



Trinity College

THE UNIVERSITY OF MELBOURNE

Keynes and International Economic and Political Relations

**A paper by Professor Don Markwell, Deputy Vice-Chancellor
(Education) of The University of Western Australia,
for a seminar on
*The Contemporary Relevance of John Maynard Keynes***

**The Sharwood Room,
Trinity College, The University of Melbourne,
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It is a great pleasure to be back in the Sharwood Room, and at Trinity College, here in the University of Melbourne, for this seminar held under the auspices of the fund created with generosity and vision by my friend Bruce McComish to encourage revival of the study of economic history. The current global economic turbulence is certainly encouraging aspects of such a revival, including a remarkable surge of interest in and indeed rehabilitation of the Cambridge economist John Maynard Keynes. If you seek evidence for this, just google the words 'John Maynard Keynes' and '2009', '2008', etc.

There is much more to Keynes than is captured in the proposition, widely shared but also much disputed, that this is a 'Keynesian moment' in economic history. The chronology of his life which I am distributing reflects just some of its richness.

Marion Poynter in her magnificent 'life with letters' of Valentine Leeper, daughter of the first Warden of Trinity, quotes a letter to Valentine in 1922 from her brother Rex, who was in the British Foreign Office. Rex Leeper wrote: 'The present reparation arrangements are of course absurd. Keynes' books on this question are quite sound.'¹ Valentine Leeper's other brother in the Foreign Office, Allen Leeper, had, like Keynes, been part of the British team at the Paris Peace Conference in 1919, Keynes as the principal Treasury representative until his resignation in June 1919, and Leeper as a member of the Foreign Office team.

This is not the only link between Keynes and members of this college and university. For example, Keynes's *Collected Writings* contain two letters from Keynes to a member of this college, Clive Latham Baillieu, Baron Baillieu as he became, in 1932 regarding depression policies in Australia and Britain.² A paper of mine on *Keynes and Australia* - written when I was working at the Reserve Bank under Peter Jonson and published by the Reserve Bank when I was Warden of Trinity - refers to this, and also to academics and academic visitors at the University of

¹ Marion Poynter, *Nobodys Valentine: Letters in the Life of Valentine Alexa Leeper, 1900-2001*, Miegunyah Press, Melbourne, 2008, p 52.

² *The Collected Writings of John Maynard Keynes* (hereafter CW) vol 21, pp 100-02, 112-13. On Trinity alumnus R G Casey, see CW, vol 23, p 321.

Melbourne, such as L F Giblin and W B Reddaway, who were important in bringing Keynes's *General Theory* to Australia in the 1930s.³

One of Keynes's letters to Baillieu spoke of the desirability in Australia of 'a programme of public works for the reduction of unemployment'.⁴ It is precisely this – public works to reduce unemployment, or more generally fiscal stimulus to prevent or combat recession – that is most commonly associated with Keynes, and that many people seem to mean when they have said over the last six months or so that Keynesian policies are, or are not, needed in the global financial crisis (and now global recession) which we face. It is striking that this is the position, much resisted though it is, of the major international economic institutions, the IMF and World Bank, which Keynes helped create at Bretton Woods, and of the US and British governments, supported by Australia.

Although recent forecasts for growth, trade, and employment strengthen the case for further stimulus, it seems to me that the task of working out Keynes's contemporary relevance is quite complex. Part of his genius is that his mind was endlessly moving. His voluminous, elegant and nuanced writings reflect the evolution of his thought and his ever-evolving responses to the circumstances of his day. It is not only that he was a classical economist before he became a Keynesian, and that this evolution took many years. He did not regard *The General Theory* as a final statement, and might well have produced yet another work of economic theory had he not been struck down by ill health and then consumed by the war effort. He made innumerable economic policy proposals, in many cases continually evolving to meet changing circumstances. This was as evident in his role in the planning during

³ Donald Markwell, *Keynes and Australia*, Reserve Bank of Australia, 2000.

⁴ CW, vol 21, p 102.

World War II for post-war international economic institutions and policy as it was during the Depression of the 1930s or in seeking the moderation of reparations demands against Germany from late in World War I until the end of reparations in the early 1930s. We can be confident that had Keynes miraculously lived on until the present day – he would have turned 125 last year! - his economic theory and policy proposals would have evolved considerably from where they were the day he died at the age of 62 in April 1946.

Shakespeare tells us that ‘The devil can cite Scripture for his purpose’. As various misquotations and uncontextualised quotes from Keynes reflect, the devil can also cite Keynes for his purpose.

The word ‘Keynesian’ is itself problematic. Allan Meltzer, who wishes to depict Keynes as far less inclined to activist fiscal policy than the word ‘Keynesian’ was taken to mean, quotes Joan Robinson as writing in 1979:

In fact Maynard Keynes himself was somewhat skeptical about the possibility of achieving *permanent* full employment. When he dined in Washington with his converts, he told Austin Robinson next day: I was the only non-Keynesian there. It was his British disciples, rather than he, who drafted the white paper in 1944 which proclaimed that it is the responsibility of government to maintain a high and stable level of employment. Keynes said: you can promise to be good but you cannot promise to be clever.⁵

⁵ Joan Robinson quoted from Allan H. Meltzer, *Keynes's Monetary Theory: a Different Interpretation*, Cambridge University Press, 1988, p 296.

I would say that Keynes was more concerned about the risks of inflation, less favourable to sustained deficit financing, less focussed on fiscal policy and more on monetary policy, more interested in keeping interest rates low, and more favourable to the use of free markets to allocate resources than was generally implied by the word 'Keynesian' as it came to be used by the 1960s and 1970s. In response to the excessively simplistic contrasting we sometimes see of Keynesian interventionist economics with the free market or laissez faire approaches associated most famously with Hayek and Friedman, it is worth recalling Keynes's letter to Hayek after reading *The Road to Serfdom* in 1944:

In my opinion it is a grand book. We all have the greatest reason to be grateful to you for saying so well what needs so much to be said.⁶

Another of the problems of identifying the current relevance of Keynes is that we cannot be wholly confident we fully understand the nature and causes of the present crisis, including how long and deep it is likely to be – though, as mentioned, forecasts in the last 24 hours are pessimistic and encourage a greater focus on fiscal and monetary stimulus.

Despite reservations about how we approach the contemporary relevance of Keynes and Keynesian ideas, I do believe that we can discern in Keynes's thought ideas which he clearly held to for sustained periods and which are highly relevant to our circumstances today. At the most general level, Keynes was one of the most influential advocates in history of active economic management and of international cooperation in this. While the voices, including those of Barack Obama and Gordon Brown, have been loud and many for an active and coordinated

⁶ CW, vol 27, p 385.

international response to the current crisis, it has also been striking, not only how many critics there have been of major fiscal stimulus, but also how many commentators advocating Keynesian policies have argued for this essentially in the context of a single country only, neglecting the need for international cooperation. Even such sophisticated economists as Paul Krugman seem to me to have done this too often.

Keynes repeatedly recognised the need for US leadership in international economic cooperation, and it is likely he would advocate it today, combined (one might suspect) with encouraging the cooperation of other powers, such as China, whose actions in domestic stimulus and foreign lending are potentially of enormous international consequence.

As we meet here today at Trinity College, the leaders of the G20 countries are preparing to meet in London to discuss responses to the economic crisis. The *New York Times* columnist David Brooks recently wrote:

This is a global crisis, and a core lesson of the Great Depression is that a global crisis calls for a global response. As such, Tim Geithner and Larry Summers are preparing for the upcoming G-20 summit with an agenda that has the merit of actually addressing the problem at hand: coordinate global stimulus, strengthen the International Monetary Fund, preserve open trade.⁷

This, it seems to me, is the essence of the international relevance of Keynes today.

My understanding of Keynes and international economic and political relations is set out in my book, also published while I was Warden of this College, entitled *John Maynard Keynes and International Relations: Economic Paths to War and Peace*⁸. It argues that Keynes should be considered as an idealist thinker about international relations who believed it 'possible to replace the conflictual international politics of the past with greater harmony and peace; that important in his particular form of idealism was the belief ... that there are major economic causes of war, and that peace could be promoted by economic means; and that his evolving ideas about the economic determinants of war and peace were central to his contributions to planning and debating post-war reconstruction during and after both world wars'.⁹ I might mention that another notable inter-war idealist thinker, from the extraordinary group of British scholars of classical Greece who became leading advocates of the League of Nations and a rule of law in international affairs, was a Trinity alumna, one of the first resident students of the Trinity Women's Hostel in the 1880s, Melian Stawell. Her portrait hangs behind the High Table in the College Dining Hall.

Keynes's contribution to post-war reconstruction reminds us that successful post-war reconstruction – such as today in Iraq and Afghanistan – generally requires effective measures to promote economic growth and prosperity. This economic emphasis underpins the Obama administration's recently-announced policy in Afghanistan and Pakistan.

⁷ David Brooks, 'Perverse Cosmic Myopia', *The New York Times*, March 19, 2009.

⁸ Donald Markwell, *John Maynard Keynes and International Relations: Economic Paths to War and Peace*, Oxford University Press, 2006.

⁹ Markwell, *Keynes and IR*, page 3.

Keynes's writings mentioned 'several economic factors which he believed could cause war, including impoverishment, population pressure, penetration by foreign capital, and the "competitive struggle for markets"'.¹⁰ My book traces Keynes's thinking through four phases. First, as a classical liberal, brought up in the late 19th century with the classical liberal notion that free trade promotes peace - something he believed through to the very early 1930s. 'Second, however, by 1919 he had concluded that internationally agreed state action was necessary to reconstruct and manage the international economy so that economic interdependence could work. This early liberal institutionalism' was evident in Keynes's approach at and after the Paris Peace Conference, including in *The Economic Consequences of the Peace* and subsequent proposals for the restoration of the European economy after the devastation of war and the further damage of the 1919 settlement. Keynes's approach then 'foreshadowed both his search for a middle way between laissez-faire and Marxian socialism, and [what I call] his mature liberal institutionalism of 1936-46. Before then, however, reflecting the protectionist and autarkic ideas of the Depression years, Keynes came temporarily to believe that a higher degree of economic isolation and national self-sufficiency might be more conducive to peace than economic internationalism was. This third view culminated in articles he wrote in 1933. Fourth, Keynes came to think that, if there were an international monetary system that did not pit the interests of countries against each other, and if states could and did pursue economic policies to promote full employment, then there would be no economic causes of war (other perhaps than population pressure). A high degree of freedom of trade would then be compatible with, and might promote, peace. This mature liberal institutionalism found expression in *The General Theory*,

¹⁰ Markwell, *Keynes and IR*, p 3.

and underlay Keynes's attempts during the Second World War to build a suitable international monetary system and to promote the pursuit of Keynesian policies internationally.'¹¹

As already suggested, it seems to me that the three key ideas that emerge from Keynes that are most relevant to international issues today are: first, the importance of international coordination of fiscal and monetary stimulus; secondly, the importance of global economic governance in the form of strong and effective international economic institutions such as the International Monetary Fund and the World Bank; and thirdly, the importance of resisting economic nationalism and protectionism, and of maintaining an open international economy. Each of these propositions requires elaboration that times does not permit; and – again – I do not pretend to know what Keynes himself would have thought in the circumstances of today.

For example, I am not confident to assert that Keynes would have seen stimulating demand as more important than restoring bank lending through the quarantining of toxic assets, or than improved financial regulation, domestic and international. Nor can we be confident how much or what kind of stimulus Keynes would think the present recession requires, or (though I think this unlikely) whether like some European leaders, such as Angela Merkel, he might think there has been enough for now. Nor can we be confident what he would have said of proposed or actual bailouts of banks, other financial institutions, and other companies, such as car companies.

¹¹ Markwell, *Keynes and IR*, pp 3-4. (The only other discussion of which I am aware of the passages on war and peace in *The General Theory* is at Hyman Minsky, *John Maynard Keynes*, Columbia University Press, 1975, p 159 .)

I suspect Keynes would have been sympathetic to the proposal of World Bank President Robert Zoellick that a percentage of developed government fiscal stimulus be devoted to international development, and sympathetic also to the expansion of IMF resources widely expected to be discussed and agreed at the G20 in London. Keynes had a profound sense of the shifting of economic and political power, so I imagine he would have favoured reform of international institutions such as the IMF to reflect the rise of China and other powers; but the exact reforms he would favour it is not possible to say. Likewise, we can't know what he would have said of proposals, most recently renewed by the Chinese government, for an international reserve currency other than the US dollar – though this proposal is reminiscent of Keynes's own repeated proposals for an international currency such as bancor.

Some people hope, and others fear, that the current crisis means the end of modern capitalism and of globalisation. It is unlikely Keynes would have wished this, though he would no doubt have wished to reform modern capitalism and to make globalisation work better. Indeed, Keynesian economics was an attempt to save capitalism, domestically and internationally, by reforming and managing it. Keynes also believed, contrary to 1930s socialists who believed that capitalism caused war, that this need not be so, and that by managing capitalism well peace could be promoted.

It is important to recognise that Keynes had a brief period, in the early 1930s, as a protectionist. But for the vast majority of his life, both before and after, he favoured free trade, and believed it promoted peace.

'Keynes sometimes advocated free, or at least non-discriminatory, trade – for example, in 1903 and again in 1945 – because the alternative, exclusionist economic blocs, would cause friction and animosity. Sometimes it was the role of free trade in maintaining living standards, and hence domestic political order, that Keynes stressed; and sometimes a more nebulous hint that trade promoted international solidarity.'¹² Like many other people, I am concerned that the professions by world leaders of commitment to free trade – commitments reflected in the World Trade Organisation, and reiterated in the current crisis at such meetings as the Asia-Europe meeting in Beijing last October, and the G20 in Washington and APEC meeting in Chile last November – are giving way in practice to capitulation to domestic protectionist pressures which risk leading to catastrophic economic nationalism.

We have already seen economic crisis in some countries, such as Iceland and Latvia, lead to domestic social and political instability; and the risk of this in some other countries, such as China, even from reduced growth is much talked about.

Keynes points us to the risk of economic nationalism leading to international political conflict, including war. This, in my view, is a risk the avoidance of which requires concerted political leadership. Related potential economic causes of international conflict have been referred to in recent months. For example, last November the US National Intelligence Council in a report on global trends towards 2025 raised the

¹² Markwell, *Keynes and IR*, p 270.

prospect of international conflict over energy security.¹³ In January this year, Hillary Clinton said:

... climate change is an unambiguous security threat. At the extreme it threatens our very existence, but well before that point, it could very well incite new wars of an old kind—over basic resources like food, water, and arable land. The world is in need of an urgent, coordinated response to climate change and, as [Barack] Obama has said, America must be a leader in developing and implementing it.¹⁴

It is in this spirit, I think, that President Obama has recently arranged meetings for the ‘major economies’ on energy security and climate change. Efforts to combine economic stimulus with measures against climate change have given rise to the notion of a so-called ‘Green New Deal’.

Recent discussions of economic causes of war are somewhat reminiscent of some of Keynes’s discussions of economic causes of war. Not least, his work highlights the risk simply of economic depression leading to international political conflict – a powerful reason, if it be needed, for concerted domestic and international action to minimise the depth and length of the current global recession.

If this seems apocalyptic, perhaps it is as well to remember that recalling Keynes means to recall also a world in which the great benign globalisation and growing interdependence of the late 19th and early 20th

¹³ National Intelligence Council, *Global Trends 2025: A Transformed World*, November 2008, accessible at <http://www.fas.org/irp/nic/2025.pdf>

¹⁴ Hillary Clinton, Nomination Hearing to be Secretary of State, 13 January 2009, quoted from <http://www.state.gov/secretary/rm/2009a/01/115196.htm>

centuries gave way to two world wars interspersed with a great global depression. We cannot rest complacently on the assumption that this cannot happen in our time, with our own great globalisation so abruptly interrupted. We must work resolutely to ensure that it does not. It is my hope that the leaders now assembling in London will carry with them enough of the spirit of Keynes to take enough of the measures of international economic cooperation that are needed – and that this spirit is sustained through the many challenges of the long haul ahead.