reserves and global imbalances. Of much less use for this purpose has been so far considered Keynes's first major work, *Indian Currency and Finance* (1913; hereafter: ICF), and unfortunately so: it is not difficult to reckon in the most important issues related to Keynes's use of the Indian model as a cornerstone and an incentive for a European monetary reform, i.e. the nature and holding/hoarding of international reserves as well as the dynamics between debtor and creditor countries in the international system, two of the most controversial issues of BWII. Intrigued by the parallel between Keynes's early look at Asia for hints of monetary reform and current, Asia-driven new features of global interdependence, we aim to show that the analysis of those aspects of complexity, interdependency among economic variables and rationality of policy on which ICF is built might prove appreciably useful to speculate about the sustainability of global imbalances and encourage the search for a new, Keynes-inspired global economic architecture (see Carabelli and Cedrini, 2009c).

In Dimand's view (1991, pp. 19-20), "the gold exchange standard that Keynes expounded, and contrasted with a gold standard, in *Indian Currency* was a precursor of the Bretton Woods system". A large part of the literature shows however a certain degree of reluctance to rescue ICF from the oblivion in which it seems to have fallen, as if either Keynes's early loyalty to the quantitative theory of money in its Cambridge formulation, or the India-based focus of the essay and Keynes's political naïveté – his hopes for a London-led gold exchange standard could but clash against the interests of sovereign countries enabled to politically manage foreign exchange balances (De Cecco, 1979a) –, his preference for exchange rather than price stability being partly connected with a foreign investment policy supported by the British Government (see Cristiano, 2009) make the continuity between Keynes's 1913 view and his later suggestions for international monetary reform of little relevance. Yet, provided attention is posed on the methodological aspects of ICF, Keynes's essays might be regarded as a preliminary step toward the definition of a global monetary order inspired to rationality. ICF is an essay in complexity: the attempt to bring out the fact, Keynes wrote in conclusion, that

> the Indian system is an exceedingly *coherent* one. Every part of the Indian system fits into some other part. It is impossible to say everything at once, and an author must needs sacrifice from time to time the complexity and interdependence of fact in the interest of the clearness of his exposition. But the complexity and the coherence of the system require the constant attention of anyone who would criticize its parts. This is not a peculiarity of Indian finance. It is the characteristic of all monetary problems (*CW* 1, pp. 181-82).

But his look was not confined to India. While making a study, during 1910 and 1911, of British gold reserves, he wrote a memorandum in favour of the proposal of the US government to introduce a gold exchange standard into China and other silver countries. The Indian currency system appearing on the background of his early articles on India becomes a model for a country in need of a currency system for internal circulation able to prevent excessive fluctuations of exchange and their harmful effects on foreign trade. The gold exchange standard, he remarked with reference to its evolution in Asia, was a

> scientific and economical system ... If the gold is only required for foreign payments and not for internal circulation, it is cheaper to maintain a credit at one of the great financial centres of the world, which can be converted with great readiness into gold when it is required, and which earns a small rate of interest when it is not required (*CW* 15, p. 62).

Keynes was persuaded that this evolution was common to Holland and Austria-Hungary in Europe; Mexico and Panama in America; India, Philippines, Straits Settlements, Indo-China, Siam and Java in Asia; moreover, Japan's and Russia's systems were in practice full gold exchange standards. In short, it was “the prevailing form of currency in Asia” (p. 70). And truly, almost the whole world had “introduced some form or other of the gold-exchange standard upon the Indian model” (ibid.), Germany's policy of transferring gold in her central reserves being the clearest example.

Keynes stressed that “while a gold *standard* has become almost universal, a gold *currency* is becoming rapidly obsolete” (ibid.), since

> so long as gold is available for payments of *international* indebtedness at an approximately constant rate in terms of the national currency, it is a matter of comparative indifference whether it actually forms the *national* currency (ibid.).

Large economies could derive from the use of cheaper substitutes: gold resources should be centralised. After all, the stability of the Indian system, Keynes stressed in ICF, depended on the Secretary of State’s keeping an adequate amount of reserves of coined rupees (liquid reserves in sterling) to enable him to exchange international currency (local currency) for local currency (international currency) when required. The proper object of a good currency, Keynes wrote to the Editor of *The Times* in December 1912, “is to combine cheapness with stability” (*CW* 15, p. 91). The gold exchange standard, he observed in ICF, works not differently from a pure gold standard, its indirect effects on prices being similar to those caused by any other medium of exchange used to economize gold. Discretion was limited to the choice of the magnitude of the reserve of coined

rupees and to temporary postponement of the demand for rupees. Cheapness, however, abhors gold circulation. Keynes observed that the Indian people destined huge amounts of their wealth to the barren accumulation of gold, which was "hoarded, used as jewellery, as gilding, even [...] as medicine" (*CW* 1, p. 54). Sovereigns introduced into circulation in line with the Fowler Committee of 1898-99, which had emphasized gold circulation as a fundamental pillar of the gold standard on the British model, mainly reached bullion-dealers or were returned to the Government.

> India ... already wastes far too high a proportion of her resources in the needless accumulation of the precious metals. The Government ought not to encourage in the slightest degree this ingrained fondness for handling hard gold. By import taxes on *both* precious metals and by their elimination, to the utmost extent that public opinion will permit, from amongst the circulating media of the country, they ought to counteract an uncivilised and wasteful habit (*CW* 15, p. 81).

Moreover, expensiveness promotes instability: "extravagant and wasteful" as it may be, the Government's proposal would "diminish, and not, as its advocates claim for it, increase the stability of the currency system as a whole" (*CW* 1, p. 63). By extending facilities for the use of gold in the country, India would have unduly renounced substantial profits coming from rupee coinage and interests on the invested portion kept in the currency reserves. If gold replaced notes, which only could allow the currency the desired degree of seasonal elasticity, the country's reserves would be weakened. When this proposal is made, "It is tacitly assumed that the greater part of what has to be withdrawn from the circulation at a time of crisis would come from the gold portion of the circulation". But Keynes believed this to be "unwarranted and contrary to general experience", for "at a time of crisis it is the fiduciary coins which the public are most eager to part with" (p. 64). The "unwarranted" tacit assumption makes the preference for a gold currency

> no longer more than a relic of a time when governments were less trustworthy in these matters than they are now, and when it was the fashion to imitate uncritically the system which had been established in England and had seemed to work so well during the second quarter of the nineteenth century (p. 51).

Keynes's main argument against financial purists is in fact that although the "currency problem" is common to each nation (i.e. the need to be able to use their international currency when they need it and to economize their resources), it is not possible to devise in abstract *the* ideal currency system valid for all contexts, times and circumstances (Vicarelli, 1989). The peculiar position in the international money market, the specific evolution and nature of national financial institutions and capital and money markets and even national customs with respect to currency add to these factors to make the ideal system country-specific. "The conventional idea of 'sound'

currency is chiefly derived from certain superficial aspects of the British system" (*CW* 1, p. 11), Keynes wrote, the main problem with such an uncritical imitation of the British model lying in that

> the position of a country which is preponderantly a creditor in the international short-loan market is quite different from that of a country which is preponderantly a debtor. In the former case, which is that of Great Britain, it is a question of reducing the amount lent; in the latter case it is a question of increasing the amount borrowed. A machinery which is adapted for action of the first kind may be ill suited for action of the second. Partly as a consequence of this, partly as a consequence of the peculiar organisation of the London money market, the 'bank rate' policy for regulating the outflow of gold has been admirably successful in this country, and yet cannot stand elsewhere unaided by other devices (p. 13),

such as large gold reserves, suspension of gold payments and keeping foreign credit and bills which can be withdrawn in case of outward drain. It is typical of countries with limited financial strength, he maintained, and a growing tendency at the epoch, that central banks largely depended on holdings of foreign bills and credit. While Britain, as an international short-term lender and the international banker, could quickly reduce its loans to foreign countries and reduce the balance of indebtedness in her favour by the use of bank-rate policy,

> in countries where the money market is already a borrower rather than a lender in the international market ... the bank itself must be at pains to become to some extent one ... by itself entering the international money market as a lender at short notice, place itself in funds, at foreign centres, which can be rapidly withdrawn when they are required (p. 18).

The cost of holding, as an alternative, a much larger reserve of gold would be intolerable, he added, whereas "the new method combines safety with economy" (ibid.).

In ICF, Keynes offered a detailed map of the international monetary system, with Britain and France, short-term creditor countries, at the one end of it, and Germany, a creditor in relation with her neighbours but a debtor in relation to the great creditors (Britain, the US and France) in an intermediate position. Then Russia and Austria-Hungary, "rich" debtor nations. "From the currencies of these it is an easy step to those of the great trading nations of Asia – India, Japan, and the Dutch East Indies" (p. 19). Although country-specific with respect to the amount of reserves – which in India must be exceedingly large due to wide fluctuations in prosperity and trade, and the lack of international stock exchange securities against large foreign liabilities – national choices in matters of currency did not diverge so much as to prevent Keynes from declaring that there were prevailing tendencies to introduce a gold exchange standard both in Europe and in Asia, containing at least "one essential element – the use of a cheap local currency artificially maintained

at par with the international currency or standard of value (whatever they may ultimately turn out to be) – in the ideal currency of the future" (p. 25).

Nonetheless, India should have intensified public efforts against hoarding. A debtor in relation to Britain, India should necessarily use its gold reserves to discharge its debts in case of stringency in the London market, i.e. to add gold to its exports in view of paying what she owes: rather, holding gold reserves in London saves time and leads to much less onerous financial operations, and may help the country to efficiently counteract crises such as the one whch was to hit Europe in August 1914.

> Gold reserves are meant to be used in times of difficulty, and for the discharge of pressing obligations. It is absurd for a man with a large balance at his bank to default to his creditors, because a feeling of jealousy, in regard to any one in whose favour he draws a cheque, prevents him from ever drawing one (p. 125).

"Various stirring of the original sin of mercantilism", India's "jealousy of the too powerful magnates of the London money market", and even Britain's "jealousy" of Indian gold, which she could consider as "her own war chest": "all combine to make a powerful, natural, and yet unfounded prejudice which it is exceedingly difficult to combat" (pp. 125-26). But India is not alone: "wonderfully few ... countries have yet learn that gold reserves, although no doubt they serve some purpose when they are held for show only, exist to much better purpose if they are held for use also" (p. 125). The sink of precious metals at a time of abundant international liquidity, India was functional to Western interests in price stability: her "love" of gold, "ruinous though it has been to her own economic development, has flourished in the past to the great advantage" of Europe (p. 70). In *The General Theory*, however, Keynes was to stress that

> the history of India at all times has provided an example of a country impoverished by a preference for liquidity amounting to so strong a passion that even an enormous and chronic influx of the precious metals has been insufficient to bring down the rate of interest to a level which was compatible with the growth of real wealth (*CW* 7, p. 337).

His reform proposals were based on Indians' learning "to leave off their infertile habits and to divert their hoards into the channels of productive industry and to the enrichment of their fields" (*CW* I, p. 70). Should Indian demand for gold shrink abruptly over time, Europe and the whole world would suffer from violent disturbances in the level of prices. Keynes here envisions "futuristic scenarios involving a reversal of roles" (Chandavarkar, 1989, p. 91):

> If India is thus to turn the tables on the West, she must not delay too long. The time may not be far distant when Europe, having perfected her mechanism of exchange on the basis of a gold standard, will find it possible to regulate her standard of value on a

> more rational and stable basis. It is not likely that we shall leave permanently the most intimate adjustments of our economic organism at the mercy of a lucky prospector, a new chemical process, or a change of ideas in Asia (*CW* I, p. 71).

The various "futuristic" scenarios pictured by Keynes in many of his writings are more an attempt to promote reform plans designed to revolutionize the present than a speculation about changing times and circumstances requiring, in the future, different ways of coping with given problems. The prospected reversal of role between Asia and the West, at odds with the view of those who see a purely Indian focus in the essay, appears as a device introduced by the young economist to reinforce the case for European monetary reform driven by, and based upon, rationality.

While claiming that the imitation of the pure gold standard model rests on the introduction of the tacit assumption recalled above, Keynes inaugurates a methodology of criticism based upon the concept of interdependence as opposed to atomism and isolability. He claimed that the evolution of the Indian currency system since 1899 had been

> silent but rapid. There have been few public pronouncements of policy on the part of the Government, and the legislative changes have been insignificant (*CW* 15, p. 67).

"Yet a system has been developed",

> which was contemplated neither by those who effected nor by those who opposed the closing of the mints in 1892 and which was not favoured either by the Government or by the Committee of 1898, although something resembling it was brought before them (ibid.).

The evolution of the Indian system was undoubtedly positive, though unintended. True, "the details of the gold standard are difficult and complicated, but there is not the least need for anyone who uses the coin to understand the system on which it is based" (p. 63). However, "those who actually control the system need appreciate the details" (ibid.), and

> the fact that the Government has drifted into a system and has never plainly set it forth, is responsible for a great deal of the misapprehension regarding its true nature which exists in the minds not only of the public, but also of some Government officials (p. 67).

This digression on the unintended effects of currency policy (see also Ferrandier, 1985) induces to rethink the use Keynes makes of the concept of rationality. In his introduction to the Series of *Cambridge Economic Handbooks* he writes: "The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, which helps its possessor to draw correct conclusions" (*CW* 12, p. 856), i.e. to avoid falling into logical fallacies in reasoning. Keynes's way of reasoning in economics is in fact a non-demonstrative logic

based upon probability, that is a logical relation between propositions or arguments, premises and conclusions (see Carabelli, 1988). His work on India is one of the best example (consider *CW* XV, p. 69: "I will endeavour to give reasons for thinking...") of his belief that "in economics you cannot *convict* your opponent of error – you can only *convince* him of it. And, even if you are right, you cannot convince him, if there is a defect in your powers of persuasion and exposition or if his head is already so filled with contrary notions that he cannot catch the clues to your thought which you are trying to throw to him" (*CW* 13, p. 470). The mind easily goes to purists' views about gold circulation, or to Keynes's belief that it was only under the influence of a major crisis that proposals for a state bank could be given due attention.

For Keynes, probability is the hypothesis upon which it is reasonable for us to act in condition of limited knowledge (*CW* 8, p. 339): the general principles which rule human conduct are also those which rule probable reasoning. What matters is however reasonableness – neither absolute rationality nor truth – of judgement and action, which does not depend on the fulfilment of expectations, for mere luck does not turn foolish judgements into reasonable judgements, and is contingent to changeable cognitive circumstances. In economic policy-making, decisions are taken on the basis of probability and likeness, but they are not arbitrary or irrational. With natural order and natural selection, Keynes constantly rejects policy spontaneity, which he relates to instinct, blindness and chance, i.e. absence of deliberation. "Schemes conceived by the mind" must replace "undesigned outcome of instinct" (*CW* 17, p. 453), as shown in the *Monetary Reform*:

> we must free ourselves from the deep distrust which exists against allowing the regulation of the standard of value to be the subject of *deliberate decision*. We can no longer afford to leave it in the category of which the distinguishing characteristics are possessed in different degrees by the weather, the birth-rate, and the Constitution, – matters which are settled by natural causes, or are the resultant of the separate action of many individuals acting independently, or require a Revolution to change them (*CW* 4, p. 36).

Endowed with a mind and a will, relying on probable judgement and reasonableness, institutions are social remedies deliberately designed to "compete with and try to contrast ethically undesired social practices and conventions" (Carabelli and De Vecchi, 2001, p. 231) to oppose the negative effects of complexity and organic interdependence characterizing society and economic organization. The economists' task is to find out new tools and principles of policy to control and intervene in the working of economic forces, with the aim of promoting social stability and justice. Keynes maintains that social rules themselves should be revised on more rational criteria, through "wise", i.e. reasonable, policy. The alternative to gold, Keynes writes in the *Monetary Reform*, was

just "our existing system, but worked self-consciously and for a wise, deliberate purpose" (*CW* 4, p. 161). Best placed to decide and act precisely in those cases in which uncertainty and ignorance force individuals to adhere to average opinion and conventions, institutions have to modify public opinion and establish a new, less harmful convention. Discretionary policy is thus a "rational construction", in need of "constructive proposals" (*CW* 27, p. 138).

A direct illustration of this in ICF is provided by Keynes's argument for moderating the amount of India's total reserves: "it would be extravagant to maintain a reserve adequate for all conceivable emergencies" (*CW* 1, p. 120), since the Secretary of State could always borrow by issuing India bills. In India, Keynes stresses, all available resources are required for capital expansion: it is "not sound or humane policy to burden the present as much as for the sake of the future", all the more so since "few countries have so good a market for their loans at a foreign centre as India" (ibid.). ICF is more generally informed by Keynes's belief that ignorance about the future should not paralyze public policy, since "the future will be what we choose to make it" (*CW* 26, p. 260). In his reconstruction of the 1914 crisis, the collapse is due to foreign debtors' inability to meet their obligations to Britain. Specie payments had been suspended, and the ability of the Bank of England to draw gold severely impaired: due to the "uncertainties of war", in fact, "as usual, most countries refused to use their gold reserves and preferred sterile hoards to the fulfilment of their obligations" (*CW* 11, p. 259):

> although many countries hold large quantities of gold, there are but few which pursue a rational policy in regard to it. At considerable cost they build up large reserves in quiet times presumably with a view to the next crisis; but when the crisis comes mistaken policy renders them as little able to use gold as if it were not there at all (p. 247).

The rationale of the enormous accumulation of gold reserves before the 1914 crisis had been

> only dimly conceived by the owners of them. They have been piled up partly as the result of blind fashion, partly as the almost automatic consequence, in an era of abundant gold supply, of the particular currency arrangements which it has been orthodox to introduce. The actual amount of gold held in reserve has been in only a very few cases the result of a deliberate choice (p. 312).

The lesson Keynes derives from Inter-Allied finance in the First World War is that

> a gold reserves is thought of as being some sort of charm, the presence of which is valuable quite apart from there being any idea of dissipating it, – as the emblem, rather than the prop, of respectability. It would be consistent with these ideas to melt the reserve into a great golden image of the chief cashier and place it on a monument so high that it could never be got down again. If any doubt comes to be felt about the financial stability of the country, a glance upwards at the image will, it is thought,

> restore confidence. If confidence is not restored, this only shows that the image is not quite big enough (pp. 313-14).

Wondering why European countries had deliberately abandoned the "purposes for which it is rational to hold a reserve" (p. 315), Keynes speculated about the fallacy of composition which the "extreme force of circumstances" (p. 317) may engender. Paradoxically, the War could lead to a radical innovation in matters of currency, and impose a new international regulation. To innovate is "practicable, as soon as people in general believe it to be so. The intellectual and scientific part of the problem is solved already. Only the will and the belief have not yet come" (p. 320). Better, perhaps, to wait for "a catastrophic change", causing gold to be "deposed from its despotic control over us and reduced to the position of a constitutional monarch", until

> a new chapter of history will be opened. Man will have made another step forward in the attainment of self-government, in the power to control his fortunes according to his own wishes. We shall than record the subtle, profound, unintended, and often unnoticed influences of the precious metals on past historical events as characteristic of an earlier period (ibid.).

In ICF, which due to its confidence in capital flows as an effective remedy for international imbalances clearly belongs to the first quarter of the twentieth century (Sayers, 1972), Keynes offered the picture of an international monetary system able to conciliate, aptly managed through the use of exchange reserves held at the international financial centres of the core, the interests of debtor countries with those of creditor nations. ICF ideally introduces the series of Keynes's reform plans attempting to revive, with special insistence on that "monetary institutions should be molded with sufficient flexibility to allow the pursuit of domestic targets" (Cesarano, 2003, p. 492), the "lost paradise" of the gold-standard era, a process culminating with the ICU proposal for a supranational fiat money replacing gold as the ultimate reserve asset, increased international liquidity, and the establishment of the principle of clearing with more symmetric rules for adjustment. The international monetary system Keynes shaped in its essential traits in ICF may help today's policy-makers focus on some of the the major faults of BWII. His awareness of the changes occurred in Asia at the epoch parallels our inability to cope with the spectacular effects of "a change of ideas in Asia", that is the passage – forced by the adoption of neoliberalism and aggressive financial liberalisation under Western pressures – from external borrowing to "undervaluation-cum-intervention" as development strategy. Asia has now "turned the tables on the West", which has not yet learnt how to control "the most intimate adjustments" of its "economic organism".

Keynes’s early works were quite firm in their attacks on sterile and costly hoarding of gold, impairing the possibility to use it as a means of discharging international obligations. The “reserves are to be used not shown” principle informs the ICU plan as well, requiring surplus countries to make available those resources which they choose to leave idle for purposes of international adjustment. Keynes's own attempt to ground his plan on the virtues of the pre-war gold standard while avoiding its vices (see *CW* 25, pp. 40-66) induces to reappraise the legacy of ICF as the need for a global order combining cheapness with stability, and able to establish, in the name of the beneficial effects of economic interdependence, more sustainable relationships between debtor and creditor countries. Contrary to these traits of Keynes's desired order, BWII combines expensiveness with instability. This is due, on the one hand, to the use of a national currency, the dollar, as the global reserve currency and the instrument for international payments. Since non-reserve countries’ demand for reserves grows with international transactions and reserves can only be accumulated by running balance-of-payment surpluses, “as long as non-reserve countries attain their desired levels of reserve accumulations, the reserve money currency country ... will be faced with chronic growing deficits (Greenwald and Stiglitz, 2006, p. 7). In the golden age of Bretton Woods the ultimate creditor country was willing and able to offer a permanent free lunch for all by accepting the major responsibility for solving international payments imbalances, whereas the mercantilist tendencies of BWII cannot but produce a deflationary environment (Davidson, 2008)**.** On the other hand, the system’s instability has much to do with emerging countries’ demand for protection from pro-cyclical capital inflows accompanied by limited possibilities to adopt counter-cyclical policies (Ocampo, 2007). The only possibility to avoid the “fallacy of composition effects that feed into global imbalances” (p. 12) lies in the American willingness to raise indebtedness at intolerable levels, which increases the magnitude of the global austerity programme launched by the financial crisis.

Obstfeld *et al.* argue (2009) that the growth of international reserves demanded by emerging markets should be understood as the attempt to protect countries from “double drain” crisis scenarios with banking problems and capital flights, working together against stability to promote sharp currency depreciation. The general success, at the times of the crisis, of strategies combining financial integration and managed exchange flexibility illustrates the importance of the self-insurance provided by reserves (Aizenman, 2009). However, “the reluctance of many countries to draw on their reserve holding raises the possibility that they may now suffer less from the well-known ´fear of floating´ than from a ´fear of losing international reserves´, which may

signal a deterioration in the credit worthiness of a country. Mitigating this concern should be the prime responsibility of the international financial institutions" (p. 17).

What can be rational for individual countries might lead to a fallacy of composition at a global level. The endeavour to discuss the rationality *à la* Keynes (i.e. reasonableness) of current informal international architecture leads to conclude that the unintended evolution which has transformed global imbalances into an engine of global growth under the tacit assumption of ever-growing American demand for foreign goods does not make them reasonable, nor does it justify inactivity with regard to their persistence. Economic anxieties, more than the aggressive or defensive behaviours they produce in a neoliberal environment, are likely to explain the BWII logic of reserve hoarding. The only antidote to fear, in economics, comes from regulation – deliberate decision, in Keynes's words. The world needs a true global currency as a new, more rational and stable store of international value (Ocampo, 2007), and reserves accumulation should be decoupled from the deficit positions of reserve countries (Greenwald and Stiglitz, 2006). An updated version of Keynes's ICU plan (hopefully supplemented by provisions for countercyclical monetary policy operations, see D'Arista 2008), as advocated by Davidson (2008), might help avoiding a lack of a global effective demand due to excessive reserve hoarding and provide each nation the possibility to monitor or even control capital movements against financial contagion. The US might not be happy with losing their "exhorbitant privilege". Yet, as Greenwald and Stiglitz (2008) suggest, Keynes himself came to the conclusion that the benefits of seignorage are poor with respect to the deflationary bias which tends to hit reserve countries.

5. Conclusions. Consensus versus freedom or consensus upon freedom?

At the end of his analysis of the United Nations' proposal for the reform of the international monetary system show, Kregel (2009) reminds that since international capital flows put at risk the adjustment mechanism and may tend to exacerbate, as in the current situation, unsustainable imbalances, a comeback is required to the Article VI of Agreement of the International Monetary Fund, that permits capital controls. Developing countries may however persist in pursuing export-led growth policies, thus frustrating any effort to make the desired adjustment mechanism work. In sum, he states, "the problem of the instability of the international reserve currency's purchasing power is less a question of the asset that serves as that currency and more a question of the operation of the international adjustment mechanism, and of whether that mechanism is automatic or coordinated, and also sufficiently compatible with global aggregate demand to provide full

employment and support the national development strategies of developing countries" (p. 5). A major problem with the rediscovery of the ICU plan is that the freer world Keynes envisaged for the postwar period should rely on an adjustment mechanism preventing the rise of unsustainable imbalances, so as to maintain stability of exchange rates while allowing member countries freedom of action to ensure full employment. "But there is no automatic mechanism that ensures this result, nor any mechanism that ensures full employment. It is the result of coordinated policy action taken mutually by members of the clearing union" (ibid.).

The analysis we carried out in the paper provides support to this view. In his correspondence with Robert H. Brand, Keynes himself stressed that the proposal of an "American Gift" with its spiral-dynamics for international coordinated adjustment was conceived, exactly as its historical predecessor at the end of World War I, as a way of bypassing the apparent impossibility of realizing through intergovernmental agreement the desired "shared responsibilities" plan easing the transition to the post-war world. It is easy to remark the affinity between the way we propose of dealing with such a surprising episode of Keynes's diplomacy and Davidson's (2007) analysis of the Marshall Plan as a "free lunch" for both debtor and creditor countries, reflecting the United States' decision to accept "the Keynes Plan's suggestion that it is in the best interest of all nations if the major creditor nation bears the major burden of reducing trade imbalances and international payments adjustments" (p. 145). The lack, in Keynes's plan, of authomatic mechanism to make coordinate adjustments operative, as well as the stress Keynes posed on the need for shared-responsibilities coordinated policy actions seems however, to some extent, the price to be paid for promoting at the international level the desired diversity of national capitalisms and policies.

The Washington Consensus saga (see Cedrini, 2008a) with its stress on the universality of "right" paths to economic growth is a perfect symbol for the post-Bretton Woods world's inability to cope with the dilemmas of the international system in such a way as to promote, rather than repress, national policy space. The emergent world has simply learned the lesson: the Washington Consensus "created perverse incentives that set nation against nation in a process that perpetuates a world of slow growth (if not stagnation)" (Davidson, 2004–5, p. 217). With the result that the system is still blocked in an impasse – hence its "Bretton Woods II" configuration – further and unnecessarily limiting his members' policy space and freedom to choose. Davidson's project of a new international clearing union for a fundamentally "Keynesian" world that rejects the financial market efficiency hypothesis, as well as Stiglitz's and Greenwald's proposal for a new global

reserve system (2008), aim to create a global order with a built-in expansionary bias remedying the main fault of the Bretton Woods system - that of depending on a "happy accident", as Davidson calls it, i.e. the leader's commitment and responsibility to act for the creation of a "sounder political economy between all nations". The American Gift episode, once again, provides relevant hints at this regard.

The main reason why economics, and modernity in general, fails to "import" gift-giving from anthropology and sociology lies in the play of freedom and obligation which constitutes the "between" character of the gift relationship (see Zenou et al., 1993) and allows the gift to perform a role in creating social alliances (see Caillé, 1998). A prolongation but also a different vehicle of the spirit of Keynes's plans to reform the global architecture, the American Gift seems to be characterized by those very distinctive marks which today's studies on Mauss's legacy recognize as typical of gifts in utilitarian societies. In his speech to the Lords of 23 May 1944, Keynes stressed that the "shared responsibility" principle of the Joint Statement of Bretton Woods would not have been possible without

> a voluntary undertaking, genuinely offered in the spirit both of a good neighbour and, I should add, of enlightened self-interest, not to allow a repetition of a chain of events which between the wars did more than any other single factor to destroy the world's economic balance and to prepare a seed-bed for foul growths (*CW* 26, p. 14).

Being aware that the US "would prefer us to end the war with exiguous gold and dollar reserves so that they will be in a position to force" a dollar loan "on our own credit in order to allow sterling area countries [...] to buy United States exports out of their sterling balances" (*CW* 24, p. 63), Keynes never abandoned the idea of making the Americans themselves offer the gift as the result of a sincere appreciation of Britain's effort in financing the war and future expected difficulties. A contrast appears thus neatly between, on the one side, Brand's interpretation of the gift relationship in terms of the giver's power on the receiver, and Keynes's preference for a gift over a loan on the other, which rested on the need to retain Britain's "ultimate strength and independence" (p. 64).

Keynes had stressed that the Americans did not have any "obligation" (*CW* 18, p. 300) to comply with his proposals for the settlement of WWI Inter-Allied debts, nor was he expecting them to offer mitigation "unconditionally" (p. 299). Yet, on the presumed moral and unconditional character of the contribution Keynes had called for were based the American criticisms, and similar remarks were to appear again, almost unchanged, twenty years later (see Moggridge, 1992, p. 657). Though a reason for sharing of the costs of war, however, morals was not the focal point of

the memorandum, nor was *Justice* "in its classic Aristotelian sense" (Skidelsky, 2000, p. 384), unless its meaning is extended to include the interwar American failures in accepting responsibility for global equilibrium. Keynes was calling for "an entirely new approach on the part of the United States and ourselves" (*CW* 24, p. 255). He himself came to recognize that he should have emphasized, at the outset of the negotiations, that *Justice* was concerned with the future not less than with the past. On revisiting the "principle of equal sacrifice" (p. 609) rejected by the Americans, he admitted that

> in no phase of human experience does the past operate so directly and arithmetically as we were trying to contend. Men's sympathies and less calculated impulses are drawn from their memories of comradeship, but their contemporary acts are generally directed towards influencing the future and not towards pensioning the past (p. 610).

Lost in negotiations, the relational character of the gift is given a virtual representation in the correspondence between Brand and Keynes, the latter – the recipient – revealing on what premises his proposal stood while practising to fight the argument the former – playing the giver's part – advanced to suggest the impracticability of the gift option. While stressing the need to avoid a bargain and the "psychological atmosphere of the free gift", Keynes insisted on unconditionality. His approach was based less on ambiguity-resolving devices than on that structural uncertainty which, only, can lead actors previously regarding each other as rivals to gamble on mutual trust. Since every gift is, in a way, agonistic – "the obligation of rivalry through displayed generosity" (Caillé, 2005, p. 8) –, the giver forcely exposes herself or himself, as a precondition for establishing a social bonding mechanism benefiting all the parts involved, to uncertainty and the risk of no return.

Unconditionality is thus in truth conditional to the appearance of positive interactions and necessarily lives under the threat of falling back to the unconditional diffidence of the clash of interests (Caillé, 1998). The same for the American Gift, which Keynes believed to be, to borrow Marcuzzo's (2008) words, the element "chang[*ing*] the environment within which individuals operate", inducing "behaviour to conform to goals which were attainable only bypassing individualistic motivation or utilitarian calculations" (p. 16). A "first" gift with no strings attached other than those of the history of previous relations, the American Gift is not a charitable gift, but a complex mix of self-interest and disinterest, obligation and freedom, rivalry and alliance. Once the future and the expectations about it which Keynes's proposal embodied are considered, the positive poles of these dichotomies appear with clearness. That measure of *social* indebtedness which Keynes desired every partner involved to positively appreciate as a precondition for

working together on a new world order – acceding to a state of mutual trust improves objectively and subjectively the condition of everyone, Caillé (1998) would add – was based on clearing up not the past, but its dramatic consequences on the future, in the form of *market* indebtedness. Mauss himself shows that "the obligation to give is a paradoxical obligation to be free and to oblige others to be free too" Caillé (2005, p. 6)

Keynes's American Gift is inhabited by this strange mix of freedom and obligation. It was not only, and not simply, a counter gift to London, "capital du courage libérateur" (Perroux, 1963, p. 174), but also the first element of a new, complex dynamics, requiring Britain to reciprocate. Only a gift, Keynes argued, could allow Britain to face its obligation to take part in the kind of post-war world everyone wished to live in. The Americans were given the historical chance to

> make us an offer, not so much generous as just, using their financial strength not as an instrument to force us to their will, but as a means of making it possible for us to participate in arrangements which we ourselves prefer on their merits if only they can be made practicable for us (*CW* 24, p. 272).

The effort to create alliances presupposes a certain degree of playing with the rules; in gift-giving, rules and givers rely on implicitness "in order to preserve or introduce an element of risk into the appearance of the counter-gift, an uncertainty, an indeterminacy [...] to insinuate 'properties of undecidability' into the sequence" (Godbout, 1998b, p. 187). An attempt at extending the borders of community, the gift is "a probe into uncertainty" (Gudeman, 2001, p. 467), with the dyad confidence-uncertainty as "a precondition for any social bond, which explains why all determinist theories run around on this elementary but primordial phenomenon, basic to freedom ... Every gift is an act that widens the scope of freedom for the members of a society" (Godbout, 1998b, p. 190). If every player gives in his turn, rather than reciprocating in a quasi-mechanical manner, this is because the gift compels to think obligation and freedom as interrelated, and tends to free the receiver from the duty of reciprocity, allowing him to freely choose to reciprocate, or better, obliging him to freely reciprocate.

The difference between an American loan and an American gift lies in the repercussions they would respectively have on the receiver's freedom to choose. In this case too, the act of receiving the gift opens a double "espace du jeu" shaped by the dismissal, on the one side, of utilitarian calculation, and by uncertainty and unpredictability on the other, safeguarding "la liberté mutuelle et réciproque du donateur et du receveur dans le cadre des relations complexes de l'échange" (Fixot, 1992, p. 237). As a means of forcing Britain to the American will, a loan would *compel London to passively accept* the American conception of the international economic system. As

a means "of making it possible for us to participate in arrangements which we ourselves prefer on their merits if only they can be made practicable for us", a gift would on the contrary allow Britain the freedom to "march side by side" with the US in the construction of the desired post-war world, i.e. the possibility to *proactively choose and help to shape* the multilateral option.

Freedom is first of all freedom from economic necessity. Some key passages of Keynes's diplomacy during WWII dismiss the importance of the financial amounts involved ("beyond question we are entering into the age of abundance ... The time may well come – and sooner than we yet have any right to assume – when the sums which now overwhelm us may seem chicken-feed, and an opportunity to get rid of stuff without payment a positive convenience", *CW* 24, p. 411; the age of abundance – he wrote in 1930, but this statement fits really well the rationale of the American Gift proposal – will change "the nature of one's duty to one's neighbour ... it would remain reasonable to be economically purposive for others after it has ceased to be reasonable for oneself", *CW* IX, p. 331) and echo the anti-utilitarianism of his essay *Economic Possibilities for Our Grandchildren*, i.e. Keynes's reject of the concept of inevitable scarcity and purposiveness, and his vision of the international economic problem as "a transitory and an *unnecessary* muddle" (*CW* 9, p. xvii. "Here is a field where mere sound thinking may do something useful to ease the material burdens of the children of men", *CW* 25, p. 300). The American Gift as conceived by Keynes is clearly affected by his vision of material wealth as no more than an instument to attain the possibility of a happy life, in the Aristotelian sense: the end of the "economic problem", "the problem of want and poverty and the economic struggle between classes and nations", is the material precondition for the enjoyment of a moral renaissance and an ethical life. In general, Keynes conceives of economics as an instrument to free men from necessity and limits restricting the possibility of individual choice of ends. Men must be given the possibility to use the necessary means to satisfy material needs and thus be free to consider non-material ends which they could not even know before but prove to be indispensable to express authentic human qualities (see Carabelli and Cedrini, 2009b).

To Keynes freedom is also, consistently with his general view of public institutions' (like the ICU) "duty to be altruistic, in defence of the individual" (Carabelli and De Vecchi, 2001, p. 244) and his right to variety and autonomous judgement, freedom to choose. The *General Theory* justifies "the central controls necessary to ensure full employment" it proposes, invoving "a large extension of the traditional functions of government" (CW 7, p. 379) as a means to attain the end of

the economic problem while safeguarding the "traditional advantages of individualism" (p. 380). 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" (ib.)

The unconditionality of American behaviour asked for by Keynes strongly contrasts with the US desire to complete the path they began with the negotiations of the Lend-Lease agreement and come to specify definitely the contents of "consideration". But the American Gift is not only the climax of turbolent war-time relationships between the two Anglo-Saxon powers. Keynes's last plans were but the final, most explicit configurations of his lifelong attempt at solving the dilemmas of the international system by the construction of a new order where the discipline provided by the ICU aims to eliminate economic anxieties at the international level, and is consequently exercised not against, but in favour of national policy space. While the unrestricted laissez-faire of the late gold standard and interwar period "mistake[d] private licence for public liberty" (*CW* 24, p. 622), the new order should on the contrary compensate the limitation of policy space which is required by global interdependence by a multilateral system reducing the frictions between national freedom and international discipline; by managing the co-habitation of different brands of national capitalism (Rodrik, 1998) instead of imposing on them a one-size-fits-all set of right policies. Keynes considered Bretton Woods and the American Loan, as he revealed when trying to persuade the Lords to vote for the latter, as the

> first great attempt at organizing international order out of the chaos of the war in a way which will not interfere with the diversity of national policy yet which will minimize the causes of friction and ill will between nations (*CW* 24, p. 608).

The optimistic hopes for a rapid recovery of international equilibrium expressed in his last article, *The Balance of Payments of the United States*, are less striking than it would appear from criticisms Keynes received for praising the virtue of the "classical medicine" (*CW* 24, p. 4). With Markwell, one could remark that

> now international cooperation to relieve the balance of payments constraint, and to stabilize capital flows, and national commitments to full (or high) employment, had

> created the preconditions for 'the classical theory [to come] into its own again'. Likewise, Keynes's 1933 isolationist arguments were met: domestic policy autonomy seemed guaranteed by an international system which was, he hoped, itself expansionist; and international conflict was minimized by ensuring joint gains from economic interactions (1995, p. 207).

However, although the Marshall Plan seemed to announce "the transformation of the USA into the kind of big spending creditor envisaged in the Clearing Union plan" (Newton, 2006, p. 4), and despite the keynesian attributes of the embedded liberalism of Bretton Woods, the "great step forward" towards an "international economic order amidst national diversities of policies" was to remain more the ideal outcome of Keynes's desired reform schemes than the practical result of the "newly-trod path" (*CW* 24, p. 621).

In Keynes's vision, the limitation of policy space required by global interdependency must be compensated by countries' participation to a multilateral system reducing the frictions between national freedom and international discipline. Capital controls are a necessary condition to cope efficiently with the "dilemmas of the international monetary system" Keynes referred to in the *Treatise on Money*, since "distinct national circumstances implied that heterogeneity, not homogeneity was appropriate across various states' macroeconomic policies" (Kirschner, 2009, p. 534). Moreover, multilateral rules must promote rather than repress freedom to choose and national diversity, managing their cohabitation instead of imposing a one-size-fits-all set of "right" policies. Keynes was fighting *through* Britain, not only *for* her, in his search for a multilateral response to post-war imbalances. And he was fighting *through* Britain as well while promoting a "shared responsibilities" approach to the general stability of the global order, which included both a qualified regeneration, under new forms, of the "socially-constructed" (UNCTAD, 2006, p. 92) character of the monetary agreement at the basis of the pre-war gold standard, and – as a second-best – the attempt at imbuing the new world leadership with a "public spirit" similar to that which Keynes held to inspire Britain's behaviour in the golden age. His real defeat as an international policymaker lies in the rejection of the "freedom-enhancing" mechanisms that animate both his plans for Bretton Woods and his request for an "American Gift" to Britain. If Keynes is "fashionable" again, this seems due to the core message of his activity as an international negotiator: a new successful international system of national capitalism will be more likely based on consensus upon freedom rather than discipline—that is, on the will to enhance, rather than oppose, member countries' freedom to choose and the diversity of national policies.

References

Ahearne, A., W. R. Cline, K. T. Lee, Y.C. Park, J. Pisani- Ferry, and J. Williamson. 2007. "Global Imbalances: Time for Action." *Policy Brief in International Economics* 07- 4, March, Peterson Institute for International Economics. Available at: www.iie.com/publications/pb/pb07-4.pdf.

Aizenman, J. 2007. "Large Hoarding of International Reserves and the Emerging Global Economic Architecture." NBER Working Paper no. 13277. Cambridge, Mass.: National Bureau of Economic Research.

———. 2009. "On the Paradox of Prudential Regulations in the Globalized Economy. International Reserves and the Crisis: a Reassessment." NBER Working Paper no. 14779. Cambridge, Mass.: National Bureau of Economic Research.

Bernanke, B. S. 2005. "The Global Saving Glut and the U.S. Current Account Deficit." Remarks at the Sandridge Lecture, Virginia Association of Economics, Richmond, Virginia, March 10. Available at: www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm .

Boughton, J. M. 2002. "Why White, Not Keynes? Inventing the Postwar International Monetary System." IMF Working Paper no. 02/52. Washington, D.C.: International Monetary Fund.

Buira, A., and M. Abeles. 2006. "The IMF and the Adjustment of Global Imbalances." Paper presented at the G24 Technical Group Meeting, Geneva, March 16– 17. Available at: www.g24.org/buab0306.pdf.

Caillé, A. 1998. *Il terzo paradigma. Antropologia filosofica del dono*. Torino: Bollati Boringhieri, 1998.

———. 2005 "Anti-utilitarianism, economics and the gift-paradigm." Available at: www.revuedumauss.com.fr/media/ACstake.pdf.

Cairncross, A. "Keynes and the Planned Economy." In A. Thrilwall, ed. *Keynes and Laissez-Faire*, 36-58. London: Macmillan.

Carabelli, A. 1988. *On Keynes's Method.* London: Macmillan.

———. 1991. "The Methodology of the Critique of the Classical Theory: Keynes on Organic Interdependence." In B. W. Bateman and J. B. Davis, eds., *Keynes and Philosophy: Essays on the Origin of Keynes's Thought*, 104– 125. Aldershot, UK: Edward Elgar.

Carabelli, A. and Cedrini, M. 2008. "Coping with Complexity: Keynes and International Economic Relations." SEMeQ Working Paper no. 12/2008. Available at: http://semeq.unipmn.it/files/CopingWithComp.pdf.

———. 2009a. "Current Global Imbalances: Might Keynes Be of Help?" In M.C. Marcuzzo, T. Hirai and B. Bateman, eds. *The Return to Keynes: Keynes and Keynesian Policies in the New Millennium*. Cambridge, Mass.: Harvard University Press, forthcoming.

———. 2009b**.** "The Economic Problem of Happiness. Keynes on Happiness and Economics." SEMeQ Working Paper no. 13/09. Available at: http://semeq.unipmn.it/files/The_Economic_Problem_of_Happiness_Carabelli_and_Cedrini.pdf.

———. 2009c. "Indian Currency and Beyond. Yhe Legacy of the Early Economics of Keynes in the Times of Bretton Woods II." SEMeQ Working Paper no. 12/09. Available at: http://semeq.unipmn.it/files/quaderno%2012%20completo.pdf.

Carabelli, A. and N. De Vecchi. "Individuals, Public Institutions and Knowledge: Hayek and Keynes." In P. Porta, R. Scazzieri, A. Skinner, eds. *Knowledge, Social Institutions and the Division of Labour*, 229-48. Aldershot: Elgar.

Cedrini, M. 2008. "Consensus versus Freedom or Consensus upon Freedom? From Washington Disorder to the Rediscovery of Keynes." *Journal of Post Keynesian Economics* 30(4): 499– 522.

———. 2008b "Fighting Through Britain: The 'Gift Dimension' of Keynes's Quest for a New Global Order." *Revue du MAUSS permanente*, April. Available at : www.journaldumauss.net/ spip.php?article 327.

Cesarano, F. 2003. "Keynes's Revindication of Classical Monetary Theory." *History of Political Economy*, 35(3): 491-519.

Chinn, M. D. 2005. “Getting Serious about the Twin Defi cits.” Council on Foreign Relations Special Report 10, September. Available at: www.cfr.org/content/publications/ attachments/TwinDeficitsTF.pdf.

Chandavarkar, A.G. 1989. *Keynes and India. A Study in Economics and Biography*. London: Macmillan.

Clarke, R. 1982. *Anglo-American Economic Collaboration in War and Peace 1942-1949*. Oxford: Clarendon Press.

———. 2009. *Keynes: The Twentieth Century's Most Influential Economist. Bloomsbury;*

Cooper, R. 2004. “US Deficit: It Is Not Only Sustainable, It Is Logical.” *Financial Times,* October 31: A15.

Cristiano, C. 2009. “Keynes and India, 1909-1913: A Study on Foreign Investment Policy.” *The European Journal of the History of Economic Thought*, 16(2): 301-324.

Cruz, M. and B. Walters2008. “Is the accumulation of international reserves good for development?” *Cambridge Journal of Economics*, 32(5): 665-81.

D'Arista, J. 2008. “Replacing the Failed Washington Consensus.” *Journal of Post Keynesian Economics* 30(4): 523-539.

Davidson, P. 2004-5. “A Post Keynesian View of the Washington Consensus and How to Improve It.” *Journal of Post Keynesian Economics,* 27(2): 207–230.

———. 2007. *John Maynard Keynes*. New York: Palgrave Macmillan.

———. 2008 “Reforming the World's International Money.” *Real-World Economics Review*, 48(6): 293-305.

———. 2009. *The Keynes Solution: The Path to Global Economic Prosperity*. New York: *Palgrave Macmillan.*

De Cecco, M. 1977. “The Last of the Romans.” In R. Skidelsky, ed., *The End of the Keynesian Era. Essays on the disintegration of the Keynesian political economy*. New York: Holmes & Meier, 18-24.

———. 1979a. *Moneta e impero. Il sistema finanziario internazionale dal 1890 al 1914*. Torino: Einaudi.

———. 1979b. “Origins of the Post- War Payments System.” *Cambridge Journal of Economics* 3(1): 49– 61.

———. 2001. “John Maynard Keynes.” *Rivista di storia economica*, 17(3): 373-382.

DeLong, J. B. 2002. “Review of Skidelsky's 'John Maynard Keynes: Fighting for Britain'.” *Journal of Economic Literature*, 40(1): 155-162.

Dimand, R.W. 2006. “Keynes and Global Economic Integration.” *Atlantic Economic Journal*, 34: 175-82.

———. 1991. “'A prodigy of constructive work': J.M. Keynes on Indian Currency and Finance.” In W.J. Barber, ed. *Perspectives on the History of Economic Thought Volume VI. Themes in Keynesian Criticism and Supplementary Modern Topics. Selected Papers from the History of Economics Conference 1989*, 29-35. History of Economics Society – Aldershot: Elgar.

Dooley, M. P., D. Folkerts- Landau, and P. Garber. 2003. “An Essay on the Revived Bretton Woods System.” NBER Working Paper no. 9971. Cambridge, Mass.: National Bureau of Economic Research.

———. 2009. “Bretton Woods II Still Defi nes the International Monetary System.” NBER Working Paper no. 14731. Cambridge, Mass.: National Bureau of Economic Research.

Dow, S. and J. Hillard, eds. 1995. *Keynes, Knowledge and Uncertainty*, Edward Elgar, Aldershot.

Economist, 2009. “The Keynes Comeback.” October. Available at: www.economist.com/books/displaystory.cfm?story_id=14539560.

Eichengreen, B. J. 2009. “From the Asian crisis to the global credit crisis: reforming the international financial architecture redux.” *International Economics and Economic Policy* 6(1): 1-22.

———. 2004. “Global Imbalances and the Lessons of Bretton Woods.” NBER Working Paper no. 10497. Cambridge, Mass.: National Bureau of Economic Research.

———. 2006a. “Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis.” *Journal of Policy Modeling* 28(6): 645-652.

———. 2006b. “Should There Be a Coordinated Response to the Problem of Global Imbalances? Can There Be One?” Paper presented at the United Nations' World Economic Situation and Prospects (WESP), September. Available at: www.un.org/esa/policy/wess/wesp2007files/bpeichengreen.pdf.

Eichengreen, B. J., and Y. C. Park. 2006. "Global Imbalances and Emerging Markets." In J. J. Teunissen and A. Akkerman, eds., *Global Imbalances and the US Debt Problem. Should Developing Countries Support the US Dollar?,* 14-44. The Hague: Fondad.

Feldstein, M. 2008. "Resolving the Global Imbalance: The Dollar and the U.S. Saving Rate." *Journal of Economic Perspectives* 22(3): 113-125.

Ferrandier, R. 1985. "L'étalon-or aux Indes: une absurde fascination." In F. Poulon, ed. *Les écrits de Keynes*, 158-75. Paris: Dunod.

Ferrari Bravo, G. 1990. *Keynes. Uno studio di diplomazia economica*. Padova: Cedam.

Fixot, A.-M. 1992. "Donner c'est bien, recevoir c'est mieux." *La revue du MAUSS*, 15-16: 236-238.

Fleming, G. "Foreign investment, reparations and the proposal for an international bank: notes on the lectures of J. M. Keynes in Geneva, July 1929." *Cambridge Journal of Economics*, 24: 139-151.

Gardner, R.N. 1956. *Sterling-Dollar Diplomacy*. Oxford: Oxford University Press.

Godbout, J.T. (in collaboration with A. Caillé) 1998a. *The World of the Gift*. Montreal: McGill-Queen's University Press.

———. 1998b. "The moral of the gift." *The Journal of Socioeconomics*, 27: 557-570.

Gouldner, A. 1973. "The Importance of Something for Nothing." In Id., *For Sociology. Renewal and Critique in Sociology Today*. London: Allen Lane: 260-299.

———. 1996. "The Norm of Reciprocity: A Preliminary Statement." In A. Komter, ed., *The gift: an interdisciplinary perspective*, 49-66. Amsterdam: Amsterdam University Press.

Greenwald, B., and J. E. Stiglitz. 2006. "A Modest Proposal for International Monetary Reform." Columbia University, January 4. Available at: http:/www2.gsb.columbia.edu/faculty/jstiglitz/download/2006IntlMonetaryReform.pdf.

———. 2008. "A Modest Proposal for International Monetary Reform." Paper presented at the International Economic Association Meeting, Istanbul, June.

Gudeman, S. 1991. "Postmodern gifts." In S. Cullenberg, J. Amariglio and D.F. Ruccio, eds., *Postmodernism, Economics and Knowledge*, 459-74. London and New York: Routledge.

Ikenberry, G.J. 1993. "Creating Yesterday's New World Order: Keynesian 'New Thinking' and the Anglo-American Postwar Settlement." In J. Goldstein and R. O. Keohane, *Ideas and Foreign Policy. Beliefs, Institutions, and Political Change*, 57-86. Ithaca and London: Cornell University Press.

International Monetary Fund. 2009. *World Economic Outlook*. April. Washington: International Monetary Fund.

Keynes, J. M. 1971–1989. *The Collected Writings of John Maynard Keynes.* (CW), ed. D.E. Moggridge. 30 vols. London: Macmillan.

Kirschner, J. 2009. "Keynes, legacies, and inquiry." *Theory and Society*, 38(5): 527-541.

Kregel, J. A., 1999. "A New Triffin Paradox for the Global Economy." Remarks Prepared for the Federal Council of Economists and the Regional Council of Economists of Rio de Janeiro meeting of the 13th Brazilian Congress of Economists and the 7th Congress of the Association of Economists from Latin-America and the Caribbean, September 15. Available at: http://cas.umkc.edu/econ/economics/faculty/Kregel/590b/Winter2002/Readings/Triffin.pdf.

———. 2004. "External Financing for Development and International Financial Instability." G-24 Discussion Paper Series no. 32. Available at: www.unctad.org/templates/Download.asp?docid=5666&lang=1&intItemID=2103.

———. 2006. "Understanding Imbalances in a Globalised International Economic System." In J. J. Teunissen and A. Akkerman, eds., *Global Imbalances and the US Debt Problem. Should Developing Countries Support the US Dollar?,* 149– 173. The Hague: Fondad.

———. 2009. "Some Simple Observations on the Reform of the International Monetary System." The Levy Economics Institute of Bard College Policy Note 2009/8. Available at: www.levy.org/pubs/pn0908.pdf.

Krugman, P. 2007. "Will There Be a Dollar Crisis?" *Economic Policy* 22(51): 435– 467.

Mann, C. L. 2005. "Breaking up Is Hard to Do: Global Co- Dependency, Collective Action, and the Challenges of Global Adjustment." *CESifo Forum* 1: 16– 23. Available at: www.iie.com/publications/papers/mann0105b.pdf.

Marchionatti, R. "J.M. Keynes, Thinker of Economic Complexity." Cesmep Working Paper no. 2. Available at: www.cesmep.unito.it/WP/2009/2_WP_Cesmep.pdf.

Marcuzzo, M.C. 2008. "Keynes and persuasion." In M. Forstater and L. R. Wray, eds. *Keynes for the 21st Century: The Continuing Relevance of The General Theory*, 23-40. London: Palgrave Macmillan.

Marcuzzo, M. C., T. Hirai and B. Bateman, eds. *The Return to Keynes: Keynes and Keynesian Policies in the New Millennium*. Cambridge, Mass.: Harvard University Press, 2009.

Markwell, D.J. 1995. "J. M. Keynes, Idealism, and the Economic Bases of Peace." In D. Long and P. Wilson, eds. *Thinkers of the Twenty Years' Crisis. Inter-war Idealism Reassessed*, 189-213. Oxford: Clarendon Press.

———. 2006. *John Maynard Keynes and International Relations. Economic Paths to War and Peace*. Oxford: Oxford University Press.

Meissner, C. M., and A. M. Taylor. 2006. "Losing Our Marbles in the New Century? The Great Rebalancing in Historical Perspective." NBER Working Paper no. 12580. Cambridge, Mass.: National Bureau of Economic Research.

Moggridge, D.E. 1986. "Keynes and the International Monetary System 1909-46." In J. S. Cohen and G. C. Harcourt, eds. *International Monetary Problems and Supply-Side Economics: Essays in Honour of Lorie Tarshis*, 56-83. London: Macmillan.

———. 1992. *Maynard Keynes: An Economist's Biography*. London: Routledge.

Newton, S. 2000. "A 'Visionary Hope' Frustrated: J. M. Keynes and the Origins of the Postwar International Monetary Order." *Diplomacy and Statecraft*, 11(1): 189-210.

———. 2006. "J. M. Keynes and the Postwar International Economic Order." *History Compass*, 4(2): 308-313.

Obstfeld, M., J.C. Shambaugh and A.M. Taylor. 2009. "Financial Instability, Reserves, and Central Bank Swap Lines in the Panic of 2008." Paper presented at the ASSA Meetings, San Francisco, Jan. 3–5. Available at: http://elsa.berkeley.edu/~obstfeld/shambaughtaylor121908.pdf.

Ocampo, J.A. 2007. "The Instability and Inequities of the Global Reserve System." DESA Working Paper no. 59. Available at: http://www.un.org/esa/desa/papers/2007/wp59_2007.pdf.

Perroux, F. 1963. *Économie et société. Contrainte-Échange-Don* Paris: Presses Universitaires de France.

Pressnell, L. S. 1986. *External Economic Policy since the War*. Vol. 1: *The Post-War Financial Settlement.* London: Her Majesty's Stationery Office.

Rodrik, D. 1998. "The Global Fix: A Plan to Save the World Economy." *New Republic,* 219(18): 17–20.

———. "The Social Cost of Foreign Exchange Reserves." *International Economic Journal*, 20: 253-266.

———. 2009 "Reinventing Capitalism. Taking It to the Next Phase." *International Economy*, Winter: 78-79.

Rodrik, D. and A. Subramanian. 2008. "Why We Need to Curb Global Flows of Capital." *Financial Times*, 26 February.

Roubini, N. 2006. "The BW2 Regime: An Unstable Disequilibrium Bound to Unravel." *International Economics and Economic Policy*, 3(3-4): 303-332.

Sahlins, M. 1972. *Stone Age Economics*. Chicago and New York: Aldine Publishing Company.

Sayers, R.S. 1972. "The Young Keynes." *The Economic Journal*, 82(326): 591-599.

Skidelsky, R. 2000. *John Maynard Keynes.* Vol. 3: *Fighting for Britain, 1937– 1946.* London: Macmillan.

———. 2001. *John Maynard Keynes: Fighting for Freedom 1937-1946*. New York: Viking.

———. 2009. *Keynes: The Return of the Master*. New York: PublicAffairs.

Truman, E. M. 2005. "Postponing Global Adjustment: An Analysis of the Pending Adjustment of Global Imbalances." Peterson Institute for International Economics Working Paper 05- 6, July. Available at: www.iie.com/publications/wp/wp05-6.pdf.

Unctad. 2004. *Trade and Development Report. Policy Coherence, Development Strategies and Integration into the World Economy*. New York and Geneva:

———. 2005. *Trade and Development Report. New Features of Global Interdependence*. New York and Geneva: Unctad.

———. 2006. *Trade and Development Report. Global Partnership and National Policies for Development*. New York and Geneva: Unctad.

———. 2009. *Trade and Development Report. Responding to the Global Crisis, Climate Change, Migration and Development.* New York and Geneva: Unctad.

Unpga. 2009. Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. Available at: http://www.un.org/ga/president/63/commission/financial_commission.shtml.

Vicarelli, F. 1989. *Keynes. L'instabilità del capitalismo*. Bologna: Il Mulino.

Vines, D. 2003. "John Maynard Keynes 1937– 1946: The Creation of International Macroeconomics. A Review Article of 'John Maynard Keynes 1937–1946: Fighting for Britain' by Robert Skidelsky." *The Economic Journal* 113(488): 338– 361.

Wade, R. 2009. "From Global Imbalances to Global Reorganisation." *Cambridge Journal of Economics*, 33(4): 539-562.

Williamson, J. 1981. "Review of The Collected Writings of John Maynard Keynes. Volume XXV. Activities 1940-1944. Shaping the Post-War World. The Clearing Union.; The Collected Writings of John Maynard Keynes. Volume XXVI. Activities 1941-1946. Shaping the Post-War World. Bretton Woods and Reparations." *The Economic Journal*, 91(362): 541-544.

———. 1983. "Keynes and the International Economic Order." In D. Worswick and J. Trevithick, eds., *Keynes and the modern world*, 87-113. Cambridge, UK: Cambridge University Press.

———. 2009. "Why SDRs Could Rival the Dollar." *Policy Brief in International Economics* 09-20, September, Peterson Institute for International Economics. Available at: www.iie.com/publications/pb/pb09-20.pdf.

Wolf, M. 2005. "Will Asian Mercantilism Meet Its Waterloo?" Richard Snape Lecture, Melbourne, November 14. Available at: www.pc.gov.au/lectures/snape/wolf/wolf.pdf.

Zenou, Y., P. Batifoulier, and L. Cordonnier. 1992. "L'emprunt de la théorie économique à la tradition sociologique. Le cas du don contre-don." *Revue économique*, 43(5): 917-946.

Zhou, Xiaochuan. 2009. "Reform the International Monetary System." The People's Bank of China, Beijing. Available at: www.pbc.gov.cn/english.