A Keynesian New World Order for the 21st Century

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Introduction

In 1971, US President Richard Nixon announced his 'New Economic Policy'. The world was stunned as it learnt that the New World Order that had been created at Bretton Woods in 1944 was over. Governments no longer knew the value of their major reserve currency, the dollar, that they held in their banks, and could no longer convert their dollars into gold. Since Bretton Woods, currencies had been tied to the dollar, and were hence tied to each other with fixed exchange rates, and the dollar was pegged to gold at a value of 35$ per ounce. Suddenly, the organisation of the world's entire financial and commercial structure that had been created 27 years before was in tatters, and no-one was sure what the consequences of floating currencies would be on world trade and globalisation. Nixon sold the effective devaluation of the dollar to the American people as an international success, the Dow Jones index rose, and the US media praised this bold move. But the Bretton Woods system had been created in order to provide economic and financial stability following the chaotic inter-war years from 1918 to 1944.

The New World Order created at Bretton Woods was a bold reorganisation of international political economy. It saw the birth of the International Monetary Fund (IMF), designed to help countries with balance of payments problems, the World Bank, designed to provide financial aid for major capital investments such as dams and infrastructure projects, the General Agreement on Tariffs and Trade (GATT), now the World Trade Organisation (WTO), to set the rules for international trade policy, and to oversee its implementation.

The tying of currencies to the dollar effectively gave the USA financial hegemony in the world and broke the previous British pound zone. Keynes was, with the American Harry Dexter White, responsible for the Bretton Woods negotiations and the founding of this new economic and political order (Steil, 2014). This was perhaps his most difficult role, given that the USA held all the cards (and the gold) and the British Empire was on the verge of economic collapse due to its massive debts incurred during the First and Second World Wars. Harry Dexter White and the

Americans got what they wanted – and Keynes watched as his proposals were rejected, the British Imperial Tariff Preference (the Ottawa Agreement) was broken up, the Exclusive Sterling Trade Area was dismantled, and the UK became indebted not only to the US, but was also tied to a New World Order under the GATT agreement, the World Bank and the International Monetary Fund. No-one could have done better than Keynes to safeguard British interests, but he had no decent cards to play. Most students of economics know what came out of the Bretton Woods agreements, but are often unaware of what Keynes proposed there. The purpose of this article is to look in more detail at Keynes's Bretton Woods proposals, and to speculate on how they could be applied today to resolve international trade imbalances, high debt levels, increasing international and intra-national wealth inequality, and even how he would resolve the structural problems of the Eurozone. In the same way that Bretton Woods proposed and produced a New World Order[1], this chapter will propose a Keynesian New World Order that would fundamentally change the current neo-liberal, or market-based, economic and political ideology. To those readers who might consider a paradigm shift impossible, and believe in the TINA (There Is No Alternative) of today's market-based system, I recommend reading Thomas Kuhn's book 'The Structure of Scientific Revolutions' (Kuhn, 1962), to better understand how ideology underpins policy, and what is required to change from one paradigm to another, whether it be in the 'pure' sciences, or in political and economic sciences.

1 **The term 'New World Order' has been used to refer to a major change in political and financial organisation at an international level. It is equivalent to the application of a new economic and political paradigm, often resulting in a change of political and economic power.**

1. John Maynard Keynes

If we accept that John Maynard Keynes stands on the podium of the three best-known economists of all time (The Complete University Guide, 2016), along with Adam Smith and Karl Marx, then we might wonder at the fact that both Keynes and Marx considered themselves philosophers rather than economists, and that the word 'economist' did not even exist when Adam Smith came to fame with 'The Wealth of Nations' (Smith, 1776). Perhaps all economists should be philosophers first, for how else can they position the purpose of economics with its ethical and moral implications when applied to society? As Keynes himself states:

> The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regards. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. (Keynes, 1933 pp. 140-141)

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

Keynes was present at the Paris Peace Conference (often referred to as the Versailles Peace Conference) in 1919 as a member of the British Treasury, where he represented British economic interests after World War One. It was during this treaty that the conditions for peace with Germany were established. He was so appalled at the proposed conditions that he felt would not only destroy Germany economically, but also humiliate them. He left the conference in protest and wrote perhaps his most important work, The Economic Consequences of the Peace (Keynes, 1920) in which he foretold the likelihood of further war since the proposals were not economically possible for Germany. Keynes was also the principal British interlocutor during the final months of World War Two to negotiate the US-British Lend-Lease programme and the Marshall Plan loans (Marrin, 2015. and Marshall Foundation, 2007). He would have disapproved the Morgenthau plan to destroy German industrial capacity in 1945 (United States Department of State, 1945, pp. 22-28), but would have surely approved James Byrnes's 'Speech of Hope' in Stuttgart in September 1946 (Byrnes, 1946) had he lived a few months longer; a speech that declared a change in US policy to cancel some of Germany's debt and relaunch its economy

As stated in the introduction, Keynes negotiated the Bretton Woods proposals with Harry Dexter White at the end of the Second World War. Keynes's policy was also at the heart of Roosevelt's New Deal to rescue the USA and the world from the Great Depression following the 1929 US stock market crash. He also managed British interests in the 1930s to reduce the impact of the decline in world trade on the British economy.

Keynes was, therefore, unlike analytical economists who deal with observation and explanation (economists that he disapproved of, with their curves and diagrams that were out of touch with reality), an applied economist dealing with the actual application of economic theory that underpins the organisation of society – and that requires constant adjustment – not just of the mechanism itself but also of the underlying paradigm. This required flexibility and pragmatism. It is perhaps this flexibility that came from his considerable intellect that makes Keynes difficult to study. Quite simply – he often changed his mind and opinions when faced with global realities or realpolitik. For example, at Cambridge University (1902-1905) he strongly supported Free Trade, but in 1915, Keynes helped UK Chancellor of the Exchequer Reginald McKenna prepare his first budget that saw the introduction of the McKenna duties: a 33.3% duty on luxury imports! He then changed again in 1923 when he attacked the Conservative party's demand for protection, stating “If there is one thing Protection cannot do, it is to cure unemployment” (Keynes, 1978, pp. 151-2). A few years later, with British unemployment growing, the solution he advocated was – protectionism! Under the pressure of reality, he had become a staunch protectionist! This protection helped defend the British car and lorry industry from international competition.

Keynes was homosexual, but then married a Russian ballerina, Lydia Lopokova (Mackrell, 2009), strongly supported full employment and social welfare but considered himself to be bourgeois, not a socialist, opposed currency speculation that threatened economic stability, but himself started a speculation club with his Bloomsbury friends! This is symptomatic of the paradox that is Keynes. Rules and norms were to be applied to others, but not to himself, since he considered himself above such things.

In the neo-liberal post-1980s, we might be tempted to look back at Keynes and consider him politically socialist since his policies, particularly visible in Roosevelt's New Deal, were socialist in character. A neo-liberal, monetarist policy is supply-based and looks to control the value and quantity of money, whereas Keynes insisted on the demand side which meant full employment and fair wages. He, like Marx, understood that workers are also consumers. Was this solution purely an economic answer? I doubt it, since he was first and foremost a philosopher, and was concerned with the welfare of society as a whole and believed, somewhat naively, that greater national wealth would and should benefit all society and lead to fewer working hours and more leisure for everyone, and not be hoarded by an over-wealthy elite (Johnson and Moggridge, 2012. Keynes, 2009). Keynes did not believe that a Smithian 'invisible hand' would automatically correct the economy – invisible, perhaps, because it does not exist. Keynes understood that market forces will not provide the economy and hence society with what it requires.

> It is the well-being of human beings and human society that lie at the heart of Keynesian economics. This comes very close to the socialist belief that the economy should serve men, not men the economy… It should be not the greed of the few but the needs of the many that are the driving rationale for economic decisions (Hoerber, 2017).

But, although convinced of the social, political and economic importance of full employment, and a somewhat unhappy member of the Liberal Party, he opposed the Labour Party of the day as much as he opposed the Conservatives:

> Labour "is a class party", he wrote, "and the class is not my class. If I am going to pursue sectorial interests at all, I shall pursue my own... the class war will find me on the side of the educated bourgeoisie" (Keynes, 1978. vol. xix. p. 297)

Skidelsky suggests that:

> But let's get Keynes and Keynesianism right. In the U.S., more than in Britain, he is considered a kind of socialist. This is wrong. Keynes was not a nationalizer, nor even much of a regulator. He came not exactly to praise capitalism, but certainly not to bury it. He thought that, for all its defects, it was the best economic system on offer, a necessary stage in the passage from scarcity to abundance, from toil to the good life. (Skidelsky, 2009, p. xvii.)

It is perhaps not quite as black and white as Skidelsky suggests, since Keynes actually urged Roosevelt to nationalise key industries and services in the USA as part of The New Deal. We can perhaps identify some of this idiosyncratic personality from his upbringing. Keynes came from a family of staunch baptists with strong values for truth and morality, though he was not religious himself. His education at Eton, a very elite independent boarding school in England, followed by Cambridge University and a Cambridge University-based group of artists and intellectuals known as the Bloomsbury Group, allowed him to interact with exceptional minds. He was strongly influenced by G. E. Moore (philosopher), Bertrand Russell (philosopher) and Ludwig Wittgenstein (philosopher) as well as Virginia Woolf (writer), E. M. Forster (writer) and Lytton Strachey (biographer) as well as W. H. Macaulay (mathematician).

> 'Rules, rules, what are rules for?' Macaulay would ask himself before answering himself: 'to be broken, to be broken'... The sentiment that creative minds were justified in breaking rules, when the results might be productive, was to underlie Keynes's rethinking of economic laws after 1924. (Davenport-Hines, 2015. p. 56).

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

> 'We had no respect for traditional wisdom or the restraints of custom. We lacked reverence... for everything and everyone'. (Rosenbaum, 1995, p. 95)

This rebel, however, managed to work within the corridors of power without too much trouble. This is what can surprise us most. Take a look at a portrait of John Maynard Keynes – he looks like the icon of an obedient Edwardian civil servant – a cog in the wheel of a vast and powerful empire. Yet Keynes the rebel, Keynes the risk taker, Keynes the lover, Keynes the flexible changer of his own ideas is there. Perhaps that is why he still commands such interest. If he had remained in the Military Department of the India Office where he started work in 1906, even though it was only for 20 months, he would never have changed the world as he did. He was brilliant, he was different, and he did not suffer fools lightly. But Keynes was part of the intelligentsia with a mission. He could easily have settled back into relative wealth and comfort, but he took on his mission of finding economic and political solutions with an extraordinary sense of duty, despite his battles with hierarchy and government. He was also a great speaker – most notably in his speech to the House of Lords in 1945 (Keynes, 1945) concerning the lamentable terms of the

American loan to the British government, a government that still thought it ruled the waves; he required diplomacy, convincing economic arguments, and a mastery of rhetoric – and he had them all. He clearly understood during the First World War that the world as he knew it was about to change. He was one of the few people that understood not only the economic and political details, but who was also able to place these details within a global framework. Employed in the Treasury Department, in 1917 he wrote to his wife:

> “My Christmas thoughts are that a further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. I am on the whole not sorry. The abolition of the rich will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of general impoverishment. In another year's time we shall have forfeited the claim we had staked out in the New World and in exchange this country will be mortgaged to America'. (Johnson and Moggridge, 2012. vol. XVI, p. 287)

2. Keynes vs Dexter White at Bretton Woods

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

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

country goods more expensive, with the aim of a rebalancing of trade. (Steil, 2014, p.43)

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

> The kid who owns the ball is usually captain and decides when and where the game will be played and who will be in the team. While international monetary stabilization is not baseball, it is a game. Gold is as necessary to that game as the ball and bat are to baseball. Since the US now owns some twenty-two billions of the world's reported twenty eight billions of gold, we think Uncle Sam is going to be the captain of the team or there will be no game... and the idea of “supplanting gold as the governing factor” and apportioning voting power on the basis of pre-war trade, which would give Britain about fifty per cent more voting power than the U.S., not only is not good baseball – it is not even cricket” New York Times, March 30, 1943. (Steil, 2014, p.167)

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

The institutions of a New World Order were created: the World Bank to finance long-term projects such as the construction of dams where massive investment was required long before any financial returns were possible; the International Monetary Fund to help countries out of temporary debt difficulties; and the General Agreement on Tariffs and Trade (GATT) that later became the World Trade Organisation (WTO) to ensure that countries would not use protectionism (particularly against US goods since the US held a virtual monopoly of productive capacity). Some see the Bretton Woods institutions as instruments of US capitalist hegemony (Danaher, 1999). Keynes's objectives were different. Although he sought international institutions to avoid a recurrence of the inter-war currency and trade crisis, he clearly wanted truly international institutions rather than American-led ones. He also wanted the Bancor to be the basis of an international currency union. Currencies would be tied to the bancor, but would have some flexibility depending on their Balance of Trade. Currency speculation (and devaluation) would hence be stopped. Excessive creditors and debtors would not exist either since the terms of trade would become more and more difficult for countries in trade credit and the opposite would happen for those in trade deficit. This would also have the impact of releasing reserves since they would be spent rather than held in banks. The economics of the Bancor system was considered far better than the American system, but the Americans were certainly not going to give any currency or trade sovereignty to an international institution where they were not the masters of the game. For further details of Keynes's Bancor system, see chapter 6.2 of Reforming the Global Financial Architecture: a Comparison of Different Proposals (Klaffenböck, 2008)

3. A Keynesian proposal for an International Money Clearing Unit and a virtual world currency, the Bancor

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

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

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

Our globalised trade is currently working within a highly unstable system, with high levels of currency speculation, massive trade imbalances, a worsening debtor-creditor situation, and wider and wider wealth gaps. How would Keynes deal with our current structural problems? Well, most of his solutions have already been proposed in his Bretton Woods proposals in 1944. Unfortunately very few people are aware of his proposals since history is written by the winners, not the losers! How can one stabilise currencies without fixing them rigidly and at the same time control trade to avoid trade surpluses and deficits? Keynes proposed a system including a virtual currency, the Bancor, for international trade, and an International Money Clearing Unit; both of these systems to be operated by international institutions (as opposed to the US-based IMF, WTO and World Bank).

Here are the main principles of Keynes's Bancor system:

1. Member countries will agree on their currency in terms of Bancor and gold. These rates can change slightly without permission (i.e. revaluation or devaluation). Large changes need permission from the board. (This is similar to the EU's European Monetary System where

pre-EMU members should 'tie' their currencies to the Euro within an agreed band of flexibility.)

2. Each member will have an agreed quota of Bancors with the ICU, to be adapted every year according to its average volume of trade.

3. A member with an excess or debit of its balance of payments of more than 25% will be charged 1% p.a. with an extra 1% if it exceeds 50%. Member states in debt can borrow from countries in credit to avoid these payments.

4. A country with a persistent deficit (over 25% annually) should devalue its currency in terms of Bancor by not more than 5%.

5. A country with a persistent surplus (more than 50% of its quota), should a) increase domestic credit and demand, b) appreciate its currency in terms of Bancor or increase wages, c) reduce import tariffs, d) provide international loans for developing countries.

6. Gold can be credited as Bancor, but not the reverse. The ICU board can distribute gold to countries with bancor credits.

7. Non-member countries should have an account at the ICU but cannot have overdrafts and cannot vote.

8. Countries can resign with one year's notice after settling their accounts.

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

There is no country which can, in future, safely allow the flight of funds for political reasons or even to evade domestic taxation or in anticipation of the owner turning refugee. Equally there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment. In this way foreign direct investment (FDI) can continue, but not speculation. Given the estimated world losses in tax revenue through tax fraud via tax havens, estimated at 5% of the world GDP (Johnston, 2011, Murphy, 2017), this system would considerably increase world wealth.

An international money clearing unit along Keynesian lines has been proposed by Paul Davidson (Davidson 2008 and 2014). The trade architecture is Keynesian, but he suggests avoiding a supranational central bank that he feels is politically not conceivable. Stiglitz, however, would argue the opposite (Stiglitz, 2016).

The US trade balance was in credit after the Second World War and remained balanced during the 50s and 60s. But by 2018, it is nearly 44$ billion in deficit. China's trade balance was steady until 2004 (introduction of private property rights) and by 2018 is 42$ billion in credit. Obviously the resultant imbalance is reflected in employment levels and the Chinese purchase of US debt. Under Keynes's Bancor system, this would not be possible since China would have to steadily increase the value of its currency leading to a reduction of exports and increase in imports. The USA would have to do the opposite. Daily spot-trading in currencies is over 5$ trillion. This massive and rapid speculation would simply not exist with the Bancor system since devaluation or revaluation would only occur under the auspices of the International Clearing Union. This would help stabilise the world economy.

What would Germany's position be under such a system? This would depend upon the status of individual EMU (Eurozone) members. If treated individually, then Germany's excess trade surplus would lead to sanctions, but changing the value of the currency, the Euro, would not occur unless the entire Eurozone were in trade credit, in which case the Euro would be required to increase the value of the Euro. But, every balance of trade credit is equalled with a trade deficit, and since two-thirds of European trade is intra-EU, then large external trade deficits or surpluses are unlikely. If we look at option 5 under Keynes's ICU / Bancor system:

5. A country with a persistent surplus (more than 50% of its quota), should a) increase domestic credit and demand, b) appreciate its currency in terms of Bancor or increase wages, c) reduce import tariffs, d) provide international loans for developing countries.

we can rule out b) (responsibility of the European Central Bank) and c) (responsibility of the

European Commission). This leaves a), an increase in domestic credit and demand, and d) providing international loans for developing countries. The latter is controversial since it depends upon the status of the loan – is it tied to goods (tied-loan), is it at a 'correct' level of interest rate, etc.? How could Germany increase domestic credit and demand? Credit depends upon loan rates which are controlled by the ECB. It could, however, use fiscal control to increase consumption and increase wages. However, would this greater consumption be of imported goods (the objective in order to balance the trade between exports and imports) or of locally-produced goods?

The Bancor / ICU system could work very satisfactorily on a world level, and help reduce international trade imbalances and the associated debt imbalances. However, something else is needed within a currency zone such as the EMU. What, therefore, might Keynes suggest in such a situation?

4. A Keynesian proposal to resolve Eurozone structural imbalances

The ICU was designed (but never created) in 1944 before the creation of currency zones such as the Eurozone. Yet the Eurozone has a serious structural weakness – there is no flexibility. Members of the Eurozone can no longer depreciate or appreciate their currencies to reflect their comparative productivity. Even non-EMU members are constrained since if they are members of the ERM II system, they have to tie their currencies to an agreed value band in relation to the Euro. In theory, more productive countries such as Germany should have inflation that should lead to higher interest rates, an appreciated currency, higher wages and hence increase the cost of their exports (which would become comparatively expensive) and increase imports (which would become relatively inexpensive). But this has not happened. Germany actually benefits from the Euro which constitutes an average of EMU productivity – and hence has been able to avoid the appreciation of the German Mark that would have resulted if there were no Euro. In the same way, France has been unable to continue its pre-Euro depreciations, and hence is stuck with a Euro that is possibly more expensive than the French Franc would be. We now have considerable imbalances amongst EU members: since 1999 (the introduction of the Euro), German trade surplus has increased considerably to 19.5€ billion (annual to July 2017) (Trading Economics, 2018). This is in comparison to France which was positive in 1999, and has now shrunk to a deficit of 6€ billion (annual to July 2017) (Trading Economics, 2018,2).

If there were an ICU, then it would be the European Union, represented by the European Central Bank, the European Commission and European Parliament that would be a member, not individual nations, therefore the Bancor system would effect the Euro as a whole, but not resolve intra-EMU problems. The value of the Euro would be fixed to the Bancor with slight adjustments possible depending on the EU's trade balance with the rest of the world. A trade surplus would lead to increasing the value of the Euro; a trade deficit would do the opposite.

If currency is fixed, and productivity varies, then there are only two mechanisms to regulate the system; financial transfers and labour costs. In terms of financial transfers, the transfers exist already under the Regional Funds (also known as Structural Funds) that flow mostly to the poorer countries of the EU (this represents about 40% of the EU budget). These funds are designed to help weaker countries to develop their infrastructure of roads, railways, airports, telecommunications etc. under which system Foreign Direct Investment (FDI) is more likely due to this improved infrastructure. However, the current levels of structural funds are vastly insufficient. Each member provides the equivalent of 1% of its GDP to the EU budget. Some get more back than they put in, some the reverse. This is the 'solidarity model' whereby Germany pays more in than it gets back, and the poorer countries get wealthier and buy German goods – at least that is the theory! But Germany gets back about half of its money, so it actually only transfers 0.5% of its GDP to the poorer countries. If financial transfers were to have a real impact on the European economy, then transfers should be much higher – which in turn means increasing the GDP % going into the EU budget, at least twice as much, and fixing better rules on where the money goes in order to avoid some of the richer countries receiving funds because they lobby better in Brussels. The regional or structural funds could also have rules concerning the provision of goods and labour whereby the maximum of these goods and labour should come from within the recipient country and not from outside, when possible. For example, if the EU were to establish a major investment in solar farms in Greece, then it should be accompanied by financing the educational institutions and factories to produce those panels and that technology rather than importing them from China. The extent of Keynes's multiplier effect depends upon the extent to which locally-produced goods are made. For example, if a government borrows money (deficit spending) to inject into the economy, the total money spent will multiply since new jobs and materials will be used, which in their turn will increase fiscal revenue to the government. If a government injects 1% GDP into its economy, with a multiplier of 2, GDP growth would increase by 2%. If the injected money is tied to home-made goods and hence employment, the multiplier will be high. If it results in importing goods from abroad, the multiplier will be low. The reverse is also true. A fiscal contraction (increasing taxes and removing money from the system), will also have a negative multiplier effect whereby a fiscal contraction of 1% GDP might lead to a loss of GDP growth of 2% GDP. The difference is that fiscal contraction is always local, whereas monetary expansion might be external (via importation) rather than local (via the purchase of nationally-produced goods). Another advantage of transfers from richer to poorer countries in the EU is the effect of the different purchasing power parities (ppp). Although ppp is usually used as a cross-currency exchange rate guide, it can also be used within the Eurozone. One Euro purchases more in Estonia than it does in Luxembourg. This means that a transfer from richer to poorer has a greater impact than from countries with the same ppp. The solidarity model provided by the use of structural funds should partly be able to resolve intra-European wealth disparities over time. As previously mentioned, however, richer countries are better organised to extract structural funds from the EU budget than are poorer countries that have greater needs but have a weaker presence in Brussels and a smaller administration to deal with the considerable paperwork necessary to fulfil the requirements of submitting requests for financial support.

What we have seen since the 2008 subprimes crisis that turned into the European debt crisis as nations increased deficit and debt to bail out their banks, is that the European solidarity model has turned into a debt-control model of predation whereby the political control of the richer countries via institutions such as the Eurogroup, has weakened countries such as Greece by the application of austerity plans. These plans have, as predicted by economists (Blyth, 2013, Kinsella, 2019, Krugman, 2011, Varoufakis, 2016 etc.), failed, and have made the situation even worse; they have also considerably widened the intra-European wealth gap. German and French banks have also been able to buy Greek, Portuguese and Italian bonds at what might be considered immorally high interest rates. Joseph Stiglitz deals with this unsustainable European model in some detail in his book 'The Euro and its Threat to the Future of Europe' (Stiglitz, 2016), especially on the structural problem of working within a fixed-exchange rate (Euro) system. I feel sure that Keynes would agree with Stiglitz's analysis and would insist on some mechanism of transfer from richer to poorer countries if the European Union is not to fail as a badly-organised, good idea. The rigidity of the ECB has two main problems: it is only concerned with controlling inflation, rather than employment, and it cannot lend to countries, only to banks. Countries in difficulty therefore have to borrow via national bonds on the private market. A country in difficulty is downgraded by the rating agencies, leading to a higher interest rate to sell its bonds, leading to a greater debt as debt servicing becomes more and more expensive. It is a vicious circle that allows banks to make very high levels of profit at the expense of the country in difficulty that has not only no possibility of devaluing its currency since it has lost monetary sovereignty to the ECB, but that also might see forced restructuring, as in Greece via the Troika (ECB, European Commission and IMF) that proposed an austerity plan and a lowering of wages and pensions that simply make the situation worse rather than better.

Another problem is that the EU created the EMU – Economic and Monetary Union, but only succeeded with Monetary Union, the Euro, and failed to provide the Economic Union via harmonised macroeconomic policy and harmonised fiscal policy. This harmonisation would not have allowed a neo-liberal competitive model whereby Germany can have cheaper wages than poorer neighbours, and thereby 'steal' jobs from neighbouring countries that propose a social model with a higher level of social protection that 'costs' in terms of production. Let us take a couple of examples. The Maastricht criteria (Interest Rate, Deficit, Debt, Inflation and EMS membership) that need to be achieved in order to join the Eurozone (EMU) and the Stability and Growth (sic) Pact that have to be followed after joining EMU (Debt and Deficit) are only concerned with controlling inflation and controlling overall European debt. Where is the criterion for unemployment? Where is the criterion for social security and unemployment benefits? Where is the criterion for minimum wages and poverty levels? The European Union is failing to provide for the majority of its citizens, and a Keynesian revolution is perhaps the only way forward to save the EU from itself. A minimum salary could be based on a percentage related to the average salary. A maximum poverty level could be defined (which is automatically related to average income), also proportionally. Agreements could be made to harmonise unemployment benefits, maternity benefit, child benefit and other factors that at present create an unfair playing field within the European Single Market, and could be harmonised whereby a country like Germany would be unable to reduce its labour costs (and increase precarious jobs and poverty) to compete against its fellow member states.

Let us take a look at the problem between Germany and France, then see what Keynes might have suggested. Germany is the richest country in the EU, but its per capita average monthly income is only 2,225€ in comparison to 2,180€ in France (Fischer, 2016). Germany's trade surplus and growth has not led to an increase in salaries. Under the Hartz Plan that started in 2003 (Sozial Leistungun, 2018), medical benefits were cut, pensions reduced, and unemployment benefits drastically cut and labour 'flexibility' was increased. If you add to this that a minimum wage was not introduced until January 2017, then we can understand why German labour costs have remained relatively low and have included many precarious job situations. Poverty (60% line) in Germany has increased from 11% in 1992 to 15.7% by 2015, (Esposito, 2014, Knight, 2017) in spite of GDP growing steadily. So therefore we can understand that low unemployment is related to poorly-paid jobs or part-time jobs. If we do not use the previous financial transfer solution, then why not a labour cost solution? Intra-European trade imbalances could be to tied mathematically whereby trade balance surpluses would be tied to minimum wages rather than currency conversion against a Bancor or financial penalties. On the other hand it would be socially unacceptable to reduce minimum wages in countries with a deficit. Over time the labour costs in trade surplus countries would increase, improving their standard of living and increasing their imports from the other countries. Obviously this would be difficult for a German government to accept, but it would be much cheaper than the cost of the break-up of the Eurozone which is the direction it seems to be going in if nothing is done to introduce a transfer system. For Germany to go back to the Deutsche Mark would be very expensive since its currency would appreciate strongly.

Following the 2008 subprimes crisis that led to governments increasing their deficit and debt to bail out their banks, the EU engaged in applying an Austerity Plan on countries in difficulty (unfortunately known as the PIIGS – Portugal, Italy, Ireland, Greece and Spain). Where did this Hooverite[2] idea come from? When the USA faced the same problem at the beginning of the Great

2 **At the beginning of the US Great Depression, following the 1929 Wall Street Crash, Hoover's policy was to balance the budget and reduce public spending despite massive unemployment and depression. Therefore an**

Depression following the 1929 Wall Street Crash, Roosevelt proposed Keynesian, government-led expansion by creating jobs and security, as opposed to Hoover who proposed balancing the budget by reducing government spending in a time of crisis. Fortunately the American people voted overwhelmingly for Roosevelt's Keynesian plan that managed to reverse the crisis, restore consumer consumption and confidence. So why did the EU do exactly the opposite, despite the long history of the failure of austerity measures to improve a failing economy? The Troika got it wrong and have left austerity countries such as Greece worse off than they started. Keynes would be turning in his grave. As George Santayana said, "Those who cannot remember the past are condemned to repeat it" (Santayana, 1905). In June 2013, the IMF admitted that it had got it wrong (IMF, 2013), but nothing has been done to resolve the economic and social disaster in Greece. If only Keynes were here to speak to the Troika and propose practical solutions instead of the current application of a bankrupt economic and political ideology.

Perhaps we could summarise a return to Keynesian policies for the European Union:

1. The priority of full employment. The current levels (7.8% in September 2017) are socially, economically and morally unacceptable.
2. The need for a European New Deal (Diem25, 2018, European Commission, 2018)
3. Recreate a European solidarity model and reverse the current predatory model.
4. Create an international currency union along the lines of the Bancor system to stop currency speculation and control the balance of payments among members.
5. Introduce a transfer model within the EU, either in terms of greater financial transfers within the regional funds or by linking trade surpluses to minimum wages to increase prices.
6. Introduce the necessary trade regulations or protection to guarantee full employment with the EU.

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austerity programme in times of depression can be considered 'Hooverite'.

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

Conclusion

If we asked Keynes's ghost today what he thought of our current state of affairs, the first thing he would point out, was that GDP growth in the world was much better under Keynesian policy (from the 1940's to the late 1970's) than under the neo-liberal policy that started in the late 1970's under Reagan and Thatcher (The Equality Trust, 2018). During the Keynesian era, France and Germany saw their GDP grow by 4.0% and 4.9% respectively. The UK and US also had high growth rates. Under the neo-liberal Washington Consensus era, growth had collapsed to 2.1% for the UK, 1.9% for the US, 1.6% for France and 1.8% for Germany. The lack of post-Keynesian growth is evident – even though different economists might disagree about cause and effect. Keynes would point to the fundamental market error of increasingly high wealth discrepancies under neo-liberalism. Poor wealth distribution does two harmful things: it leaves too much wealth at the top that cannot be spent and seeks investment opportunities. In Keynesian days this would have produced profitable capitalism as capital would find good returns in industry; this is no longer the case since the West has de-industrialised, and spare money goes into financial speculation which adds exactly to the boom and bust problem of capitalism. The other problem with increasingly unequal wealth distribution as visible by worsening Gini scores (see The Equality Trust, 2018 as a UK example showing a clear reduction in inequality during the Keynesian policy years until 1979 when Margaret Thatcher was elected Prime Minister – when income distribution almost immediately worsened). Keynes, like Marx, understood that workers are consumers. High unemployment levels, and poorly-paid workers remove demand from the economy. Now some people suggest that budget deficits due to countries bailing out their banks and then hiding debt under quantitative easing is Keynesian due to the printing of money (or nowadays, the electronic creation of virtual, fiat money). But this is a mistake. For Keynes, it is the spending of money, not the printing of it, that is the solution. Providing cash to banks does not create jobs, it keeps those who created a failing system healthy, wealthy and unwise. Keynesian era employment was high in comparison to a post-Keynesian world. In the UK an average of 1.6% of workers were unemployed, in France only 1.2%. After the late 1970s, UK unemployment rose from 1.6% to 7.4%; in Germany from 3.1% to 7.5%.

Perhaps the most glaring failure has been that of the very institutions that Keynes oversaw at Bretton Woods. The International Monetary Fund and the World Bank were designed specifically to reduce international inequalities. Keynes insisted that they be international in nature. He lost, and they became US-dominated and part of the current neo-liberal paradigm (do not forget the continuing IMF restructuring in Greece as part of the Troika's 'rescue plan'). Perhaps Keynes would join the 50 Years is Enough association (http://www.50years.org/) which asks exactly how well these two institutions have done after 50 years (now over 70 years) – the results make dismal reading. In the same way that the Paris Peace Conference refused to look at the facts presented by Keynes, the Troika refuses to accept the facts presented by Yanis Varoufakis (Varoufakis, 2017), and today we are refusing to understand what is staring us in the face, that the neo-liberal paradigm simply hasn't worked, isn't working and will not work in the future.

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

To complete this paper, I shall leave the final words to John Maynard Keynes himself, the intellectual pragmatist, with words of warning that he wrote in a book of hope: Economic Possibilities for our Grandchildren (Keynes, 1987).

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

possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.

David Rees. Version September 2018