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**Individual interest, international cooperation and
collective welfare.**
The lesson of John Maynard Keynes

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Three episodes



"I learned how important international cooperation and collaboration is".



"Challenges can only be overcome by tackling them together, in a spirit of international cooperation".



"Against rampant fiscal competition, international cooperation is indispensable.



Market and Competition

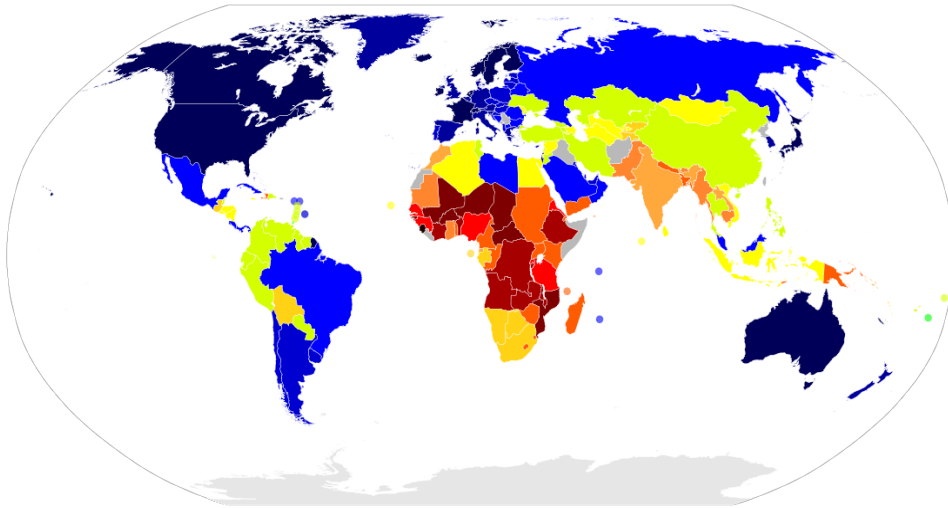


Since the dawn of capitalism, economists have endeavoured to demonstrate that competition based on free trade increases the efficiency of producers and the benefits to consumers, bringing benefits within each country, and that free trade in international commerce promotes the economic development of nations.



The principles of freedom of trade, capital and competition are presented as valid and generalisable to the whole world.

Conflict of interest



The conflict of interest in the competitive race in the market arena cannot be so easily ignored, and has been seen to re-emerge periodically on many occasions.

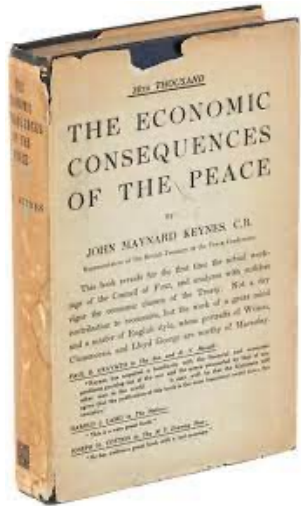
For example, when a rift is opened between a bloc of creditor and debtor countries, when countries do not obey rules of behaviour that respect the impact or negative externalities on others, such as in the case of global warming, exploitation of natural resources, or when they break rules or engage in trade practices that prevent free competition.

Strong reasons to cooperate



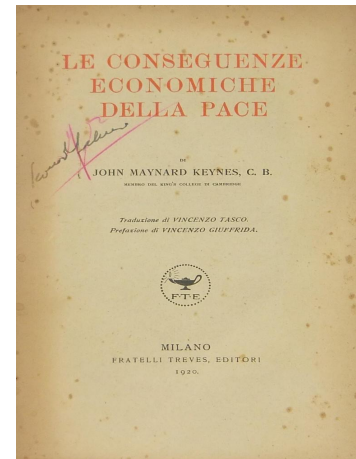
In the case of pandemics, arguments for cooperation between countries are based on obvious ethical and social justice reasons and are more likely to find consensus, whereas arguments that target purely economic interests are not easily accepted, especially by those who would be affected.

The Keynes Lecture: *The Economic Consequences of Peace*



The aim of the book was to show how the Great War had damaged the delicate economic mechanism by which, from Keynes' perspective, Europe had managed to prosper in the preceding decades.

The Peace Treaty negotiated at Versailles would not have set it in motion again, but on the contrary would have definitively undermined it.



The armistice of 1918 included the clause that the defeated Germany would pay the Allies a large sum for the damage inflicted on the civilian population.

Keynes objected is that there was no reason why the damage inflicted and the ability to pay should coincide, and on the basis of his estimates in this case they did not coincide at all.

So the proposed peace agreement was in practice, in his words, "neither just nor possible."

Keynes' s proposal



The United States would waive repayment of the loans granted to France and the United Kingdom, for the common war effort, in return for requiring these two nations to renounce the 'reparations' demanded of Germany and also that a loan be made to the Allies to revive the economies destroyed by four years of war.

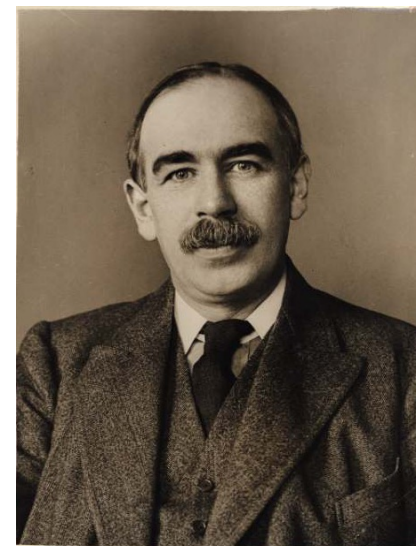
«Here I am interested above all not in the justice of the treaty - neither in the requirement of criminal justice against the enemy, nor in the victor's obligation of contractual justice - but in its wisdom and consequences» (CWK II:40).

‘Wisdom’ and ‘Reasonableness’.

‘Wisdom’ is that guiding principle of human behaviour which departs from that individual utilitarian calculation, which only in appearance always brings subjective advantages, but which sometimes goes against the interest of the individual.

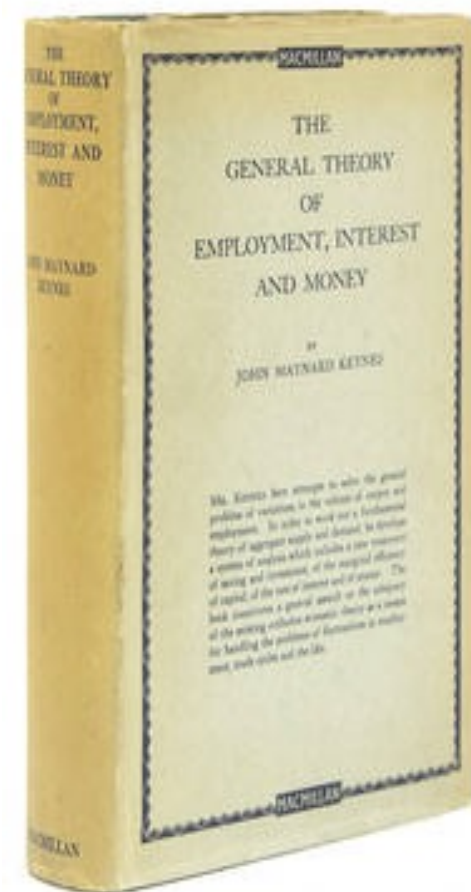
It is a principle that serves to reconcile opposing interests by appealing to the logic of social coexistence and is invoked to defeat forces that threaten to disrupt the social order.

Instead of the principle of economic rationality, which underlies all optimising individual behaviour, at least according to traditional economic theory, Keynes appeals to reasonableness, to be applied to situations in which apparently rational (from an abstractly economic point of view) behaviour can have disastrous results.



But ... always in defence of individual freedom

"Individualism, if it can be purged of its defects and abuses, constitutes the best safeguard of personal freedom, in the sense that, compared to any other system, it widens enormously the field of personal choice. It is also the best safeguard of that variety of ways of life which emerges precisely from the vast field of personal choice, and whose loss is the most serious consequence of a homogeneous or totalitarian state. It is this variety, in fact, that preserves the traditions in which the safest and happiest choices of past generations are embodied; it colours the present with the diversification of its imagination; and because it is the handmaiden of experimentation, as well as of tradition and imagination, it is the most powerful instrument for improving the future." (*General Theory*, p. 380; translated in Meridiani, pp. 434-5).



The lesson of Keynes: the Second World War



In the name of justice and 'wisdom', he asked the United States to write off debts incurred by Britain, the country 'which had long borne alone', Keynes recalled, 'the costs of the war'.

Not only did Keynes not get what he had asked for in the negotiations, but he had to defend worse conditions than he had hoped for before the British Parliament.

As an act of Justice the Americans had to allow Britain to return to peacetime conditions of production and consumption, to embark on the path of multilateralism in the system of payments and international trade.

The 'gift' principle

If the UK's debt payments had been negotiated on a purely commercial basis, as the Americans demanded and indeed succeeded in achieving, the UK would have had to squeeze domestic demand dramatically and this would have created deflation with worldwide repercussions.

As we know, these consequences were then partly avoided thanks to the Marshall Plan and massive American aid for reconstruction in Europe.

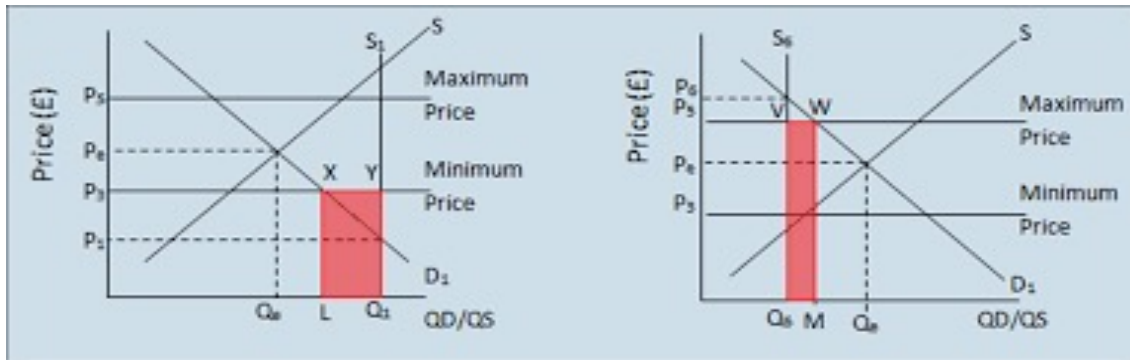
The 'gift' argument is presented along the lines of an argument very similar to that of the *Economic Consequences of Peace*. Keynes writes in a Memorandum of March 1945.

"It is only through a more comprehensive agreement, which attempts to offer everyone what is *reasonable*, and as far as we can, fair that the financial consequences of the war can be liquidated" (CWK XXIV, pp. 291-292).



Buffer Stocks

Through intervention in the buying and selling of chosen commodities, within a pre-determined corridor within which to maintain the price of any given commodity, volatility would be reduced and supply would be made more fluid. The point is that these policies were not meant to interfere with long-term market forces, but only to prevent price fluctuations of a temporary or speculative nature.



Between 1942 and 1944, Keynes's proposals on the control of raw materials through an international collaboration agreement, the *Commod*, were widely discussed and debated, but eventually dropped, because they went against special interests.

The *Clearing Union*

The proposal for an *International Clearing Union* to promote free trade, harmonisation of individual countries' interests, and global economic development.



The *Clearing Union* was to credit each country with a sum proportional to each country's volume of international trade. This sum would be expressed in *Bancor*, a pure unit of account, a world currency distinct from the national currencies issued by each country, for domestic use.



As is well known, Keynes was defeated and the monetary system that emerged under the auspices of the International Monetary Fund was not the Keynes plan, but that of the US Treasury Secretary, Harry Dexter White, based on the dollar.



Hope

Whether it is a matter of dealing with a pandemic or seizing the opportunities presented by the current crises and social upheavals, the pursuit of individual self-interest by single nations through competition and the commercial rivalry of multinational corporations will have to give way to the construction of rules and institutions that oversee the free flow of private initiative and the freedom of markets, going beyond the individual point of view to look to the collective well-being.

The principle of reasonableness invoked by Keynes will hopefully be the guide to pursue it.

