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On “Fear of Goods” in Keynes's Thought

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Abstract

Offering a view of the other side of the liquidity-issue, the paper elaborates on the concept of “fear of goods” in Keynes’s thought. It therefore illustrates numerous evidences of “fear of goods” in his economics, and aims to show that the notion might be considered as playing a quite important role in establishing connections between ideas that are apparently only weakly related. The article fosters an interpretation of the development of Keynes’s theoretical arguments and proposed policy instruments for both domestic and global economy, as reactions to the “fear of goods” of capitalism, which Keynes saw as an inborn propensity of monetary economies of production.

Keywords

John Maynard Keynes; capitalism; fear of goods; international economic order; commodities plans

1. Introduction

In Chapter 23 of *The General Theory*, Keynes expresses admiration for mercantilists. He refers to the Heckscherian concept of "fear of goods" (*The Collected Writings of John Maynard Keynes*, hereafter CW, Vol. 7, p. 346) to synthetize mercantilists' success in perceiving "the existence of the problem without being able to push their analysis to the point of solving it" (p. 350). Heckscher (1955[1931], Vol. 2, p. 57) famously wrote that in a monetary economy, "from the producers' point of view … the danger then lies in having too much, in not being able to dispose of the goods, and in having them remain in one's hands; while the object is to rid oneself of them as fast as possible. Under the influence of such ideas there arises a sort of fear of goods". Keynes borrowed in particular the idea that, as Heckscher's (1933, 337) maintained, a strong belief can emerge that commodities are fundamentally "a nuisance and a danger, especially as a cause of unemployment". Positively impressed by their awareness of the strictly "nationalistic" character of their policies, he praised mercantilists for having drawn attention to the notions of overproduction, insufficient aggregate demand and money hoarding, as well as to the non-self-adjusting tendency of the rate of interest and the idea that scarcity of money can lead to unemployment. Still, what mercantilists saw as the solution was to Keynes part of the problem, if not one of its most troublesome manifestations, and rather a more general issue, transcending the specific realm of international relations, of capitalism itself as an economic system (an unjust one, which may eventually fail "to deliver the goods").

Offering a view of the other side of the liquidity-issue in Keynes's thought, the paper wants to elaborate on the significance of the notion of "fear of goods" to his economics. In general, it aims to show that Keynes saw in it an inborn propensity of a monetary economy of production (wherein the barter analogy is an illusion), and therefore that the development of various theoretical arguments and proposed policy instruments in his economics may be (also, or to a certain extent) considered as reactions to the "fear of goods" of capitalism. Also given the freedom wherewith Keynes borrows the concept from Heckscher, the line of reasoning here proposed necessarily involves the difficulties inherent to exploring new research paths. The expected outcome is the identification of connections between concepts and directions in Keynes's thinking that have been neglected or undervalued in the literature. The paper builds upon the centrality of Chapter 17 of *The General Theory* in both Keynes's masterwork and, more in general, in his attempted revolution. In what follows, we generally argue that fear of goods primarily affects what Keynes calls "enterprise" and investments: it thus impairs the working of the market for goods, as well as of commodity markets. Whereas liquidity preference primarily concerns the money market and consequently money as store of value. It is in this sense that the paper might be said to employ the theory of liquidity preference as the other side of (and the outcome of recurring theoretical reflections on) "fear of goods" and related phenomena in the real markets for goods and commodity markets, which in the end made Keynes operationalize the complexity (as against the simplicity of the classical arguments) of the environment inducing inaction as regards investment.

With this aim in mind, the paper presents numerous "evidences" of the significance of the problems capitalism seems to have, in Keynes's vision, with the holding of goods. In so doing, it continuously delves into the exploration of how various dualities, not to speak of conflicting antagonisms, shape Keynes's reasoning about the troubles of capitalism, at both the domestic and the international level. Dualities opposing real goods and commodities to money (reconciliation occurs uniquely in negative, "love of money" finding in "fear of goods" one of its manifestations), enjoyment of life to purposiveness, enterprise to unproductive rentier-like attitudes and speculation, hoarding to investment. The article thus ends up with proposing "fear of goods" as a connection between, in particular, Chapters 17 – "The Essential Properties of Interest and Money" – and the "Notes on Mercantilism" of Chapter 23 of *The General Theory*, with Keynes's anti-utilitarian ethics and his defence of policy space at the international level on the background. In other words, a connection between Keynes's revolutionary analysis of domestic economies in terms of "monetary economies of production" and his struggle to establish a "sounder political economy between all nations", which Keynes – as we will see – conceived also, and importantly, as the truly *international* alternative to the *national*-in-essence solution offered by mercantilism to the shortcomings of the gold standard.

We proceed as follows. We first summarize (section 2) Keynes's discussion of mercantilism in the *General Theory*, and the use he there makes of Heckscher's notion of "fear of goods" to explain the rationale of mercantilism. We then turn (setion 3) to Keynes's analysis of the problems of capitalism with goods at the domestic level, using the taxonomy of commodities' attributes introduced in Chapter 17 of *the General Theory* (yield, carrying-costs and liquidity) as guide. We thus revisit Keynes's argument, in *A Treatise on Money*, about markets' inability to bear the (eventually) enormous risks of holding goods and commodities, despite the "tremendous pressures" they exercise on the market (3.1). A discussion follows of "the essential properties of money" and of the fundamental role (money) interest rate play in explaining the existence of involuntary unemployment, thereby neutralizing as irrelevant the classical theory of the interest rate (3.2). Section 3 concludes with an analysis of "love of money" and "fear of goods" as socio-psychological attitude (3.3). A crucial topic of Keynes's vision of capitalism, touched upon in virtually all his writings is in fact the power of "love of money" with the corollary of the ubiquity of the "test of money measurement". These are shown to induce individuals to sanctify saving and abstain from the enjoyment of goods (which is rather feared of, owing to the obstacles it poses to the dominion of purposiveness).

It is not difficult to see that in Keynes's economics, all problems variously related to fear of goods (in commodity markets and the markets for goods), which is, in the sense outlined above, the other-side of the liquidity issue (in the money market), entail public bold action for their solution. The issue is explored in section 4. "Concerted actions", as Keynes defines them in *A Treatise on Money*. In domestic economies, fear of goods causes difficulties to tolerate stocks of durable as well as liquid capital goods, and may finally paralyze enterprise – it can prevent the productive social group of entrepreneurs, who are usually borrowers, from contributing to reach full employment by ensuring an adequate volume of investment. Now, Keynes's explicit reference to "fear of goods" is in the only chapter of the *General Theory* specifically dealing with the international dimension. The paper therefore concentrates on the relevance of a "fear of goods" mentality and the fallacy of the mercantilist solution when transformed into the general rule of the international system. We thus emphasize the connections linking Chapter 17 to Chapter 23 of *The General Theory*, and these latter to Keynes's global reform plans, so as to demonstrate the overall coherence of Keynes's project. His advocacy of managed money, his proposals of internationally managed buffer stock schemes and his plan of an International Clearing Union are therefore investigated as pieces of a general mosaic. An international system, that is wherein trade is prevented from being a device for exporting unemployment, and policy space (national autonomy *à la* Chapter 23 of *The General Theory*) is protected from the most harmful effects of globalization. In so doing, we show that this peculiar perspective makes it possible to read Keynes's reform schemes also as the practical outcome of his strong commitment to overcome the troubles of mercantilism as possible general rule of a zero-sum international economic system. Section 5 concludes.

2. Keynes on mercantilism in *The General Theory*

It is well known that Keynes renders homage to mercantilists (those who believe, in his words, that “there is a peculiar advantage to a country in a favourable balance of trade, and grave danger in an unfavourable balance, particularly if it results in an efflux of the precious metals”, CW 7: 333) in Chapter 23 of the *General Theory*. There is an “element of scientific truth” in the mercantilist doctrine, Keynes argues, though subject to two important qualifications. In general, he writes, reaffirming the central message of his own analysis at the beginning of the chapter (p. 335), and then discussing the mercantilist position in support of his own thesis during the course of the chapter, “the weakness of the inducement to invest has been at all times the key to the economic problem” (347-8). Such inducement may derive either from home or foreign investment, depending respectively on the rate of interest and the balance of trade. Since the rate of interest, assuming stable wage-unit, liquidity-preference and banking conventions, is governed by the quantity of precious metals, and this latter mainly depend on whether the balance of trade is favourable or unfavourable, mercantilist rightly pointed to the balance of trade itself, when turning to policy, as both a direct and an indirect means of increasing aggregate investment.

Keynes recognises that mercantilist thinkers may not be fully conscious of the theoretical grounds on which their recommendations were based. Here is where Heckscher’s “great work” (341) on mercantilism, published in English in 1935, comes to help: the core of the chapter is built upon direct quotes from Heckscher’s volume. According to Keynes, first, mercantilists rightly denied that the rate of interest had a tendency to adjust itself to the level required to boost investment. Rather, their policies aimed at increasing the quantity of money so as to reduce the height of the interest rate, and at diminishing liquidity-preference, for hoarding likely eliminates the effect of the influx of precious metals on the rate of interest. Second, mercantilists had full awareness of the dangers of excessive competition and of “the fallacy of cheapness” (345). Third, “the mercantilists were the originals of ‘the fear of goods’ and the scarcity of money as causes of unemployment which the classicals were to denounce two centuries later as an absurdity” (346).

Finally, mercantilists were also aware that the proposed solutions to the problem of unemployment were strongly nationalistic in character: “it was *national* advantage and *relative* strength at which they were admittedly aiming” (348) when venerating exports for the wealth they ensured and treating selling as an end in itself (in Heckscher's reconstruction: see Groenewegen 2005). A "realism" Keynes praises the virtues of, if compared to "the confused thinking" of the supporters of the gold standard and laissez-faire in international lending, which they believed to be conducive to peace. This was the first aforementioned qualification. The second was that mercantilists had "perceived the existence of the problem without being able to push their analysis to the point of solving it" (350). Paradoxically enough, mercantilists and supporters of the combo gold standard – laissez-faire in international lending attained the same result. With the aggravating problem, for these latter, of precipitating the world into a spiral of aggressive behaviours while pretending to act in behalf of peace. "Never in history was there a method devised of such efficacy for setting each country's advantage at variance with its neighbours' as the international gold … standard" (349). Prosperity, in such system, directly depends on "a competitive pursuit of markets and a competitive appetite for the precious metals" (349).

It is true that while introducing "fear of goods" as third main element to be rediscovered in the mercantilist thinking, Keynes mainly devotes his attention to the scarcity-of-money argument. But "fear of goods" has been already – though not explicitly – used in discussing the first element, namely mercantilists' awareness that the rate of interest shows no automatic tendency to adjust to the level required. As Heckscher observes, Keynes in fact continues, mercantilists consciously "killed two birds with one stone": on one side, mercantilist countries get rid of "an unwelcome surplus of goods, which was believed to result in unemployment", Keynes argues closely following Heckscher's definition of "fear of goods" from the point of view of the producers (see in the above). On the other, they manage to increase the stock of money, at the same time, thereby fully benefiting from falling interest rates. Keynes uses the concept to strengthen his own remarks about the "chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest". In his words, "The desire of the individual to augment his personal wealth by abstaining from consumption has usually been stronger than the inducement to the entrepreneur to augment the national wealth by employing labour on the construction of durable assets" (349-50).

Now, Keynes has been highly criticized for the use he makes of the mercantilist doctrine (see Magnusson 1994) and the notion of "fear of goods" in *The General Theory* (see Groenewegen 2005; see also Perrotta 2004). Heckscher himself criticized Keynes both in an article of 1936 (Heckscher 1969) and, more vehemently, in 1946, in the second edition of *Mercantilism* (published in English in 1955), in a note titled "Keynes and Mercantilism" (vol. 2: 340-58). Briefly, Heckscher accused Keynes of ahistoricism – suffice to remark that mercantilists never referred to the concept of inducement to invest. It was false, Heckscher wrote, that mercantilists had derived their notions from "actual experiences", as Keynes claims (CW 7: 347) when introducing the well-known paragraph on the chronic historical tendency for the propensity to save to be stronger than the inducement to invest. Mercantilist writers did not base their doctrine on empirical research, nor were they presenting its validity as universal (Groenewegen 2005). According to other critics (Jacob Viner, Charles Wilson) Keynes is a victim of an "anachronistic trap" (Magnusson 1994: 46), leading him to believe that the real aim of mercantilists was full employment instead of, as it was, national growth and power. In spite of all this, as Magnusson (47) recognizes, "it is not so easy to dismiss Keynes as an interpreter of mercantilists". Full employment was indeed an aim of mercantilists, though as part of a wider project; and Keynes himself knew, and demonstrated to know, of the anachronism of his reconstruction (Magnusson rightly insists on the fact that Keynes does not put his own words in the mouth of mercantilist thinkers referred to in the chapter).

A caveat is warranted here: it is not our intention to evaluate the extent to which Keynes has been faithful to history. Nor, of course, is our aim to attempt to reply to the intriguing question related to the likely too encompassing meaning and scope of mercantilism as exposed by Heckscher (on which see Magnusson 1994), also in view of the structural difficulty of demonstrating the "unity" of mercantilist writings and of mercantilism as category or doctrine (see Blanc and Desmedt 2014). Rather, our hypothesis is that there must be a strong reason why Keynes feels free to use the mercantilist notion of "fear of goods" to support his arguments about inducement to invest, a notion which easily lends itself to criticism, owing to the intrinsic indeterminacy of its nature, its evocative power and the broad generalization it relies on. Keynes was somehow justified in turning the attention towards fear of goods when discussing mercantilism as policy, since despite some contradictions, the notion, as Heckscher's *Mercantilism* demonstrates, "was not only fully compatible with mercantilist economic doctrine; it underpinned their whole analytic outlook on policy" (Groenewegen 2005, 11). But *The General Theory* is a theoretical work written for fellow economists, not a blueprint for economic policy. And Keynes's interest in the notion is also a purely theoretical one.

It is in fact easily perceived that Keynes brings Heckscher and the mercantilists into another discourse, his own, and brings to the forefront inducement to invest, a concept that is never cited in the mercantilist literature (Groenewegen 2005). In so doing, it is noteworthy that he invokes Heckscher's reasoning as regards "fear of goods" to draw a parallel between mercantilists and himself in the struggle to escape the theoretical fetters of the classical theory. It is a persisting, natural "(underlying) attitude towards money", of which "fear of goods" is a somehow violent and extreme manifestation, that mercantilists managed to perceive and the classics to deny, by "introducing into their premisses conditions" – exactly as happens in the case of the "money-wage argument" dealt upon in Chapter 19, a fundamental illustration of Keynes's methodological criticism of the classical theory (see Carabelli and Cedrini 2014a) – "which involved its non-existence" (CW 7, 350).

The parallel then suggests that "fear of goods" cannot be taken as an auxiliary assumption, in Keynes's vision, and that it rather occupies a central position in explaining the troubles of liquidity preference. "Fear of goods", writes Heckscher and Keynes notes, is the most natural attitude of a 'natural man' in a money economy" (CW 7, 350), as made evident by an epoch "when money started to act as a 'cloak' disguising the real character of economic transactions" (Heckscher 1933: 337). Fear of goods, commodities being conceived as "nuisance", is a comparative notion in Heckscher's writings, the other element of a dichotomy opposing it to the medieval "hunger for goods", or "fear of scarcity" (Groenewegen 2005), driving consumption to the aim of "attract[ing] and retain[ing] the goods as much as possible" (Heckscher 1955[1931], Vol. 2, 56). Similarly, to a certain extent at least, Keynes is eager to demonstrate that the classical theory suffers of a barter illusion: a money economy is not a barter economy, this Keynes wants his readers to realize, while trying to persuade them that "fear of goods" is a natural attitude of the former. Exactly as, at the end of Chapter 17 of *The General Theory*, Keynes directly reminds us that we are not "safely ensconced in a Ricardian world" (244).

3. On the problems of capitalism with goods: the domestic-economy dimension

It is Keynes himself, as seen, to establish a connection between (the use he makes of) Heckscher's notion of fear of goods and the general problem monetary economies of production have with liquidity. In Keynes's view, producers fear goods, that is they fear less individuals abstain from consumption: the danger lies in having too much in one's hand. This causes producers' eagerness to get rid of goods which, at an aggregate level, might result in unemployment, all the more so since the classical "money-wage argument" is inherently flawed and too simplistic, as Keynes demonstrates by advancing his methodological criticism of the classical theory in Chapter 19 of *The General Theory*. Potentially the factor capable of remedying the gloomy prospects of deficient aggregate demand, weakness of inducement to invest thus becomes, on the contrary, a fundamental element in explaining the desperate need of a macroeconomic theory of aggregate behaviour willing and able to incorporate the complexity brought about by uncertainty and its impact on expectations.

If the classical theory fails to consider the possibility of underemployment equilibria, it is because it denies the monetary essence of the interest rate, which "plays a peculiar part in setting a limit to the level of employment, since it sets a standard to which the marginal efficiency of a capital-asset must attain if it is to be newly produced" (CW 7, 202). With its analysis of the peculiarities of money with respect to other goods in a monetary economy, Chapter 17 of *The General Theory* "comes in 222 pages into a complicated *theoretical* attempt to define unemployment equilibria as a potential resting point of a capitalist economy" (Lawlor 2006, 243). If Heckscher's "fear of goods" concept originates from the distinction between alternative "attitudes towards commodities" (as Heckscher called the opening section of part III of *Mercantilism*), Chapter 17 of *The General Theory* rests on a fundamental distinction of the three "attributes which different types of assets possess in different degrees" (CW 7, 225). They are: a yield or output *q*, produced "by assisting some process of production or supplying services to a consumer" (ibid.); carrying costs *c*, deriving from wastage or simply the passing of time, "irrespective of their being used to produce a yield"; and finally "liquidity-premium *l*", or "the power of disposal over an asset during a period", which "may offer a potential convenience or security"; there is "nothing to show for this at the end of the period in the shape of output", writes Keynes, but this power is "something for which people are ready to pay something". Keynes observes that while in the case of instrumental or consumption capital, yields tend to exceed carrying costs with negligible liquidity premium, liquid goods or surplus instrumental capital involve significant carrying costs without offering yields (liquidity-premium is normally insignificant, but may be important under specified circumstances). Money, finally, whose carrying costs are negligible, offers nil yield but substantial liquidity-premium.

3.1 *A Treatise on Money*: the difficulties of holding liquid and surplus stocks

Keynes had already touched upon the issue of the high carrying costs of commodities in Chapter 29 of *A Treatise on Money*, while dealing with fluctuations in the rate of investment. There, Keynes concentrates on "liquid capital", that is "the goods" – raw materials, commodities, final goods – "in stock, which are yielding nothing but are capable of being used or consumed at any time" (CW 6: 116). In other words, "surplus stocks" (104), redundant stocks, which are the result of miscalculations as regards the dynamics of demand and supply (overproduction) or of the decision to be able to profit from unforeseen future opportunities. Keynes is here discussing, in general, Hawtrey's theory of credit cycle as a "purely monetary phenomenon". Keynes's specific criticism concerns the difficulties of expansionary monetary policy in extracting the additional goods required to satisfy consumers without causing inflation. Hawtrey believes that "dealers in commodities who are holding part of their stock in trade with borrowed money are very sensitive to changes in bank rate and are easily induced to reduce their stock by a higher bank rate and to increase them by a lower rate" (117). In Keynes's view, "before the slump has touched bottom the decrease in working capital far outstrips any increase in liquid capital, with the result that the liquid stocks existing at the bottom of the slump only suffice to provide for the very earliest stages of the recovery" (118).

Of particular interest for our purposes is that the (three) reasons why the fluctuations of liquid capital cannot assist as required in compensating the fluctuations of investment in working capital include "the heavy costs of carrying them" (ibid.). Carrying costs derive from four factors: first, deterioration in quality and suitability (a problem of "unpredictability of the precise specifications which will be required when demand recovers", 121), which causes that such goods "cannot be carried in stocks except at the risk of such heavy loss"; second, warehouse and insurance charges (lack of storage facilities); third, interest charges; fourth, remuneration against the risk of changes in the money value of the commodity. As regards this last point, Keynes observes that the risk is unpredictable: "the anticipated normal price, and also the length of time which will elapse before stocks are absorbed, are matters, not of certainty, but of conjecture" (ibid.). "Here there is a risk which someone must bear" (ibid.), writes Keynes, adding that the price must fall by a great amount if it is to provide the carrying charges for the period before the stock is reabsorbed, and the incentive to speculators to hold stocks of commodities (and run the related risk) with them.

For speculators, who in organized markets act essentially as risk-bearers (Fantacci et al. 2012), this rate of anticipated profit is surely "very high" (CW 6: 123), Keynes observes. For instance, "six months' stocks of an important commodity represent an enormous sum of money", while "the amount of capital available for speculative operations of this kind is limited". Moreover, in case of slump, "outside speculators are discouraged and timorous, whilst professional dealers in the commodity are impoverished" and cannot tolerate "considerable" brokerages and other dealing expenses, "even in the broadest and steadiest markets" (ibid.). In sum, Keynes is directing the attention towards peculiar commodities, requiring strategic treatment by specialised dealers in organised markets, which may be inexistent, as inexistent are futures or complete markets. Speculators cannot bear the risk related to long term holding period stocks, and price fluctuations should be simply too high, to allow them to bear it. Moreover, markets present a "short-period organisation" (125) which cause redundant stocks to exercise "a disproportionate effect on prices and therefore on new production: such stocks exercise a tremendous pressure on the market to get themselves absorbed as soon as possible" (ibid.).

Forward markets do exist, however, for some, at least, of the goods that make up liquid capital: commodities and raw materials. Still, these are markets characterized by excess supply and redundant stocks: the "normal conditions" (that is, when demand and supply are balanced, 128) which should ensure backwardation, are in truth not present (Fantacci et al. 2010). Forward prices rise therefore above the spot prices, creating a "contango" (129) equal to the sum of the costs of warehouse, depreciation and interest charges of carrying the stocks. Therefore, the existence of futures markets does not prevent, and might not be sufficient to avoid, significant fluctuations in spot prices, which due to contango, expose speculators to potential losses that are more likely and more costly; moreover, it raises further uncertainty (and risks to be bore) as to the fundamental prices of commodities (see also Rivot 2014). To conclude, in Keynes's words: "owing to the existence of high carrying charges of one kind or another, our present economic arrangements make no normal provision for looking after surplus liquid capital" (CW 6: 129-30). To use words that are more evocative, "our present economic system abhors a stock of liquid goods. If such a stock comes into existence, strong forces are immediately brought into play to dissipate it. The efforts to get rid of surplus stocks aggravate the slump, and the success of these efforts retards the recovery". This, Keynes remarks, introduces "an important factor of instability … into our economic life" (130).

In Keynes's vision, capitalism has a general problem with holding goods, and it has one with investing in capital assets, which include stock and commodities. A fear of goods that derives from the excessive, unbearable risks of carrying commodities, amplified by the conditions of radical uncertainty about the future in which economic agents – including those who *should*, in "normal conditions", be able to bear those risks – operate. Stocks are kept to a minimum, and cannot contribute to recovery. A possible response to this unsatisfactory state of affairs lies in what Keynes defined, in the *Treatise*, as "concerted action" (124). Someone has to manage money and commodities, as happened in wartime, when Governments directly held stocks: "in certain cases valorization schemes to provide by concerted action for the carrying of costs are inevitable and defensible" (126). For sure, laissez-faire is the problem, not the solution. In this regard, we below show that Keynes's proposals of buffer stocks agreement do deserve the attention they are currently receiving in a growing recent literature (having in Dimand and Dimand 1990 a relevant antecedent; see Fantacci et al. 2012, and Rivot 2014). Such plans provide in fact a powerful illustration of how Keynes's theory may effectively address the capitalist fear of goods.

3.2 *The General Theory*: liquidity, weakness of investment, speculation

In Chapter 17 of *The General Theory*, the high carrying costs of commodities are shown to play a fundamental part not only in delaying recover from a slump, as in the *Treatise*, but in causing underemployment and the related impossibility, in laissez-faire conditions, to escape a suboptimal equilibrium. This requires, as Lawlor (2006: 255) maintains, a generalization whereby all assets markets, either organised or not, exhibits dynamics similar to those illustrated in the *Treatise on Money* with regard to commodity markets. To the extent that Keynes is now concerned with "all asset qualities as inherent in themselves", as shown by the definitions offered for yield, carrying costs, and liquidity premium. Since it is impossible to derive profits from producing new capital goods whenever the rate of interest exceeds the marginal efficiency of capital, these latter are simply not produced. This owes exactly to the carrying costs of commodities, that are excessive if compared with money, which, on the contrary, offers the advantage of (much) higher liquidity. As Keynes remarks, "what matters is the *difference* between the liquidity-premium and the carrying-costs" (CW 7: 237); "and in the case of most commodities … the carrying-costs are at least as high as the liquidity-premium" (ibid.). In *A Treatise on Money*, Keynes had defined a liquid asset as "more certainly realisable at short notice without loss" (CW 6, 59); in *The General Theory*, as Hayes (2008: 21) notes, Keynes "places more emphasis on the words 'more certainly' in his *Treatise* definition, as the degree to which the value of an asset, measured in any given standard, is independent of changes in the state of expectation".

As said, in a monetary economy of production, a money-wage economy wherein the interest rate is not the *deus ex machina* providing stability to the system by adjusting investment to saving, barter, contrary to what classical and neoclassical economics maintains, is an "illusion" (Dillard 1988). "Factors of production", in a "money-wage economy" as distinct from a "real-wage economy", "are now capable of *hoarding* the asset in which they are paid" (Rivot 2014, 400). In a world characterized by uncertainty, in fact, especially as regards the prospective yields from investing in durable assets, money acts also as store of wealth, and liquidity (differently from risk) offers a premium which increases the "sense of comfort and confidence" (CW 29: 294). This peculiar concept is illustrated in the famous letter to Townshend of 1938, where Keynes, drawing on his *A Treatise on probability* (see Runde 1994), distinguishes between risk premium and liquidity premium. While risk premium, in fact, which Keynes associates with probability strictly speaking, "is expected to be rewarded on the average by an increase return at the end of the period" (293), liquidity premium "is not even expected to be so rewarded" (ib.). This is because Keynes associates this notion with what in the *Treatise* is defined as "weight of the argument", that is "the amount of evidence upon which each probability is founded" (CW 8: 312). Therefore, liquidity premium "represents the sacrifice to which we consent in terms of prospective yield to insure ourselves against a change of value of [the] asset because of a revision of our expectations – the extent of this revision being as yet unforeseen" (Rivot 2014: 403).

Liquidity, to Keynes, is the liquidity of money, not the "illusory" liquidity of financial markets (Hayes 2008). Money has peculiar characteristics with respect to other commodities: zero elasticity of production, zero elasticity of substitution, and, as said, it offers "true" liquidity, in the sense defined above (that is, liquidity defined in terms of independence or only weak dependence of money's value of changes in long-term expectations). Taken together, these peculiarities explain why the (money) interest rate “may be somewhat unresponsive to a change in the proportion which the quantity of money bears to other forms of wealth measured in money … demand may be predominantly directed to money” (CW 7, 234). It may be demand for idle balances, which owes to our distrustfulness in our own expectations or in the community’s expectations as estimated by the market. Organised financial markets make life easier by promising to ameliorate the state of our confidence in our own expectations, thereby reducing the precautionary motive for demanding money; but the very existence of financial markets make a dilemma arise. “So long as it is open to the individual to employ his wealth in hoarding or lending *money*, the alternative of purchasing actual capital assets cannot be rendered sufficiently attractive (especially to the man who does not manage the capital assets and knows very little about them), except by organising markets wherein these assets can be easily realised for money” (160-61).

In the chapter on mercantilism, Keynes observes that “the weakness of the inducement to invest has been at all times the key to the economic problem” (CW 7: 347-8). In the past, “risks and hazards of all kinds may have played a larger part” (348) than the “extent of existing accumulations” (ibid.), as Keynes himself shows in *A Treatise on Money* while reflecting upon the difficulty of holding stocks of surplus goods. In his writings concerning the Great Depression, from “The Great Slump of 1930” to *The General Theory* itself, risk and uncertainty truly play a fundamental role, when capital goods are produced with borrowed money (see Carabelli and Cedrini 2014b). He saw the “fundamental cause” of the crisis in “the lack of new enterprise due to an unsatisfactory market for capital investment” (CW 9: 131): this derived from the “attitude of lenders”, who asked for terms which were simply unbearable for borrowers, but also by the combined attitude of lenders and borrowers. A “wild gulf” (132) of ideas separated them, with the result that savings were used to finance losses instead of new capital works. “Borrower’s risk” (CW 7: 144), in the jargon of *The General Theory* – where borrowers, as always with Keynes, are the productive elements of the society – was “a real social cost”: to this, one should have added “lender’s risk”, as a “pure addition” and even a “duplication” of a proportion of borrower’s risk.

Uncertainty and risk cause investment to lie well below the social optimum. Reducing them would amount to raising income and employment, lowering liquidity preference and the demand for money, and finally, lowering interest rates. Lenders prefer a short-term habitat, which, in a society wherein economic prosperity "is excessively dependent on a political and social atmosphere which is congenial to the average business man" (162), goes to the detriment of the production of capital goods through borrowed money by entrepreneurs who act on the bases of long-term expectations about the future. In *The General Theory*, Keynes is much more explicit on the influence of uncertainty over investment decisions, which he believes to be simply overwhelming. The marginal efficiency of capital is the factor through which, mainly, "(much more than through the rate of interest) … the expectation of the future influences the present" (CW 7: 145). The rate of interest itself, being essentially a monetary phenomenon, is an expected magnitude, reflecting "the uncertainty of the future" (145, n1). "Uncertain knowledge" (CW 14: 113) compel investors to embark on investment as "way of life" (CW 7: 150), so that their decisions are the result of a complex of motivations made up of conventional judgements, intuitions, and "animal spirits".

3.3 Love of money, or on fear of goods as socio-psychological attitude

Keynes's focus in *The General Theory* is on the "social dangers of the hoarding of money" (161). It is not only that speculative markets "speculative markets … are governed by doubt rather than by conviction, by fear more than by forecast, by memories of last time and not by foreknowledge of next time" (CW 12, 238), as Keynes argued in his speech to the annual meeting of the National Mutual on 20 February 1938. Money is "a subtle device for linking the present to the future" (CW 7, 293), and if the classical theory has seriously misrepresented the role of money, this also owes to its attempt "to deal with the present by abstracting from the fact that we know very little about the future" (CW 14, 115). Markets fear goods, as shown in *A Treatise on Money*; individual agents fear goods, as shown in *The General Theory*; and men, in general, fear goods, in Keynes's view of capitalism. Or, at least, it seems reasonable to argue that the concept of "fear of goods" stroke a chord with Keynes as critical thinker of capitalism. Magnusson (1994: xxxii) observes that Heckscher's "fear of goods" concept has much to do with "money fetishism", for it is conceived to "reflect the transition from barter to money economy".

It is in socio-political essays like "Economic Possibilities for Our Grandchildren", in particular, that one can find tentative responses on the importance of "money fetishism" in Keynes's economics. On money fetishism is in fact based Keynes's critique of capitalism as an economically efficient system – or, more precisely, an "indispensable" (reported in Backhouse and Bateman 2006: 659) economic system that *has* to be efficient – which is however "morally inefficient" (ibid.). In Keynes's fully anti-utilitarian ethics (see Carabelli and Cedrini 2011), capitalism is simply necessary. To attain the universally and intrinsically desirable, ultimate ends and values of "speculative ethics", such as love, friendship, beauty, truth, and knowledge (the elements of Keynes's Aristotelian conception of good and happy life), material and institutional preconditions are required. Capitalism (accumulation, material progress, wealth generation) is indispensable to solve the "economic problem" (CW 9: xvii) of scarcity and want, thereby which is in its turn the precondition for human flourishing. Moreover, capitalism offers a stimulus to decentralization of initiative and taste, to personal independence as well as to internationalism (Backhouse and Bateman 2011).

But capitalism is morally questionable. It is intrinsically unjust, and is both based on, and the cause of bad instincts. A social system which is "efficient economically *and* morally" is one wherein "the area of monetary comparisons" is diminished, rather than increased, with respect to capitalism, as Keynes maintained in some notes on "love of money" of December 1925 (reported in Skidelsky 1994: 240-41). Capitalism rests on the use of a "test of money measurement [which] constantly tends to widen the area where we weigh concrete goods against abstract money. Our imaginations are too weak for the choice, abstract money outweighs them" (ibid.). Hence "the sanctification of saving" (ibid.), which is evidently the great enemy of Keynes's *The General Theory*, and the tendency to "sacrifice the present to the future", without being sure that the exchange is worthwhile (ibid.). Love of money becomes the rule. Not "love of money as a means to the enjoyment and realities of life" (CW 9: 329), but "love of money as a possession", favouring rentier-like behaviours, purposiveness and greed, "with the social appeal to the hoarding instinct as the foundations of the necessary provision for the family and for the future" (CW 9: 268).

Note the opposition between "concrete goods" and "abstract money", coupled with the one between love of money as an end and love of money as a means (and one can substitute "modern capitalism" for love of money in this sentence, to observe, with Keynes, that "regarded as a means [capitalism] is tolerable; regarded as an end [it] is not so satisfactory", CW 9: 329). In the *Economic Possibilities for Our Grandchildren*, of 1930, Keynes describes love of money (as a possession) as “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” (ibid.). Also for biographical reasons, Sigmund Freud is a major influence on Keynes (see Dostaler and Maris 2009, on which what follows rests). “Fear requires a definite object of which to be afraid”, famously wrote Freud in *Beyond the Pleasure Principle*, of 1920. Dostaler and Maris convincingly show how Keynes’s vision of the “economic problem”, with the related issues of purposiveness and liquidity, in particular, may be fruitfully analysed by means of the Freudian concepts of “fear of want” and “fear of death”.

The former, the fear of want, is the first fear, the fear of an infant, the fear of hunger, thirst and cold. A fear of scarcity, too, that men learn to control by the “reality principle”, the “economic principle of saving expenditure” (Freud 1911: 222). It is this fear that explains accumulation and growth. Given the essential properties of money in a monetary economy, however, this fear triggers the one of running short of money; the fear of want, in a capitalist system, is a fear of running short of money. And Keynes relates the love of money to the fear of death, by continuously referring (as Aristotle did, and as Heckscher himself did), in his writings, to the curse of Midas. Capitalism refuses death, and in so doing, it accumulates indefinitely. As Keynes observes when dealing with animal spirits in *The General Theory*, the “healthy man” must put aside “the expectation of death” (CW 7: 162). Hence purposiveness: “the ‘purposive’ man is always trying to secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time. He does not love his cat, but his cat’s kittens; nor, in truth, the kittens, but only the kittens’ kittens, and so on forward for ever to the end of catdom. For him jam is not jam unless it is a case of jam tomorrow and never jam today. Thus by pushing his jam always forward into the future, he strives to secure for his act of boiling it an immortality” (CW 9: 330). Hence, also, liquidity and preference for it, as a psychological propensity of men living in conditions of radical uncertainty about the future. “The possession of actual money lulls our disquietude; and the premium which we require to make us part with money is the measure of the degree of our disquietude”, writes Keynes (CW 14: 115). A “conventional or instinctive” feeling which operates “at a deeper level of our motivation”, with respect to our “calculations and conventions concerning the future”; “it takes charge at the moments when the higher, more precarious conventions have weakened” (116). Hence a paradox (see Dostaler and Maris 2009), directly or indirectly illustrated by both Freud and Keynes: by desiring liquidity, we refuse consumption and enjoyment. Yet the love of money can easily transform the mental comfort we derive from the possession of money itself into a nightmare of death, as exemplified by the myth of Mydas. But it is exactly because we fear death that liquidity is desired.

Now, to Keynes the social philosopher, write Chick and Dow (2014: 14), solving the economic problem meant providing "enough to allow for the good life to take precedence in our concerns over getting and spending. But as an economist, he was concerned to make the economic system work, and work better". This means that capitalism may sometimes fail even as technology, so to speak, devised by men to solve the economic problem. This is what Keynes meant in *National Self-Sufficiency*, of 1933: "the decadent but individualistic capitalism, in the hands of which we found ourselves after the War, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous – and it doesn't deliver the goods" (CW 21: 239). This apparently simple sentence – capitalism does not do what is required, it does not come up to expectations – may hide, in truth, multiple symbolic meanings. For it is true that the polemical target of the article, written at an epoch of prolonged depression, with the upcoming World Economic Conference in mind, was international laissez-faire, and the resulting "competitive struggle for liquidity" (CW 21: 40), on which we will come back later on.

4. On the problems of capitalism with goods: the international dimension

Keynes believed that solutions to problems variously related to "fear of goods" lie in concerted action. It is commonly argued that *The General Theory* lacks explicit policy suggestions, while another limitation is found in its closed-economy framework. It seems reasonable to argue, with Dimand (2010), that Keynes's revolution is in theory, not in policy. But Chick and Tily (2014, 696) are right in pointing at the practical aim of *The General Theory* as that of providing "fuller justification" for the monetary reform sponsored by Keynes in his career. He wanted the central bank "to run a policy of the cheapest money possible under a country's circumstances" (683). Monetary policy is thus a means to prevent recessions, with government spending as complementary support, while public works are mostly required to cure recessions themselves (see Tily 2007). The theory of liquidity-preference is a central element of both Keynes's macroeconomics and policy advice. Despite the fundamental importance of budgetary policy in ensuring full employment, liquidity and confidence are crucial matters for public authorities, as part of their general strategy of helping economic agents form reasonable judgments and expectations (see Rivot 2014). By adequately managing long-term expectations, monetary policy should set the "euthanasia" (CW 7: 376) of rentiers as its ultimate objective. As regards fiscal policy, this may assume a fundamental role, when the monetary transmission mechanism is damaged (see Skidelsky 2009). But in light of what precedes, "socialization of investment" may have primary importance. By providing stability, the measure lowers risk, eliminates moral hazard, thereby lowering lender's risk, and stimulates investment itself. In this regard, Keynes's own views about Capital Budget in the early Forties (see Chick and Dow 2014) deserve careful attention. It is in fact capital (instead of ordinary) budget that Keynes saw as the suitable public device for assuring the volume of investment required for full employment.

But the focus on the rate of interest (and on investment, see Meltzer 1989) as fundamental element of Chapters 17, 23 and 24 of *The General Theory* throws light on the need for "concerted actions" at the international level as well. The section on mercantilism in Chapter 23 closes with the sketch of a model of national behavior consistent with the general interests of the international system as a whole: it is the "twice blessed" (CW 7, 349) policy of regaining control over the interest rate, whereby countries could reach and maintain full employment and help their neighbors, at the same time, to achieve this same result. As Tily (2007) notes, capital controls are not only a fundamental ingredient of Keynes's desired new international system, but a corollary, to use Keynes's words, of the main policy suggestion of *The General Theory*: "the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world" (CW 25, 149). The fundamental policy implication of *The General Theory*, as well as the essence of the desired new global order, is that countries must have adequate policy space. The resulting right to "diversity of national policies" (CW 24, 608), to national autonomy, to heterogeneity, and the possibility of changing policies according to varying circumstances, require first and foremost the ability to set interest rates, as said, without undesired interference from outside (see also Kirshner 2009).

4.1 Keynes's Commod Control scheme

Keynes's proposal of buffer stock agreements is an important, though usually undervalued, element of his overall reform plans, and a direct illustration of what Keynes meant for "concerted action" destined to counteract the problems capitalism has with the holding of goods. As Fantacci et al. 2012 argue, Keynes was an active supporter of government storage of raw materials and foodstuffs. Already in 1926, he saw them as possible solutions to the "inability of the market to carry surplus stocks" (CW 29: 549), able to "supplement the deficient carrying power of the market" (550). But Keynes himself was the author of a buffer stock scheme, presented in 1938, and then of the "Commodity control" plan, for the Bretton Woods order, both aiming, in general, at stabilizing commodity prices with the expressed aim of reducing producers' risks and of smoothing the trade cycle (Dimand and Dimand 1990). In fact, as early as 1923 (as demonstrated by a memorandum on "Stocks of Staple Commodities" edited for the *London and Cambridge Economic Service*) was Keynes aware of the general character, so to speak, of the evils of price fluctuations (coupled with the preference for money as store of value) in commodity markets. Fluctuations in fact generate a significant demand for credit by both producers and traders, to cover carrying costs for the period until stocks reach final consumers. Rises in commodity prices thereby increase the cost of credit, and produce the conditions for a possible crisis (see Fantacci 2013).

In the 1938 scheme, the core of the *Economic Journal* article "The Policy of Government Storage of Foodstuff and Raw Materials", Keynes developed a scheme to promote private storage in public warehouses. Government storage, according to Keynes, could significantly reduce costs, and be cheaper than private storage (with lower risk of default, reduced borrowing costs, and relevant economies of scale; see Dimand and Dimand 1990). Depositors would be allowed special conditions: absence of warehouse charges (they would be subject to nominal charges only) and the possibility to profit from an (interest-free, or low-interest) advance by the government up to 90% of the market price of the stocked commodities. In Keynes's opinion, the scheme presented "the policy of holding liquid stocks of raw materials as a natural evolution of the policy of holding liquid stocks of gold outside the banking system" (CW 21: 469). Once indirect rather than direct (these latter consisting in lowered carrying-costs and price fluctuations, with significant increase in private holding of stocks) effects of such measures are considered, Rivot (2014) argues, the plan appears to achieve multiple objectives. First, future prices become more predictable, and the liquidity premium of commodities are greatly increased; second, private holders can now avoid insuring themselves against liquidity risk – the insurance premium results greatly reduced. In short, the proposal amounts to increasing the liquidity premium of surplus stocks of commodities, by raising confidence in expectations: while public authorities must lower the liquidity premium of money through adequate monetary policy, buffer stocks "aim ultimately to encourage the holding of redundant stock by the reduction of their carrying-costs, but above all through the rise of their liquidity premium" (Rivot 2014, 418).

The Commod Control proposal prepared by Keynes (between January 1942 and February 1943; see Hirai 2009) for the postwar period transfers this line of reasoning to the international level. The main idea was that international buffer stocks would limit price fluctuations for a set of key commodities. International organizations (Commod controls) composed by representatives of producing and consuming countries and managed by technical, independent experts would fix the initial basic price following the existing conditions and adjust it by selling and buying at a price within 10% below or above the basic price. Keynes had introduced the 1938 proposal of private storage in public warehouses noting that "it is an outstanding fault of the competitive system that there is no sufficient incentive to the individual enterprise to store surplus stocks of materials, so as to maintain continuity of output and to average, as far as possible, periods of high and of low demand" (CW 21: 456). Still, it clearly showed sign of Keynes's attempt to devise, to use words he himself later wrote in presenting the Commod control, "a middle course between unfettered competition under laissez-faire conditions and planned controls which try to freeze commerce into a fixed mould" (CW 27: 111). The Commod Control scheme is more explicit, in this regard. Stabilization should merely "avoid the dire consequences of free market mechanism" (Fantacci et al. 2012), which tends to ensure "the quickest, but at the same time most ruthless, adjustment of supply or demand to any change in conditions, however transitory" (CW 27: 131). But the aim was exactly the same, namely to increase the liquidity attached to commodity stocks.

4.2 The interwar period: on protection, and trade as a means of exporting unemployment

The explicit connections established by Keynes between the Commod control scheme and the plan for an International Clearing Union are not to be overlooked. As Fantacci et al. (2012: 463) maintain, "one of the main feature of the Clearing Union was to charge a fee on positive accounts of surplus countries, thus introducing a sort of carrying-cost on international money balances. The two institutions, Commodity Control and Clearing Union, were therefore intended as complementary and synergic solutions to the major causes of instability indicated in Chapter 17 of the *General Theory*".

This ideally brings us back to the problem of fear of goods in relation to mercantilism. Let us recall the above quote from *National Self-Sufficiency*, where Keynes states that capitalism may fail to deliver the goods. In the article, Keynes comes to accept national self-sufficiency as "a luxury we can afford if we happen to want it" (CW 21: 238). In his words, "there is no prospect for the next generation of a uniformity of economic systems throughout the world, such as existed, broadly speaking, during the nineteenth century; … we all need to be as free as possible from interference from economic changes elsewhere, in order to make our own favourite experiments towards the ideal social republic of the future; … a deliberate movement towards greater national self-sufficiency and economic isolation will make our task easier" (241). Now, the background picture is, as said, that of a decadent international capitalism, lacking a true global leadership, wherein self-regarding economic behaviours has become the norm, owing to the "selfishness and folly with which the international gold standard is being worked. Instead of being a means of facilitating international trade, the gold standard has become a curse laid upon the economic life of the world" (CW 20: 600). Creditors countries were acting as functionless rentiers, hostile to long-term investment and unwilling to lend their surplus "as Great Britain used to do in the past" (ibid.).

The only countries who could dispense with building up excessive reserves, in the interwar gold standard, were conversely hoarding resources, bringing about "a big increase in liquidity preference" (Skidelsky 2009: 180) at the international level. More precisely, however, they were deepening "fear of goods" attitudes. At least, this is what Keynes writes in an article of April 1932 divulging a "philosophic reflection on these matters" (CW 21: 78). To represent metaphorically the United States hoarding behaviour, Keynes told the story of "a Senator from the Middle West who cried in a loud voice to Europe: 'We do not want your goods. We will not have your bonds. We have already got your gold. What we want is your money'. The Senator may be mythical, but there still remained a logical alternative left to Europe which he overlooked, namely, for the rest of the world to get on as best it can without buying the exports of those countries which have an unbalanced creditor position" (ibid.). The solution Keynes had exposed in a previous article of September 1931, immediately after sterling's devaluation: on creditor countries "will fall the curse of Midas. As a result of their unwillingness to exchange their exports except for gold their trade exports will dry up and disappear until they no longer have any either a favourable trade balance or foreign deposits to repatriate" (CW 9: 247).

Mercantilism was the essence of the early Thirties: creditors had caused a "competitive struggle for liquidity" (CW 21: 42). Each government was trying "to make its international balance sheet more liquid by restricting imports and stimulating exports by every possible means, the success of each one in this direction meaning the defeat of someone else. Moreover every country tries to stop capital development within its own borders for fear of the effect on its international balance. Yet it will only be successful in its objects in so far as its progress towards negation is greater than that of its neighbours" (40). Keynes had already advanced, in the past, strong arguments against mercantilism, both as individual (defensive or aggressive) strategy and as widespread practice in an international system. In *Indian Currency and Finance*, of 1913, while proposing a European monetary reform along the lines of India's gold exchange standard, he had criticised the "prejudice" about gold reserves stemming directly from ("various stirring of") "the original sin of mercantilism" (CW I: 125-26). Discussing the irrationality of India's exchange reserves policies, he argued that gold reserves are to be used, not shown, "in times of difficulty, and for the discharge of pressing obligations" (125). Still – note that he would have made the same point ten years later, in *The Monetary Reform* – "wonderfully few . . . countries have yet learn that gold reserves, although no doubt they serve some purpose when they are held for show only, exist to much better purpose if they are held for use also" (ibid.).

Keynes had described the enormous accumulation of gold reserves before the 1914 crisis as the combined result of "blind fashion" (CW 11: 312) and of pre-war currency arrangements: his aim was to promote a monetary reform imposing "schemes conceived by the mind" on "undesigned outcome[s] of instinct" (CW 17: 453). But the above-mentioned condemnation of creditor countries in the early Thirties have other antecedents in Keynes's approach to international finance at the end of World War I, wherein one can find the bases of his criticism of mercantilism as *modus vivendi* in an international setting. While advancing his proposal of Inter-Allied debts cancellation as means of solving the problem of German reparations and revamping international trade on sound bases, thereby contributing to European recovery, Keynes warned the United States that the policy of exacting payment of Allied debts would have finally damaged America's own interests (in general, see Carabelli and Cedrini 2010a). The United States should be prepared to "scrap" her own export industries, without even being sure that the Allies would pay (CW 17: 274). The same for European creditors: by "milking" Berlin, obliging Germany to develop a trade surplus to pay reparations, the Allies would have damaged their own export industries, to the detriment of their own workers.

And Keynes did his best as negotiator to overcome the impasse of food supply to Germany (the French position was that Germany should not use for food foreign reserves or gold that might be available for reparations) at a time of naval blockade on the part of the Allies, at the beginning of 1919. It is Keynes himself to explain his role in the episode in *Dr. Melchior. A Defeated Enemy* (see also Elcock 1975). The episode involved a typical "fear of goods" problem: the armistice left the Americans with redundant surpluses of grain, pork, oils and diary products, which should be disposed of, to avoid collapses in domestic prices (Broehl 1992). It was Keynes to unblock the impasse, by persuading Lloyd George to struggle French resistances. Curiously enough, Keynes offered a vivid ironic representation of the American surplus pork as conceived by Hoover, later president of the United States, at the epoch Food Administrator. The passage perfectly symbolizes the nature of such surplus as unwanted, and something to fear: "when Mr Hoover sleeps at night", Keynes wrote, "visions of pigs float across his bedclothes and he frankly admits that at all hazards the nightmare must be dissipated" (CW 16: 394).

In 1919, Keynes argued that without an all-round cancellation of Inter-Allied war loans, "a serious obstacle will exist to future trade relations between the Allies (424): Britain should necessarily attempt to stimulate exports to the United States and imports from the Allies, and therefore oppose trade flows in the opposite direction. *Tertium non datur*: London should choose, in the future, between importing US goods and repaying interests on the American

Debt. “If we are to be repaid, we can only be repaid in goods; if we are to repay, we can only repay in goods; which means that trade must be mainly one way” (ibid.). A schizophrenic America, determined to exact payment of the European debts but undisposed to renounce its policy of export stimulation, should then inevitably choose between debt forgiveness and “buy more and sell less” (CW 17: 275). A “severe” rather than moderate readjustment, “injurious to important interests” (276), would have compelled European countries to devalue their currencies and to “disorder” (277), as a consequence, US export industries. But the American foreign lending policy that, in the following decade, helped to smooth the required adjustment was only a memory in the early Thirties. Keynes forecasted that the undermining of creditor countries’ competitiveness would be the obvious effect of their mercantilist policies – a "response to their own request; – or, at any rate a case of poetic justice" (CW 21: 45). This time, the Americans had “willed the destruction of their own export industries … The United States had, in effect, set the rest of us the problem of finding some way to do without her wheat, her copper, her cotton, and her motor cars. She set the problem and, as it had only one solution we have been compelled to find” (CW 9: 248-49).

Now, it would be easy to retrace in *National Self-Sufficiency* Keynes’s solution for this generalized conflict, brought about by uncertainty and the prevailing of conventions – of which fear of goods, protection and accumulation of reserves are perfect illustrations. It is not so. In *National Self-Sufficiency*, Keynes exposes a philosophy of “practical protectionism”, as Radice (1988) aptly calls it, stating that full employment in national economies is the primary objective, and may even require, the case being, protection. Where “the case being” means that the international system may function in such a way as to repress, rather than safeguard, the policy space each nation requires to protect its social contract and manage its economy. Protection may go, therefore, in reaction to an interwar gold standard lacking responsible leadership and “submitting national wage-policies to outside dictation” (CW 26: 33).

But fear of goods, at the international level, is a problem in need of a solution: mercantilism is a wrong solution stemming from a correct analysis of the problems of capitalism. It may work in the short run and as individual solution, but yields in the longer run, when it proves to be a self-defeating strategy. In *The General Theory*, Keynes presents it as a possible way out of the “dilemmas of the international system” dealt with in *A Treatise on Money*, opposing the advantages of the stability of national currencies in terms of the international standard to the benefit of national autonomy over the domestic rate of interest. In modern jargon, says Kregel (2008), the dilemma concerns exactly policy space. The true solution to the dilemma, however, lies in the core of *The General Theory* itself: "It is the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum level of domestic employment which is twice blessed in the sense that it helps ourselves and our neighbours at the same time. And it is the simultaneous pursuit of these policies by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment or by the volume of international trade" (CW 7: 349). However, the heterogeneity of policy required to implement such national programmes in an international environment demands, in its turn, "international management", without which "the task of individual governments would become indefinitely more difficult". Countries need to operate "within a framework of international institutions planned and managed for the common good" (Cairncross 1978: 46).

Now, Keynes presents the results of the application of *The General Theory* to the international environment in the terms of a radical alternative to mercantilism. "If nations can learn to provide themselves with full employment by their domestic policy … there need be no important economic forces calculated to set the interest of one country against that of its neighbours … International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantages" (CW 7: 382-82). In short, fear of goods and mercantilism need to be eliminated. In this light, notwithstanding necessary qualifications on his actual support to this "philosophy" (on which see Skidelsky 2003), Keynes's references to Schachtianism in the proposal of an International Clearing Union (ICU; the first draft dates back to September 1941) cannot but strike the imagination.

4.3 The International Clearing Union, or on trade as exchange of goods against goods

Keynes presents the ICU as a satisfactory approach to the "secular international problem" (CW 25: 21) of disequilibria in the balance of payments, which only the reasonableness of Britain as world creditor and leader had succeeded in solving during the harmonious pre-war gold standard. The "intensive laboratory experiment" (ibid.) of the interwar period had offered only one successful attempt to get rid of those "laissez-faire currency arrangements whereby a country could be bankrupted, not because it lacked exportable goods, but merely because it lacked gold" (CW 25: 12). Keynes had in mind the system of bilateral payments agreements with capital controls established by Hjalmar Schacht, Hitler's Minister of economic affairs between 1934 and 1937, with European and Latin American countries, to conduct trade without foreign exchange, as an international barter centred on Berlin. What Keynes found revolutionary in the "Schachtian system", admittedly a source of inspiration for his own plans, was the clearing principle on which it rested.

True, having constructed the world economy of the gold standard, Britain had already come, de facto, to a Schachtian solution by 1940 (Skidelsky 2003), with the aim of fighting the war as financial pivot of the anti-Nazi alliance. Sterling area countries had in fact accepted to centralize reserves in London, and sterling balances were inconvertible into hard currencies; Britain had negotiated bilateral agreements with neutral countries in Europe and Latin America. And Keynes's appreciation of Walter Funk's "New Order", the post-war economic system imagined by the economics minister of the German government, must evidently be put in context. Keynes could but praise the virtues of a plan that, explicitly rejecting the laissez-faire solution, avoids imposing undue pressures on debtor countries, and prevents undesired capital flows from debtor to creditor nations. Moreover, as Mini (1994) has observed, Keynes's Schachtianism owes to the need to imagine a world left alone by the United States, which he felt, with pessimism, after his 1941 visit to the country (Moggridge 2002). But Funk's plan – Germany would establish a payments union with fixed exchange rate and free multilateral trade (made possible by the clearing principle) within the area; imports from the United States would perfectly matches in value exports from the area – had in Keynes's view a meritorious potential. That is, it revamped "the virtue of free trade", which depends on "international trade being carried on by means of what is, in effect, *barter*" (CW

25: 8), whereas "after the last war *laissez-faire* in foreign exchange led to chaos" (ibid.). Keynes saw in fact the "essence of the [New Order] system" in "trading goods against goods" (12).

In a draft attached to the *Proposals to Counter the "New Order"*, and later in a letter to Ashton-Gwatkin of the Foreign Office, Keynes exposed his desiderata for the post-war system, clearly inspired to the "sound and good idea" (8) of Schacht and Funk. Remarkably, in describing how to adapt Funk's plan to a Britain-led non-authoritarian scenario, Keynes made reference to the clearing principle to foster multilateral free trade within the area. Britain "will open all our markets to every country, great or small, alike, and will give equal access for each to every source of raw material which we can control or influence, on the basis of exchanging goods for goods" (12). And London would act so as to promote employment in other countries, by "radical measures" (ibid.). Moggridge (1992) is right in regarding the plan as an anticipation of the International Clearing Union. For the purposes of the present article, the process that led Keynes to recommend the adoption of the ICU plan is remarkable also for other reasons. The story of the planning of Keynes's schemes for global reform intertwines with that of his attempts to secure American financial assistance to the new alliance against Germany. In a 1939 memorandum destined (but never sent) to President Roosevelt, Keynes endeavours to establish a principle of "common cause" for the new financial arrangements between the Allies. His suggestion to the "Four empires" was to establish a "joint purchasing board for the proper regulation of prices and profits" (CW 22: 26) based on a structure of interest-free credits. America's credits should not be repayable, he added, for they "should constitute a part of the contribution of the United States to the post-war reconstruction of Europe" (27).

Remarkably, Keynes asked the United States to support a plan of 'unprecedented generosity' (28) – words directly borrowed from the *Economic Consequences of the Peace*, and with the same intention, that of persuading the United States of the need of an "act of farseeing statesmanship" (CW 2: 93; see Carabelli and Cedrini 2010a). The Americans should provide further gold resources as a "measure of responsibility ... for the terms of peace" (CW 22: 28), to be used as bank reserves in the countries to be reconstructed. On that occasion, Keynes branded the existent American gold stock as "lunatic" (27). The same term he had used to explain preference for liquidity (and stigmatize, at the same time, rentiers-like attitudes) when wondering, "why should anyone outside a lunatic asylum wish to use money as a store of wealth" (CW 14: 116). The United States did not accept to be part of the scheme. But all this is indicative of how Keynes regarded the gold stock accumulated by the Americans in the intewar period. An element of the Funk plan he certainly liked was that the American gold stock would become useless in the New Order. After all, as Keynes himself had observed, "the U.S.A. already hold the greater part of the gold in the world. The only value of gold is as a means of settling international balances. If the convention – for it is no more – by which gold is used for this purpose comes to an end, the U.S. Stock of gold becomes valueless. But the convention depends on not all the gold being in one hand. When in the game of 'Beggar my Neighbour' all the cards belong to one player, that is the signal for the game to come to an end. The pack becomes worthless paste-board; the fun is over" (CW 22: 25-26).

All this serves also to say a few words about the relationships between the Commod Control plan and the ICU. This latter aims at multilateralizing international imbalances. The ICU issues a newly created bank money (bancor) as the new international unit of account destined to serve as the ultimate reserve asset of the system. Bancor can be held only by central banks of participating member states and be exchanged between central banks and the ICU itself (so that individuals cannot hoard it as a store of value). Member countries keep therefore their national currencies domestically, but are assigned a current account denominated in the new standard, without having to previously subscribe capital to the institution. The idea behind the plan is to apply to the international level the essential principle of banking of "the necessary equality of credits and debits, of assets and liabilities. If no credits are removed outside the banking system but only transferred within it, the Bank *itself* can never be in difficulties" (CW 25: 44). Each nation can draw up to its own bancor quota, equal to half the average value of its total trade for the last five pre-war years. Deficits and surpluses are settled through centralized clearing accounts: the ICU grants credit in the form of overdraft facilities that finance trade deficits and thereby help global trade to expand on multilateral bases. The ICU can thus create reserves in such an amount as to accommodate the needs of international trade from surplus to deficit countries.

Ultimately, the plan aimed at reabsorbing imbalances. Creditors should therefore share the adjustment burden with debtor countries, as the only possibility to "make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces" (CW 25: 449). Therefore, the scheme allows and, the case being, requires creditor countries to revalue their currencies and unblock foreign investments. Credits exceeding in amount a quarter of their quota are charged rising interest rates; those exceeding the quota itself at the end of a year would have been directly transferred to the ICU. Symmetrically, debtor countries are allowed or asked to devalue their currencies, to sell gold and to prohibit capital exports; their excessive debts are charged interests, though lower than those applied to creditors' excessive balances. The proposal envisages therefore fixed but adjustable exchange rates.

As Keynes himself observed, everything in his plan was ancillary to the re-establishment of multilateralism. To secure this result, he believed it necessary to prevent rentier-like forms of behaviour, by making the possession of capital of little, if any, importance. Creditors were asked to use, or make available to deficit countries for purposes of adjustment, those resources that they may otherwise leave idle. But they would be free to choose how to employ surpluses – expansion of credit and domestic demand, wages increase, abatement of trade restrictions or foreign lending for development – and would gain access to wider markets, while exerting "an expansionist, in place of a contractionist, pressure on world trade" (CW 25: 74; see Davidson 2009). Now, Keynes's holistic approach to the problems of international economic relations endows the world with a veritable "global macro-manager" (Skidelsky 2005: 21). The ICU scheme included a series of ancillary international institutions engaged in combating the evils of the trade cycle, to be financed by extra overdraft facilities, transfers from the Reserve Fund of the ICU, and by direct contributions by surplus countries. Keynes envisaged a Relief and Reconstruction authority, a Board for International Investment or Development Corporation, a Super-national policing body; and, finally, the scheme for commodity stabilization.

As Harrod observed, the synergy between the ICU, the Commod Control and the International Investment Board was quite natural: rather, "it is clearly important", he argued, "that the measures devised by each of the three institutions should be part of a common concerted policy" (reported in Fantacci 2013: 25). Concerted policy: the solution to fear of goods. "Together with the Clearing Union and the Investment Board, the Commod Control would have been an instrument of monetary policy. The buffer stock would have acted as a sort of official reserve: an increase would have implied a monetary expansion and any decrease a contraction" (Fantacci 2013: 25). The Bank of England strongly opposed the idea that the ICU could fund the buffer stocks, claiming that creditor countries should not be obliged to entrust the newborn ICU with their reserves, all the more so if locked up in commodities. As Fantacci (2013) explains, however, the Bank was here completely missing the revolution of Keynes's plan. Which is, in our view, the revolutionary result of his multidimensional struggle against fear of goods. Credits, in fact, "only arise thanks to the existence of the clearing centre: just as the latter affords debtor countries the facility of spending money that they have not previously earned, symmetrically it allows creditor countries to sell goods or services that they would not have otherwise been able to sell. In other words, the 'reserves' kept with the clearing centre exist only thanks to the clearing centre itself. That said, if part of those assets are backed by commodities, it should be all the better for the safety of the creditors" (Fantacci 2013: 26). And the world, we add, would have killed two birds (perhaps more) with one stone.

5. In guise of a conclusion

A concept borrowed from Heckscher without excessive consideration for the accuracy of the historic reconstruction proposed in *The General Theory* chapter on mercantilism, "fear of goods" may be considered as an encompassing notion, establishing strong connections between concepts that are apparently only weakly related in Keynes's thinking. Keynes's overall work against the "economic problem" can be also regarded as the predisposition of theoretical and practical weapons wherewith to fight the struggle against the multiple manifestations of "fear of goods" in a capitalist economy. The literature has rightly insisted on liquidity preference, and in general, the troubles caused by liquidity itself as a characteristic of money in a monetary economy of production. When however such problems are considered by privileging their "real" side in the markets for goods and commodity markets, as the concept of "fear of goods" induces to do, Keynes's peculiar line of reasoning about the problems capitalism has with goods can emerge, clearing up relationship between interconnected aspects that have traditionally been considered separately. The main contribution of this paper lies in addressing such problems starting from the goods themselves, and in emphasizing the social costs of fear of goods, in terms of rising risks and uncertainty. All reservations must be made concerning the intrinsic ambiguity of the notion, all complications must be considered arising out from the fact that Keynes borrowed the expression from Heckscher, and all the deriving qualifications must be enumerated about the possibility to use this very concept as attractor. But the focus on "fear of goods" throws light on the connections between Chapter 17 of *The General Theory* (with, on the background, Chapter 29 of *A Treatise on Money* and Keynes's more general reflections on the contrast, nurtured by capitalism and purposiveness, between money, on one side, and commodities and goods on the other) and Chapter 23. That is, between the domestic and international dimension of the troublesome treatment of goods and commodities in modern capitalism.

Keynes's philosophy of solution to these evils rests on the concept of concerted action, at both the domestic and international setting. While the literature tends to concentrate on socialization of investment and anti-rentier monetary policy, this paper has focused on the more specific but illustrative proposal of buffer stock agreements to counteract "fear of goods" directly. But once the concept of "fear of goods" is relied upon to "re-embed" Keynes's notes on mercantilism into the general story of *The General Theory*, concerning the weakness of the inducement to invest in a monetary economy, then Keynes's global reform plans can appear in a new light. The paper has in fact reviewed the developments that led Keynes to the proposal of an International Clearing Union as (also) the quest for an alternative to mercantilism as *modus vivendi* in a global environment; one that offers a way out of the dilemmas of the international system, but cannot become the rule of the system itself. This also means that the closed-economy analysis of *The General Theory* has probably obscured the explicit and specific (rather than the obvious and indirect) importance of *The General Theory* in explaining the origins of the International Clearing Union Plan.

It seems reasonable to argue that the Bretton Woods world, shaped not by Keynes's reform plans but by Harry Dexter White's fully "American" schemes, has functioned nevertheless very well. This owes to the American pragmatism, which led the Administration to follow, *de facto*, Keynes's recommendations about the need of a responsible creditor at the international level. After defeating Keynes even in the negotiations of the American Loan (see Carabelli and Cedrini 2010b), the United States contributed to revive world economy by granting the Marshall plan to a distressed Western world, thereby helping Europe and Japan to adopt successful export-led growth policies. The mercantilist flavour, to a certain extent, of the adopted solution made a great service to world growth, both because, as said, the Americans accepted their responsibility of world creditor power (see Davidson 2009), and because the Bretton Woods system raised "embedded liberalism" to the status of guiding philosophy of global integration in the post-war period (see Rodrik 2011).

Conversely, the last decades of global history since the demise of the Bretton Woods system have witnessed a return to troubled economic dynamics of the kind of those Keynes tried to counteract in his work of international economist and negotiator. Thus, the Washington Consensus philosophy has produced "a global environment where *each* nation independently sees significant national advantages in a policy of export-led growth" (Davidson 2004-5: 213), despite the evident resulting fallacy of composition. It "has created perverse incentives that set nation against nation in a process that perpetuates a world of slow growth (if not stagnation) … [the] continuing U.S. Trade deficit has been, in recent decades, the primary (sole?) engine of growth for the rest of the global economy as the other nations of the world focus on policies that promote export-led growth as a solution to each nation's unemployment rates and stagnating rates of growth" (217). The current Eurozone impasse is de facto imposing the German mercantilist model (see Uxó, Paúl and Febrero 2012 for a discussion of Germany's "malevolent" mercantilism) to the whole continent, despite the practical impossibility to generalize it. This shows that "fear of goods" cannot be a solution, all the more so in an economic environment that has voluntarily adopted, with the triumph of the austerity doctrine, an explicitly anti-Keynesian model of *dis*embedded liberalism. In view of all this, an old, abused, and equivocal notion such as that of "fear of goods" as used by Keynes in his work might be really worth rediscovering.

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