

What can Keynes tell us about policies to reduce unemployment and financial instability in a globalised international economy?

Jan Kregel

Jerome Levy Economics Institute of Bard College and Center for Full Employment and Price Stability, University of Missouri, Kansas City, Missouri
e-mail: kregel-ny@un.org

Abstract

Although Keynes' *General Theory* has no discussion of trade and capital flows, almost all of Keynes' writing prior to the *General Theory* deal with these issues. Indeed, almost all of Keynes' writing prior to the *General Theory* deal with the appropriate exchange rate, the impact of external competition on domestic conditions, and the role of international investment. These contributions provided the basis for his proposals for a new international financial architecture that eventually created the Bretton Woods System. This paper seeks to use Keynes' early discussion of these issues and his proposals for policies to ensure financial stability as a basis for full employment policies to argue that they still provide a basis for policies to support full employment both domestically and at the global level. His proposals for reform of the international financial system are also discussed as a background for a reform of the international financial architecture that has as its objectives increased financial stability and support of policies to establish full employment.

Key words: Exchange rates, monetary policy, globalisation.

JEL classification: E 12 , E 42, F 31, F 33.

1. Introduction

It is often argued that Keynes' *General Theory* was written on the assumption of a closed economy, without taking trade and capital

flows into account. While it is true that Keynes takes no special effort to discuss these issues, it would be odd that someone who lived in an era that passed from a system of highly integrated global trade and finance would have nothing to say on the impact of these issues on economic performance. And indeed, almost all of Keynes' writing prior to the *General Theory* deals with the issues of the appropriate exchange rate, the impact of external competition on domestic conditions, and the role of international investment. This should not be surprising given the fact that the United Kingdom was at the centre of a highly complex international trade and financial system at the end of the 19th century, and the first quarter of the 20th century saw its demise into a system of bilateral trading agreements and speculative international capital flows. From *The Economic Consequences of the Peace*, to *A Revision of the Treaty*, to the *Tract on Monetary Reform*, to the *Treatise on Money*, Keynes deals with the policy problems of a globalised world of trade and finance. The second volume of the latter book is especially important as it deals with the analysis of the appropriate exchange rate mechanism and lays the seeds for Keynes' subsequent proposals on a new international financial architecture.

It is also often argued that the increased economic interdependence created by a globalised trading system has limited the ability of countries to implement policies in support of domestic employment and the expansion of free international capital flows make it difficult to ensure domestic financial stability. The present paper seeks to use Keynes' early discussion of these issues and his proposals for policies to ensure financial stability as a basis for full employment policies to argue that they still provide a basis for policies to support full employment. His proposals for reform of the international financial system are also discussed as a background for the reform of the international financial architecture that aims to increase financial stability in support of employment policies.

2. What is the theoretical support for global financial liberalisation?

While there has been a great deal of theoretical work to support the free movement of goods and services across countries, much less attention has been paid to the theoretical support for free movement of financial capital. The theorems on the gains from trade refer to the opening of an autarkic, closed economy to international competition from foreign producers. They rely on the gains that can be achieved from specialization in those outputs in which a country has a

comparative advantage or in those outputs in which it has a concentration of particular means of production.

The lack of generality of these results is well known. First, they rely on the assumption that the autarkic country is producing on its production possibility curve, both before and after opening to trade. Neither of these conditions is generally satisfied, although it is more likely to hold for a closed economy before trade, than for an economy after opening to trade. Indeed, there is a copious literature, usually associated with the work of Friedrich List and now amplified by the contributions of Reinert (2007), that suggests that economies in the process of development would benefit from limiting their exposure to trade until that have been able to build up a domestic industrial sector.

Second, it has been frequently verified that most trade between industrialised countries is what has come to be called intra-industry trade. That is, rather than specialising in the production and export of particular goods, developed economies compete and trade goods in similar industrial classifications. It seems that the specialisation that does occur is between primary product producing countries and industrial producers of manufactures. This has produced the theory of unequal exchange due to the long-run tendency for the terms of trade between commodities and manufactures to decline. Thus, despite the strong theorems on the benefits of free trade, there is a healthy skepticism concerning their applicability in the real world of economic policy making.

The same does not seem to be true for the free movement of financial capital across countries. One of the reasons for this is the generally accepted assumption that there is an unequal distribution of resources across countries, so that welfare could be improved by a more equitable distribution of global resources. This position is usually accepted as an axiom of development theory -- developing countries lack financial resources, such as domestic savings, and thus will require foreign capital inflows in order to further their development. Paradoxically, this position is not reflected in the work of the early pioneers of development theory who were closer to the position of List. Development theorists such as Singer, Prebisch and Myrdal considered the main problem facing developing countries to be the international trading regime that reinforced the tendency for the terms of trade to turn against developing countries, making it impossible for them to reap the full benefits of technical progress and increasing returns on manufacturing. The problem was not lack of resources, real or financial, but the ability to employ those resources

to increase real wages and per capita incomes through improved technology. This emphasis on the ability to use resources for development is also present in the work of most of the other early development economists such as Rosenstein-Rodan, Nurkse and Hirschman. Most were skeptical of the role that foreign resources could play in the development process.

Nonetheless, the support for free capital flows as necessary to the development process has persisted. Its theoretical support is built on analysis similar to that for the gains from trade, and starts from the assumption that all countries face similar technological conditions and thus similar production functions and production possibilities frontiers, but have different resource endowments. The implicit assumption concerning factor endowments was that developing countries were characterized by excess labour resources and deficient capital resources. The argument put forward to justify free capital flows was thus made in these terms by Viner (1947: 98):

“The basic argument for international investment of capital is that under normal conditions it results in the movement of capital from countries in which its marginal value productivity is low to countries in which its marginal value productivity is high and that it thus tends toward an equalization of marginal value productivity of capital throughout the world and consequently toward a maximum contribution of the world’s capital resources to world production and income.”

Viner’s argument was predicated on the assumption that more capital could move developing countries down their declining marginal productivity of capital curve. Although the criticisms of the marginal theory of distribution were not yet common, Viner’s explanation did not go unchallenged by early development economists. Counterarguments were provided by both Singer and Nurkse, among others. Singer (1964: 19-22) notes that

“The real trouble with the classical view which focused on the falling marginal efficiency schedule of capital -and hence, as we have shown, tended to pessimism about developed countries and optimism about underdeveloped countries- is that it concentrated on only one aspect of development, and the secondary one, namely the production of wealth. It disregarded the primary factor -in terms of both importance and timing- namely, the capacity to produce wealth. The fundamental problem of development is not to create wealth itself, but to create the capacity to create wealth. Given that capacity, we have seen that even major disasters and long depressions will interrupt, but not essentially interfere with,

cumulative growth. Now, in creating the capacity to produce wealth as distinct from the production of wealth itself, there is no falling marginal efficiency schedule. Quite the contrary: additions to the capacity to produce wealth mutually fortify, support, and stimulate each other; they are subject to increasing rather than diminishing returns. It is only when comparing the developed and underdeveloped countries in respect of the secondary problems of the conditions of wealth production that one may be led to be more optimistic about the underdeveloped countries than about the developed countries. Introduce the primary element of additions to the capacity to create wealth, and there's no doubt that the developed countries are better off than the underdeveloped countries.”

Although Nurkse was skeptical about the size and ability of external finance to supplement domestic resources for development, he did not completely reject that external investment could play a role in the development process. He considered that external investments could contribute to development only after the process of domestic mobilization of disguised unemployed resources had been completed through the implementation of policies of balanced growth. He made what he called an “academic” argument that it might be more efficient for underemployed resources in developing countries to move to developed countries. He supports this position by noting that the rate of return on a single investment in isolation would be much lower than if it took place in conditions of demand externality created by a process of balanced growth. Thus, returns on investment in an economy before the balanced growth process gets underway would be insufficient, except for monopoly rights for mineral extraction and the exploitation of primary products. However, once balanced expansion has been initiated, the expected marginal value product of investment projects could well surpass those available in developed countries and provide attractive possibilities for foreign investors. He thus concludes that foreign investment can play little role in the process of mobilising disguised unemployment into capital accumulation, but once this process takes place, foreign capital could make a contribution to the further development of the domestic manufacturing sector (Nurkse, 1953: 27).

Both of these positions adopt an idea of increasing returns rather than decreasing returns. In opposition to Viner and most neoclassical theorists, both argue that the return on investment is not higher in developing countries than in developed countries. While this is a question of fact, there is a stronger theoretical argument that

challenges Viner's position. Viner's argument in favour of free capital movements requires a negative, monotonic relation between capital intensity and rate of return. Such a relation requires that capital intensity can be measured independently of the rate of return on capital. It also presumes that there is a high elasticity of substitution between financial assets and real assets such that if the capital is invested in financial assets this will cause a fall in their returns, leading to increased investment in real assets that create output and employment. Finally, the exchange rate regime must be such that it does not reverse relative capital intensities across developed and developed countries – i.e. either a fixed exchange rate regime or some mechanism for hedging exchange rate risks that is not large relative to the differential in returns.

However, none of implicit assumptions have any theoretical support. After the Cambridge Controversies in capital theory we now know (Harcourt, 1971) that there is no specific relation between capital intensity and rate of return that is fully general because it is impossible to define an unambiguous measure of capital intensity that is independent of the rate of return on that capital. Finally, there is little empirical evidence that foreign financial inflows increase domestic investment. There is some evidence, however, that foreign capital inflows in Latin America bring about an increase consumption, rather than investment. If there is no relation between the complement of capital resources and the rate of return on capital, the justification for a more equal distribution of capital across countries has no theoretical basis. It must be sought elsewhere.

3. A modern justification for international capital flows

It is ironical that the “new” real growth theory has now embraced the idea that returns in developing countries may not necessarily be higher than returns in developed countries because of the same technological-institutional factors that were of importance to the early development theorists. Nonetheless, this has not caused any rethinking on the benefits of free international capital movements. The argument has simply been adjusted to take these factors into account. In the words of Summers (1998):

“The case for capital account liberalization is a case for capital seeking the highest productivity investments. We have seen in recent months in Asia -as at many points in the past in other countries- the danger of opening up the capital account when incentives are distorted and domestic regulation and supervision is

inadequate. ... The right response to these experiences is much less to slow the pace of capital account liberalization than to accelerate the pace of creating an environment in which capital will flow to its highest return use. And one of the best ways to accelerate the process of developing such a system is to open up to foreign financial service providers, and all the competition, capital and expertise which they bring with them.”

This is a rather different argument than that put forward by traditional neoclassical theorists such as Viner. It relates to the free movement of financial institutions, rather than to finance across borders, because of the technical expertise that these institutions possess and make available to the countries in which they operate. Here the argument is that the free movement of financial capital in the form of financial institutions creates conditions that improve the efficiency of the domestic financial system so as to provide for domestic financial stability and improved domestic investment conditions. This approach explicitly accepts that the marginal productivity of financial institutions in developing countries is below that in developed countries and argues that the technical expertise supplied by developed country banks can improve productivity not only of the financial system, but of the economy as a whole.

This is a proposition about which there has been much less theoretical and empirical investigation. However, at present there is little evidence on the contributions of foreign financial institutions to domestic financial efficiency. There is however some anecdotal evidence. For example, foreign banks were the first to exit Argentina in late 2000 before the “corralito” was imposed and before the declaration of default on the government debt (Comisión, 2005). Neither was there any attempt to use the capital of the parent banks to preserve presence in Argentina (Tonveronachi, 2006).

Studies of the activity of foreign banks operating in Brazil suggest that foreign banks are less efficient than domestic banks (de Paula, 2002; de Paula and Alves, 2007). In addition, foreign acquisitions of Latin American banks have been of the best performers (Guimarães, 2002; Williams, 2008), suggesting that they acquire the best performers, rather than acquiring inefficient banks and introducing new management to improve their operation.

4. Keynes' early criticism of free capital movements

Even before these post-war discussions on the role of capital flows in development, Keynes had made a more practical criticism

based on asymmetric international mobility of the real and financial sector of the economy. In discussion of a system of fixed exchange rates, such as the gold standard, that required the free movement of capital for its operation, Keynes noted that it might not be “wise to have a currency system with a much wider ambit than our Banking System, our Tariff System and our Wage System. Can we afford to allow a disproportionate degree of mobility to a single element in an economic system which we leave extremely rigid in several other respects? If there was the same mobility internationally ... as there is nationally, it might be a different matter. But to introduce a mobile element, highly sensitive to outside influences, as a connected part of the machine which the other parts of which are much more rigid, may invite breakages.” He goes on to point out that “It is, therefore, a serious question whether it is right to adopt an international standard, which will allow an extreme mobility and sensitiveness of foreign lending, while the remaining elements of the economic complex remain exceedingly rigid. If it were as easy to put wages up and down as it is to put bank rate up and down, well and good. But this is not the actual situation. A change in international financial conditions or in the wind and weather of speculative sentiment may alter the volume of foreign lending, if nothing is done to counteract it, by tens of millions in a few weeks” (Keynes, 1930, 334-6).

In Volume II of his *Treatise on Money* (1930) entitled the *Applied Theory of Money*, Keynes undertakes a detailed analysis of the impact on the domestic economy of an international system which supports financial globalisation. For Keynes such a system implied a tendency for international financial arbitrage flows to lead to uniformity of rates of interest in all countries. This in turn would limit national policy autonomy and efforts to use monetary policy to offset volatility of domestic investment in support of full employment. In Chapter 36, appropriately entitled “National Policy Autonomy”, Keynes gives a very clear assessment of the impact of international capital flows on domestic economic conditions. He notes the inherent conflict between policies designed to attract international capital flows to support the gold standard and policies designed to offset the impact on the economy of the cyclical behaviour of domestic investment decisions. In today’s jargon this would be called a discussion of the ‘national policy space’ available to developing countries in designing their domestic economic policy.

Keynes’ discussion is limited to the inter-war policy dilemma faced by countries attempting to attract capital inflows to stay on the

gold standard. But, a similar loss of policy autonomy occurred in the United States in the 1960s in the form of the conflict between internal and external equilibrium. According to traditional Keynesian demand management theory, if the external account is in equilibrium at less than full employment, then using active fiscal policy to fight unemployment will cause an external deficit. On the other hand, if the external account is in deficit at full employment, the use of restrictive fiscal policy to bring it back into equilibrium will raise unemployment. There is a clear policy conflict. The solution to this problem was provided by Fleming (1962) and Mundell (1962) who argued that it could be resolved by reference to ‘externally financed’ policy space. External capital flows could be used to finance the external account deficit that was produced by expansionary policy to ensure full employment. All that had to be done was to solve what Mundell called the “assignment problem”, i.e. to find the most efficient assignment of the monetary and fiscal policy instrument to the targets of internal and external equilibrium. In general the response was that it was more efficient to use monetary policy to attract capital inflows to finance the full employment current account deficit and to use fiscal policy to keep aggregate demand at full employment level. However, when the US practiced this policy, it instead brought the demise of the Bretton Woods post-war financial system as the US went off gold. Flexible exchange rates, rather than external capital flows, turned out to be the policy solution imposed by international capital markets (Kregel, 2008).

External finance was also used in Latin America to provide policy space after the debt crisis. After efforts to increase their current account balances sufficiently to meet debt payments caused a dramatic fall in growth rates and a rise in poverty, the Baker Plan was replaced by the Brady Plan. The Brady Plan was based on the introduction of domestic measures that would allow indebted countries to return to international capital markets to borrow new international funds to repay the outstanding loan defaults. These policies included measures to reduce inflation, usually through an exchange rate anchor, restrictive fiscal policy and tight monetary policy in deregulated domestic capital markets with liberalized interest rates, privatization of state assets, and unrestricted capital inflows. The external finance attracted by the opportunities for high profits in deregulated areas of the economy brought about an increase in growth rates and a decline in inflation – that is, they succeeded in creating policy space for the indebted Latin American countries. However, these policies also had

some unintended and unforeseen consequences. The improvement in domestic conditions brought about an increase in domestic consumption, producing an increase in imports, while the high interest rates reinforced high profit expectation to increase capital inflows and appreciate the exchange rate in real and in some cases nominal terms, making exports more difficult, the two forces together leading to a deterioration in the external balance. Although capital imports were more than sufficient to cover the external financing requirement, it also led to a return to conditions of increasing external debt. The high domestic interest rates made it more profitable for domestic business and government to borrow abroad, recreating a currency mismatch. Thus external deficits and debts continued to increase, and government fiscal positions deteriorated, all financed by external inflows. When these flows reversed, the exchange rate depreciated aggravated currency mismatching between borrowing and lending, leading to widespread insolvency. The policy space that had been acquired through external borrowing was clearly fictitious, and soon disappeared. The financial crises of the last half of the 1990s quickly reversed any gains that had been made on the front of output and employment in the first half, leaving performance for the decade not much improved on that of the 1980s.

This new approach to policy space in Latin America also brought with it a new policy dilemma (UNCTAD, 1998; Kregel, 1999). The decline in inflation was made possible by the maintenance of the exchange rate anchor supported by capital inflows sufficient to offset the deterioration in the external balance. However, decline in inflation also led to an increase in domestic consumption and an increased demand for imports, while the capital inflows did not provide an increase in the financing of investment and made domestic exports less competitive. As a result, the combination of positive growth with low inflation with rising internal and external disequilibrium become hostage to international investors, representing a loss in policy autonomy. Given targets for money growth and inflation, monetary policy came to be determined by the willingness of foreign investors to continue to finance the external deficits. The central bank was thus forced to accommodate monetary policy so as to insure that interest rates were set so as to ensure sufficient capital inflows. The nominal fiscal balance of the government was also out of control as interest rates caused debt service on outstanding government debt to rise, given the short maturity of most governments' outstanding internal debt.

As noted above, Keynes had already warned about this false illusion of externally borrowed policy space in his discussion of National Policy Autonomy. The use of the exchange rate anchor was similar to the conditions that Keynes analysed with reference to the gold standard, what he called a “single international monetary standard”, noting that it requires the Central Bank to relinquish control over domestic interest rates. Any attempt to use interest rates to offset domestic fluctuations in investment would then create interest rate differentials and international capital flows that would eventually undermine the country’s commitment to the international standard. This is of course precisely what happened in Latin America as a result of the capital inflows and reversals that led to financial crises.

5. Is financial globalisation compatible with financial stability and national policy space?

The most important point of Keynes’ analysis of international capital flows is his implicit reaffirmation of the position that had dominated 19th century thinking on these issues -that capital inflows determine trade flows and domestic conditions- the complete opposite of what had become received wisdom in the last half of the 20th century. Keynes tells us in the *Treatise* (1930: 335-6), “The belief in an extreme mobility of international lending and a policy of unmitigated *laissez-faire* towards foreign loans... has been based... on too simple a view of the causal relations between foreign lending and foreign investment. Because... *net* foreign lending and *net* foreign investment must always exactly balance, it has been assumed that no serious problem presents itself. Since lending and investment must be equal, an increase of lending must cause an increase of investment, and a decrease of lending must cause a decrease of investment;... (i)ndeed, the argument sometimes goes further, and -instead of being limited to *net* foreign lending- even maintains that the making of an individual foreign loan has in itself the effect of increasing our exports. All this, however, neglects the painful, and perhaps violent, reactions of the mechanism which has to be brought into play in order to force *net* foreign lending and *net* foreign investment into equality. ... I do not know why this should not be considered obvious. If English investors, not liking the outlook at home, fearing labour disputes or nervous about a change of government, begin to buy more American securities than before, why should it be supposed that this will be naturally balanced by increased British exports? For, of course, it will not. It will, in the first instance, set up a serious

instability of the domestic credit system – the ultimate working out of which it is difficult or impossible to predict. Or, if American investors take a fancy to British ordinary shares, is this going, in any direct way, to decrease British exports?”

Here Keynes is arguing that the analysis of international capital flows – he speaks more precisely of foreign borrowing and lending – has tended to presume that an increase in foreign lending will automatically be used to finance increased exports. While this may have been the case in some periods of the 18th century when British lending to Latin America was used to finance the imports of British manufactures, for example in building railways, there is no theoretical reason why this should be the case. Indeed, it is just as likely that an increase in lending abroad will lead to no increase in exports, but an increase in domestic interest rates and a decline in domestic financing, with the adjustment taking place through the level of activity. Here is the asymmetric mobility that Keynes spoke of at work: financial variables will be the most rapid to adjust, while the productive sector will be the slowest to adjust. In this case, it would be the export industries that would suffer because of the impact of overvaluation of the currency, high interest rates and an inability to adjust rapidly to new international market conditions. Indeed, this is precisely the conditions that Britain faced in the 1920s and 1930s slump, as well as the difficulties faced by the Latin American countries under the Brady Plan (UNCTAD, 1998).

As Lord Skidelsky (2007) has recently pointed out, Keynes’ analysis in the *Treatise on Money* was based on the particular conditions and institutions of the British economy. The emphasis of Keynes’ work was on the means to deal with the problem of unemployment that developed in the UK in the early 1920s as a result of a collapse of international trade and demand for British exports. Skidelsky provides the historical background to these conditions, noting that before the first world war the British economy was ‘fabric and mineral-intensive’, relying on textiles, coal-mining, iron and steel, machinery, and shipbuilding for both internal demand and exports. These sectors produced 50 percent of British industrial output, and employed 25 percent of the occupied work force. The decline in the export demand for these goods was the major cause of the British unemployment problem of the 1920s. As an example Skidelsky notes that in 1928, a moderately prosperous year, unemployment averaged 22 percent in the iron and steel industry, 35 percent in shipbuilding, 16 percent in the coal industry.

Unemployment was thus geographically specific, concentrated in Lancashire, South Wales, the north-east coast and the Clyde. These areas came to be known as 'depressed areas'. Workers did not move out of them, and there were few new jobs to be had in them. The workers hung on in their industries, expecting better times to return.

Keynes' preferred policy to deal with these conditions was exchange rate adjustment – depreciation – but this was not politically feasible given the government decision to return to gold. This would have avoided the then prevalent policy proposals that workers in the declining industries should accept wage cuts or move to new industries, forcing down the general level of wages. This was the painful and violent mechanism due to asymmetric mobility that Keynes refers to as being necessary to bring external borrowing and lending into balance. This is the traditional neoclassical adjustment policy in which changes in relative wages and between wages and profits would provide structural adjustment and keep the economy at full employment. Keynes in the *Treatise* countered this argument by the reference to the costs of asymmetric mobility; in the *General Theory* he would propose the stronger argument that this would only cause a decline in aggregate demand.

An alternative policy was thus needed to avoid this disruption and increased unemployment. He notes that the high interest rates required to preserve the gold standard discouraged domestic investment and made foreign lending more attractive. If the gold standard required this policy, the only alternative was for the government to borrow itself and spend at home -- building roads, houses, telephones, schools, public utilities, so as to "restore the balance in our economy". Thus, Keynes was proposing that if private foreign lending could not be controlled, then public domestic borrowing should be increased in order to divert savings from foreign to domestic investment.

The idea was to use this public investment to shift labour out of the declining sectors and regions of the economy by creating additional demand in other areas in the economy. Additional demand in the appropriate expanding sectors would ease the restructuring problem: speed it up, and reduce the pain. But this was not something that the market could do by itself or quickly, without violent pain and disruption. This was to be the genesis of the countercyclical fiscal policy.

The other alternative to resolve this policy conflict was the control of the foreign capital balance. Control of the foreign capital

balance means managing long-term capital flows. Keynes notes that most countries have used registration requirements for capital issues in their own markets and that these could be expanded on an international basis. Indeed, they were in use in some European countries until the 1980s. Keynes also suggests a tax on purchase of foreign securities not listed in the UK market of 10 per cent. This could also be expanded internationally.

But, Keynes also argued that short-term capital flows would also have to be managed. To influence short-term flows countries could introduce a dual rate structure in order to differentiate between pure financial flows and the financing of international trade flows, with the intention to give preference to the later. Since he was working at a time when the government had already taken the decision (in his view badly mistaken) to return to the gold standard, Keynes notes that there is even some flexibility within this system. He notes that a more flexible exchange rate structure within the confines of the gold standard could be achieved through variation in the rates at which the Central Bank set its bid and offer rates within the gold points. An additional mechanism could be found in the use of intervention in the forward market. This was one of Keynes's major policy proposals in the *Tract on Monetary Reform*, aimed to set short-term interest rates on short term capital transactions. He concludes that the Central Bank should use bank rate, the forward rate and flexibility in its bid and offer rates to influence short-term flows.

As already noted, Keynes's proposals were made within the confines of the historical period in which he was writing – that is in a period in which the government had decided to return to gold despite his argument against it. It is thus not surprising that when he comes to discuss an ideal international system, it is one with flexible exchange rates. From the time of the *Tract on Monetary Reform* (1923), Keynes argued that a flexible exchange rate system was preferable to a fixed rate system as long as there was a forward foreign exchange market in which traders could cover their exchange risks. This is basically the same position that was incorporated in the proposal for the Clearing Union and the position that he took to the Bretton Woods negotiations in 1944. And Keynes prevailed, at least in this discussion, in the sense that the Bretton Woods system never sanctioned free capital flows.

6. Conclusions

The argument in favour of free international capital flows that has been at the base of the current wave of financial globalization has

no support, either in the history of ideas nor in theory. Already in the 1930s Keynes had shown why it would lead to substantial disruptions in the implementation of domestic policies and limit domestic policy space to support employment and growth. More recent experience in the US in the 1990s and in Latin America in the 1980s and 1990s have confirmed this conclusion. The policy implications that Keynes put forward – that domestic policy space will require management of international borrowing and lending – remains valid today.

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Özet

Keynes bize küreselleşmiş uluslararası ekonomide işsizliği ve istikrarsızlığı azaltma politikaları üzerine neler söyleyebilir?

Her ne kadar Keynes'in *Genel Teori*'si dış ticaret ve sermaye hareketleri üzerine tartışmaları içermiyorsa da, Keynes'in *Genel Teori* öncesindeki yazılarının hemen tümünde uygun döviz kuru, dış rekabetin ulusal ekonomi üzerindeki etkileri ve uluslararası yatırımların rolü ele alınmıştır. Keynes'in bu katkıları, nihai aşamada Bretton Woods Sistemi'ni yaratacak olan yeni uluslararası finansal yapı üzerindeki önerilerinin temelini oluşturmuştur. Bu yazıda Keynes'in anılan konular üzerindeki ilk tartışmalarından ve tam istihdam politikalarına dayanak olmak üzere finansal istikrarı sağlama amaçlı politika önerilerinden yararlanılarak, söz konusu önerilerin günümüzde hem ulusal, hem de küresel düzeyde tam istihdamı destekleme amaçlı politikalara temel oluşturabileceği ileri sürülmektedir. Keynes'in uluslararası mali yapıda reform konularındaki önerileri de finansal istikrar ile tam istihdam sağlama politikalarını destekleyen yeni bir uluslararası finansal yapının arka planı olarak tartışılmaktadır.

Anahtar kelimeler: Döviz kurları, para politikası, küreselleşme.

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