Keynes, Globalisation and the Bretton Woods Institutions in the Light of Changing Ideas about Markets

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I. Markets and institutions

Globalisation has been defined as 'integration of economic activities, across borders, through markets'.[1] It is both descriptive and prescriptive: a process and a project. In the latter aspect it is partly a growth project. One writer has summed: 'By conforming to comparative advantage an economy also follows its optimal growth path'.[2] That is, market-led development maximises welfare over time.

For most of the twentieth century most economists did not believe in such a close connection between markets and economic well-being. Pessimism about, and hostility to, markets was prevalent. This pulled in an anti-globalist direction. The main shift in thinking in our own day has been towards a renewal of the market optimism of the nineteenth century. This I take to be the necessary intellectual condition for the emergence of globalisation as a policy project.

The Bretton Woods institutions of 1944 were constructed by two market pessimists, John Maynard Keynes of the British Treasury and Harry Dexter White of the US Treasury. Keynes was the dominant economist of his time, and his *General Theory of Employment, Interest and Money* (1936)

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[1] Martin Wolf, *Why Globalization Works*, Yale University Press, 2004, p. 14.
[2] G. M. Meier, q. in Maurice Scott and Deepak Lal (eds), *Public Policy and Economic Development: Essays in Honour of Ian Little*, Clarendon Press, Oxford, 1990, p. 155.

became the economic bible of economists for almost 50 years. The *General Theory* can be interpreted as a short-run theory of employment in a 'closed' economy, in which the stock of capital, physical and human, is taken as given. But Keynes had written a lot—notably in his *Tract on Monetary Reform* and *Treatise on Money*—about the problems of 'open' economies, particularly the problem of combining internal and external equilibrium. In the latter book, and also in his pamphlet *The Means to Prosperity* (1933), he had sketched out plans for a world super-bank to expand world reserves, on which he drew in his wartime proposals.

Harry Dexter White was less of a market pessimist than Keynes—no doubt because the United States, despite the Great Depression, was the rising, Britain the falling, world power. But there were strong market pessimistic elements in his thinking. His Ph.D. thesis on the French balance of payments concluded that the French economy had not benefited from its overseas investments. He wanted to go on to study the Soviet planning system. By 1932 he accepted the value of counter-cyclical demand management. At the US Treasury in 1934, White 'sketched out the rationale for a fixed-but-adjustable monetary standard' as an improvement on the gold standard. With this went 'an ambivalent tolerance towards capital controls as a means of maintaining currency stability'. Another influence on White's later institution building was the US Exchange Equalisation Fund established in 1934. White proposed in 1935 that it be used not just to stabilize the dollar against gold, but against other currencies, and suggested a mechanism whereby the borrowing country, instead of purchasing dollars for gold or silver, deposited gold and dollars at the US Treasury as collateral for purchases of dollars in its domestic currency. This idea also found its way into the IMF.[3]

In this paper, I shall concentrate on Keynes rather than White, though the market pessimism label applies to both. Keynes was a market pessimist in a particular sense. He did not believe that the economy was optimally self-adjusting macroeconomically; in his micro-theory, though, he was a neo-classical theorist. The distinction is captured in the following quotation from the *General Theory*:

[3] This sketch of White's intellectual and policy background is based on James M. Boughton, 'New Light on Harry Dexter White', *Journal of the History of Economic Thought*, vol. 26, no. 2, June 2004.

> If we suppose the volume of output to be given, i.e., to be determined by forces outside the classical scheme of thought, then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in which proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them….To put the point concretely, I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use…It is in determining the volume, not the direction, of actual unemployment that the existing system has broken down…Thus I agree with Gesell that the result of filling in the gaps in the classical theory is not to dispose of the 'Manchester System', but to indicate the nature of the environment which the free play of economic force requires if it is to realise the full potentialities of production.[4]

The question whether or not the economy is self-adjusting macroeconomically involves a continuum on three different curves.

The first continuum runs from those doctrines which assert very smooth and rapid self-adjustment to full employment to those which assert that there is no self-adjusting tendency at all.

The second runs from those who believe that the framework of institutions, rules, and policies needed to maintain self-adjustment are simple, natural, and easy to bring about to those who think they are very complex and practically impossible to set up.

Finally effective self-adjusting processes may be regarded as generally prevailing at one time but not at another. (For example, Pigou believed the labour market was self-adjusting between 1850 and 1914 but not after 1919 because of the growth of trades union power and unemployment insurance.)[5]

Keynes can be located at the pessimistic end of all three curves. He thought that macroeconomic self-adjustment, though not zero, carried no tendency to maintain or regain optimum equilibrium. (He tried to explain why this was so in the *General Theory of Employment, Interest, and Money.*) He thought that the framework of institutions, rules and policies needed to maintain the 'full potentialities of production' was, while not impossible to set up, more elaborate and extensive than that specified by market optimists. Finally, he believed that a strong tendency to optimal self-adjustment was exceptional, though there were historical periods when

[4] JMK, CW, vii, pp. 378–79.
[5] Adapted from Terence Hutchison, *On Revolutions and Progress in Economic Knowledge*, pp. 125–26.

favourable circumstances enabled economies to deliver a 'fairly satisfactory average level of employment', without demand-management policies by state authorities.[6] This simply recognised that periods of boom as well as slump occurred under conditions of *laissez-faire*.

Keynes's attitudes are natural enough to someone who was born into an age of globalisation and lived through its destruction by two world wars and an intervening Great Depression. Much of Keynes's professional work was about the institutional weaknesses of the first wave of globalisation, which brought it to an end. 'Never', he wrote, 'was there a method of such efficacy for setting each country's advantage at variance with its neighbours' as the international gold…standard'.[7]

In addition, he believed that the absence of any domestic mechanism for maintaining full employment forced countries into excessive reliance on export-led growth, which soured political relations. While Keynes agreed that 'the advantages of the international division of labour are real and substantial', he also thought that 'the classical school greatly overstressed them'. This was because he thought that, even in the best constructed global system, there would still be winners and losers, so that 'great moderation' was necessary in pressing economic integration too far.[8] I return to this point in the last section.

Today the pendulum has swung towards market optimism. Most economists and policy-makers believe that economies do have a strong tendency to self-adjust towards full-employment, though this may take time. Further they believe that the institutions, rules, and policies needed to maintain macroeconomic stability are simple, natural, and relatively easy to set up. Above all, today's market optimism rests on the belief that globalisation itself is favourable to more rapid and complete self-adjustment of markets.

Today's market optimism is embodied in the 'Washington consensus', a term coined by John Williamson in 1989. Its three big ideas are macroeconomic discipline, market economy, and openness to the world.[9] These big ideas underlie the economic policies of all developed countries, the drive for globalisation, the rules of the World Trade Organisation, and the reform

[6] JMK, CW, vii, pp. 307–08.
[7] Ibid., p. 349.
[8] Ibid., pp. 338–39.
[9] J. Williamson, 'Remarks to the Center for Strategic and International Studies', 6 November 2002.

conditions attached to loans and development assistance made by the international financial institutions—IMF, World Bank, Development Banks. Extreme proponents of the 'consensus' would like to abolish the IMF and World Bank altogether; the Meltzer Commission argued for a severe curtailment of their role and funding.

By contrast, Keynes came to believe that the 'institutions, rules, and policies' needed to maintain the stability of the global macroeconomy were indeed more complex, elaborate, and difficult to set up than the nineteenth century had believed: the gold standard and balanced budgets were not enough. His arguments and policy recommendations, therefore, tended to have a strong nationalistic flavour. The exception was the part he played in constructing the Bretton Woods system of 1944. However, it was the rejected Keynes Plan for an International Clearing Union, rather than the institutions set up at Bretton Woods, which best conveys his idea of what institutions, rules and policies needed to be in place before 'integration of economic activities, across borders, through markets' could be safely attempted, and where his approach can be contrasted most directly with current orthodoxy. It is to the Bretton Woods system I now turn.

II. The global institutions set up in 1944

Keynes's 'take' on the interwar 'crisis of globalisation' was very different from that of today's market optimists. They explain the Great Depression in terms of political interferences with market mechanisms (e.g. the US Hawley–Smoot tariff of 1931) leading to the collapse of the global trading system. For Keynes it was globalisation, carried out without adequate macroeconomic management, which brought about the collapse of national economies, which were then forced to resort in self-defence to all kinds of protectionist devices. Hence the task was not to 'get back to 1914', but to build macrofoundations, nationally, and internationally, capable of underpinning a global economy.

Keynes's bout of institution-building in 1941–44 was designed to make it possible to restore a global economy. It covered money and commodities. It sketches a vision of what the macroeconomics of a globally integrating market system might look like.

International Clearing Union

Keynes's part in constructing the Bretton Woods System is well known. The push was given by Article VII of the Lend–Lease Agreement (finally signed in 1942) by which Britain was given wartime aid from the United States in return for a pledge to dismantle its imperial preference system and sterling area after the war. The Clearing Union, worked out over a weekend at Tilton in September 1941, was Keynes's attempt to sketch out Britain's requirements for meeting the 'consideration'.

The ostensible aim of the International Clearing Union was to secure creditor adjustment without renouncing debtor discipline. All residual international transactions—those giving rise to surpluses and deficits in the balance of payments—were to be settled through 'clearing accounts' held by member states in an International Clearing Bank. Member central banks would buy and sell their currencies against debits and credits with the ICB. These balances would be held in 'bank money' (later called 'bancor'). Each member bank would have the right to draw on a quantity of bank money (its quota) equal to half the average value of its country's total trade for the five last pre-war years. This was its overdraft facility. The ICB's total overdraft facilities came, therefore, to half the value of pre-war international trade—$26bn.[10] Each national currency would have a fixed, but adjustable relation to a unit of the ICB's bank money, itself expressed in terms of a unit of gold. Bank money, though, would be the ultimate reserve asset of the system.

Keynes sought to bring a simultaneous pressure on both creditor and debtor countries to 'clear' their accounts. Creditor countries would be allowed or required to revalue their currencies, unblock any foreign-owned investments, and be charged rising rates of interest (up to 10 per cent) on credits running above a quarter of their quota. Any credit balances exceeding quotas at the end of a year would be confiscated and transferred to a Reserve Fund. Debtor countries would be allowed or required to depreciate their currencies, to sell the ICB any free gold, and prohibit capital exports. They would also be charged interest (at lower rates) on excessive debits. A persistently profligate member could be expelled from the Union. Attached to Keynes's Bank were several optional ancillary institutions: a supranational police force, a reconstruction and relief organisation,

[10] This was later revised upwards to $37.5bn.

and buffer stocks. These would be financed by extra overdraft facilities, transfers from the Reserve Fund, and direct contributions by surplus countries.

While Keynes was drafting his plan, White of the US Treasury was working out a parallel scheme of monetary reconstruction, consisting of a Fund (subsequently the IMF) to provide short-term balance of payments adjustment loans, and a Bank (subsequently the IBRD) to provide reconstruction loans. The battle between the two plans was fiercely fought, with resources, conditionality, and currency arrangements being the main issues. On all these matters, the Americans prevailed in the Bretton Woods Agreement of 1944, though the British got some concessions. The much smaller resources made available to the Fund ($8bn. as opposed to $37.5bn. eventually proposed by Keynes) logically entailed a 'behaviour test' for the applicant for loans, and policing of exchange-rate changes. As Keynes put it to Jacob Viner, the main issue at the end was 'at what stage in the rake's progress' conditionality would apply. But his own Plan had been based on a different concept: that of *creditor* adjustment. The American plan allowed for some quasi-automatic creditor accommodation, but retained the classical doctrine that it was, basically, up to deficit countries to 'put their houses in order', and access to the Fund's discretionary credit facilities would be conditional on their readiness to do this. This reflected two different readings of the interwar period. For the British, the problem which brought down the gold standard in 1931 had arisen from the refusal of the surplus countries—the United States but also France—to *spend their surpluses* because of their 'liquidity preference'; for the Americans it had arisen from the monetary indiscipline of the deficit countries: they had the Latin American countries mainly in mind.

One point needs special emphasis. Keynes believed that economic integration of the kind on which we are now embarked could only be safely attempted if the world had a global macro-manager. The Keynes plan provided for the Bank's managers to vary the supply of bancor contra-cyclically. Thus: 'The Governing Body shall be entitled to reduce the quotas of members, all in the same specified proportion, if it seems necessary to correct in this manner an excess of world purchasing power'.[11] The Bretton Woods institutions as we know them were much narrower in their

[11] This is from the Sixth Draft, 9 November 1942, JMK, CW, xxv, p. 455.

macroeconomic ambitions than was Keynes's ICU. So Keynes's contribution to this construction was to build into the Agreement limitations to globalisation stemming from the limitations of the institutions actually set up, especially the IMF. His main achievements under this head were the 'scarce currency' clause (initially suggested by White to overcome British objections to the smallness of the Fund's resources) which allowed Protection, freedom to alter exchange rates without IMF permission, and rejection of conditionality.

The fact that the American rather than the British plan triumphed at Bretton Woods had a further consequence. Capital controls were embedded in the postwar system as the first line of defence of fixed-exchange rates. This had not been true of the Keynes Plan which, while upholding the 'machinery of exchange control', envisaged 'open general licenses of indefinite duration' for capital transactions.[12]

The World Bank entered the Bretton Woods meeting as a Bank for Reconstruction; it emerged as a Bank for Reconstruction and Development. The Mexican delegate to Commission II (chaired by Keynes) recounts how this happened:

> With our chief delegate's approval, and without any consultation with US delegation…we drafted an amendment to Article III, in order to lend more emphasis to development….Because my English was better than my fellow delegate's I was asked to read it aloud…Keynes was characteristically quick to realise the 'political' significance of our amendment, which was…supported only by Peru and Norway…As he pushed his spectacles to the top of his nose and shuffled the various amendments that were upon the table, he picked out and expressed agreement with ours if we would accept a drafting change. The original text merely stated that 'The resources and facilities of the Bank shall be used for the benefit of members'. In the amendment we submitted, we wrote a second paragraph as follows: 'The Bank shall give equal consideration to projects for development and to projects for reconstruction…' Keynes suggested 'The resources and facilities of the Bank shall be used exclusively for the members with equitable consideration to projects for development and projects for reconstruction alike'. We were pleased with the word 'equitable' and that he put 'development' ahead of 'reconstruction'. I quickly nodded…and the amendment was carried by consensus.[13]

The third intended postwar institution, the International Trade Organisation, designed to set rules for a liberal trading order, was stillborn.

[12] JMK, CW, xxv, pp. 52–54.
[13] Letter to me from Victor L. Urquidi, 29 September 2003.

After several successful GATT rounds of tariff reductions, a successor, the World Trade Organisation, did see the light of day in 1995.

Commodity stabilization

A second wartime scheme by Keynes, the setting up of international buffer stocks covering the main primary commodities, never got beyond the drawing board. He was urged to it by Roy Harrod, fought it through Whitehall, but when the American Administration objected, he dropped it.

Keynes's was not the first effort. National commodity control schemes had been set up in the 1920s to keep up prices for producers: the Canadian Wheat Pool was the best known. These had collapsed in the Depression, and it proved impossible to secure international agreement in the 1930s. Governments accumulated strategic reserves in the run-up to the Second World War. The Keynes Buffer Stock Plan, covering the main internationally traded commodities, set out to avoid the 'frightful' fluctuations in commodity prices which caused or amplified the business cycle, and to stabilise the incomes of primary producers. Each commodity 'Control' would set an initial 'basic' price for its 'commod', equal to its estimate of 'the long-period equilibrium costs of the most efficient producers', which it would vary from time to time in line with the long-run tendency of stocks to rise or fall. It would operate on what is now called a 'band-width' rule, buying its 'commod' whenever its price fell 10% below the 'basic' price, and selling it when it rose 10% above. Its long-period pricing policy would aim to maintain a constant reserve. The accumulation of stocks would be financed by the Clearing Union.[14] Conceptually, the scheme was of a piece with fixed, but adjustable exchange rates.

A fresh attempt was made in the 1970s. Inspired by the success of OPEC in raising the oil price, UNCTAD in 1976 called for an Integrated Programme for Commodities (IPC). Nicholas Kaldor's 'two sector' model provided the theoretical justification. Whereas commodity markets cleared by price adjustments, markets in manufactures had sticky prices and adjusted by quantity and income variations in a Keynesian way. In addition, countries were specialized, so that the developing countries exported commodities, while developed countries concentrated on

[14] For accounts see Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937–1946* (vol. iii of biography), pp. 234–36; D. Moggridge, *Keynes: An Economist's Biography*, Routledge, 1992, pp. 679–681.

manufactured exports. If commodity prices fell, so did the incomes of their producers, who then had to curtail their imports of manufactured goods. This fall in demand precipitated a recession—adjustment took place not by changes in relative prices but by quantities. If commodity prices rose (as with the oil shock), developed countries would be faced with an inflationary rise in import prices and a deterioration in their balance of payments. They would respond with tight monetary and fiscal policy, which would create a recession. If primary commodity prices were kept stable, then developed countries could maintain full employment, average demand for primary commodities would be higher, and their average terms of trade would be better. So the developed countries would find it profitable to pay the full costs of running stabilization schemes.[15]

Nothing came of UNCTAD's efforts, and interest in these ideas have died away, despite the evidence that commodity prices are more volatile than those of manufactured goods and getting more so.

The UNCTAD proposals ran into the same intellectual difficulties as Keynes's plan. They were put forward in face of the growing consensus that 'you can't buck the market', whether by trying to fix the price of currencies or of commodities. Serious problems would arise of speculative attack on stocks in periods of high demand. Very large stocks would be needed to deal with price peaks. What was (is) the equilibrium level of oil prices? The 1974 oil shock was widely interpreted as change in the equilibrium price, not a fluctuation round it. This required structural adjustment, not stabilization, and gave rise to the 'Dutch Disease' literature. If an economy suddenly discovers oil then its exports increase, displacing other manufactured goods, appreciating the real exchange rate, and requiring shift of resources into services. The same story holds if the price of oil changes sharply and is expected to remain at the new level. Stabilizing the price of oil is irrelevant in both cases.

Also, the urgency has gone out of the issue. Primary commodities have fallen to less than one quarter of the exports of developing countries. Studies have shown that the microeconomic costs of volatility are smaller than previously thought, and financial hedging—for example, through insurance or futures markets—offer a better alternative to physical storage.[16] Macroeconomic costs are larger, but they can be dealt with in other

[15] N. Kaldor, 'Inflation and Recession in the World Economy', *Economic Journal*, 86, pp. 703–14.
[16] David M. Newbery, 'Commodity Price Stabilization' in M. Scott and Deepak Lal, op. cit., pp. 95–100.

ways. Governments dependent on a single source of revenue can establish stabilization funds. There is an IMF Compensatory Facility, various IMF loans and programmes, and World Bank Structural Adjustment loans.

The main US response to OPEC was to develop a strategic oil reserve. Storage costs have been minimised by burying the oil in Louisiana in salt dome caves on the Gulf Coast. The first President Bush ordered sales from the US strategic petroleum reserve during the 1991 Gulf war. The result was little if any speculation in spot and forward prices of crude on commodity markets. This may be compared with what has been happening to crude commodity prices in the last five months, as the second President Bush not only did not release oil from the reserve but ordered it to continue to buy crude in the market for storage. Such strategic reserves may yet play a bigger role in the future, if globalisation is derailed by the 'war on terrorism' or a new 'struggle for scarce resources'.

III. Global institutions for today

Are these old debates of any more than historical interest? Is market pessimism any longer justified?

The intellectual and political landscape has hugely shifted since the Bretton Woods day. One element in the shift has been the influence of Keynes himself. While most governments today are non-Keynesian, none is pre-Keynesian. They have learnt how to lean against the wind. This makes it highly unlikely that there will be another Great Depression. It does not mean the end of macroeconomic instability, but it can be damped.

The biggest intellectual change is that market optimism has replaced market pessimism: without such optimism globalisation would never have been pushed as far as it has, given its shaky institutional foundations. Markets, it is claimed, have become more efficient, because they are more 'complete' than they used to be. The market economy has spread temporally as well as spatially. But underneath the surface many of the old problems persist.

Keynes, who wrote a pioneering essay on futures markets, would have been completely at home in a world of ever more complex financial instruments designed to insure against every conceivable kind of risk. Whether he would have bought the ideology that comes with them is a different question. He would surely have recognised the systematic risks in the hedge fund culture. We have become increasingly sophisticated at hedging risk, but uncertainty is uninsurable. We get round this awkward corner by reclassifying uncertainty as risk. We talk of 'political risk' when we should talk about political uncertainty. We simply do not know what the probability is of the future direction of President Putin's policy—for example, whether the assault on Yukos is a one-off business or a prelude to a more general re-nationalisation of Russia's natural assets. The use of the word risk conveys a spurious precision, which comforts the markets but has no basis in science.

Few economists (and fewer businessmen) believe that financial markets are 'efficient' in the sense required by the efficient market hypothesis. George Soros is merely the best-known of those who have pointed out that market behaviour resembles herd behaviour much more than the balancing of bulls and bears required by efficient market theory.

Most economists in the interwar years time rejected floating exchange rates on two grounds. The first was 'elasticity' pessimism—the view that trade volumes are relatively inelastic to price changes; the second was the belief, confirmed in the 1930s, that floating led to currency wars and 'beggar my neighbour' policies.

Today these doubts have been banished by market optimism. The Bretton Woods system of fixed, but adjustable rates has been swept away. Economists are almost unanimous in preaching the virtues of floating. Yet we do not live in a world of generalised floating but in what Dooley *et al.* have characterised a dual currency system: a very asymmetric version of a fixed exchange-rate system linking East and South Asian currencies to the US dollar, and a floating-exchange rate between the US dollar and the euro. In the G7, the USA and the UK are the only floaters by conviction.[17]

Keynes's ICU was designed to secure creditor adjustment. Instead, the Bretton Woods Agreement upheld the orthodox doctrine of debtor adjustment. But creditor adjustment came about anyway. The United States disgorged its surplus to help reconstruct and liberalise Europe and Japan after the war, as well as to save them from communism, in turn moving into deficit on its balance of payments. In the 1960s, the Europeans and Japan

[17] For an exposition of this 'dual system' see Michael P. Dooley, David Folkerts-Landau and Peter Garber, 'An Essay on the Revived Bretton Woods System', NBER Working Paper No. 9971.

helped finance the US balance of payments by accumulating dollar liabilities.

The continuation of rapid export-led growth in China and Asia requires them to maintain undervalued exchange rates against the dollar by massive official purchases of US Treasuries, the counterpart of which is a growing US deficit; the US deficit will come to 8%–10% of its GDP in 2010, about one-fifth of the world's savings. The imbalance exists because Asian countries have chronically deficient domestic demand, so they have to rely on export expansion to keep up growth and employment. Keynes would have appreciated the irony that the United States, which strenuously opposed the principle of creditor-adjustment, is now strong in its demand for it. His warning that the policy of forcing exports was bound to set nations at each others' throats is still relevant. The Chinese refusal to revalue the renminbi recalls the US refusal to accept sterling devaluation in the 1930s, and its failed attempts to impose revaluations on the European currencies in the 1970s. Certainly the potential for currency wars is still there.

The US deficit is plainly unsustainable, both economically and politically. It is unsustainable economically because foreign investors will eventually lose confidence in the dollar; and it is unsustainable politically because the United States cannot forever get others to pay for its foreign wars. However, there is little appetite for reform. With market optimism in the ascendant, there is no steam behind 'thick' global institution building. Only Post-Keynesian market pessimists like Paul Davidson want to go back to Keynes's original idea for an International Clearing Union.[18] The Meltzer Commission of 2000 wanted to limit the role of the IMF to emergencies.

Will the evolution be towards generalised floating or generalised fixing? Will trade liberalisation produce a sufficient convergence of 'fundamentals' to make possible a monetary agreement between the United States and the eurozone of the European Union to keep the dollar–euro exchange rate stable? I think this is likely in the long run, but only if and when the United States scales down its geopolitical ambitions.

Keynes and White gave only intermittent attention to the political foundations of a global economy. They grew up in a liberal global system which

[18] See e.g. Paul Davidson, 'Reforming the World's Money', *Journal of Post-Keynesian Economics*, 15, 1992.

was shifting towards socialism and nationalism, and more radically to communism and fascism. This framed all Keynes's thinking about the 'riskiness' of economic life. One matter on which, he wrote in 1937, there was no 'scientific basis on which to form any calculable probability whatever' concerned 'the position of private wealth-holders in the social system in 1970'.[19] A similar expression would read oddly to us today, though less oddly in Russia. Similarly, when Keynes spoke, in 1941, about the need for capital controls to stem the flow of 'refugee and speculative funds', he had in mind endemic political uncertainty. He went as far as to write: 'It is easy to conceive conditions in which the American capitalists would be the refugees'.[20]

By 1945 the situation had improved with Allied victory in the war. The architects of Bretton Woods felt they could rely on a great power directorate to keep the peace, the European colonial empires were still in business, though not for much longer, and they did not anticipate the Cold War. Since the collapse of communism, the political setting for globalisation has become even more benign. There is only one ideological system; and growing agreement about the requirements of 'good government' in a globalising economy. We have moved beyond the days of 'political–economic experiment' that inflamed nationalism in the 1930s.

However the problem of the political integration of the 'emerging markets' into the global system remains. In Keynes's day the peripheries were mainly under imperial control: the most troublesome area for international finance was independent Latin America. Today the peripheral countries are all independent, and many of them are politically unstable. There is a doctrinal consensus on what they ought to do to make themselves more creditworthy. But whether, or how quickly, they will achieve the required political reforms, is open to question. Over much of sub-Saharan Africa the 'institutions, rules, and policies' needed for successful economic integration 'across borders, through markets' have barely been set up. Here is fertile ground for market pessimism. Let me pose the question bluntly: what is the twenty-first century's functional equivalent to the nineteenth-century imperialism which forcibly opened up closed societies to the global market of that time and imposed on them institutions, rules, and policies consistent with it?

[19] JMK, CW, xiv, pp. 113–14.
[20] JMK, CW, xxv, pp. 30–31.

Unstable states are also breeding grounds for terrorism, genocide, and mass starvation. Across the Muslim world demons stir. These developments have already started to dim the promise of globalisation. The political dynamics are uncertain, but it may be that some of the 'emerging markets' will not emerge into the liberal sunlight as soon as the hyperbole of the 1990s suggested. So consideration of economic possibilities in an illiberal world is not quite as irrelevant as the market optimists make out.

I end with a final thought. The benefits of globalisation are much more obvious for poor than for rich countries. Although real incomes in rich countries have doubled in the last thirty years, their populations are no happier.[21] This raises the question of why they are still on the growth treadmill. Is it the politicians who put them there? Is it that people want more happiness but don't understand how to get it? Or do they unconsciously want to be unhappy? This is quite apart from the ethical question of what growth is for. No one who has been touched by Keynes's flame can avoid asking it.

In his futuristic essay 'Economic Possibilities for our Grandchildren' (1930) Keynes reckoned that in three generations—roughly a hundred years—the 'economic problem' would have been solved, freeing people to live 'wisely and agreeably and well', by which he meant that they would be able to shed their pathological 'purposefulness' and 'love of money' and trade still higher incomes for more leisure and enjoyment of life.[22] In fact, although real income per person has risen about five or six times since 1930, hours of work have fallen by much less, and scarcely at all since 1960.[23]

Nevertheless, it is not surprising that anti-globalism has switched from poor to rich countries. In the 1950s and 1960s, the 'north' was for free trade, the 'south' was protectionist. Today the position is partly reversed. Globalisation offers the best hope for poor countries to catch up with the rich. But growth has become less important for rich countries. They could probably abandon the globalist project without much damage to their material standards, and with possible gain to their quality of life. And they

[21] Richard Layard summarises the evidence in his book *Happiness: Lessons from A New Science* (Allen Lane, 2005).
[22] JMK, CW, ix, pp. 321–32.
[23] Data in Liam Halligan, 'Economic Possibilities for our Grandchildren', forthcoming. Keynes did not explicitly limit his speculation to already rich countries, possibly for two reasons: (a) income differentials between rich and poor countries were less in 1930 than they are today, and (b) he did not foresee the population explosion in Latin America and Asia.

may be tempted to do so if the political costs of maintaining a global economy become too high. The implications of such a shift are profound. But Keynes would at least demand that we start thinking about them.