G. M. MEIER
Emeritus Professor of Economics, Graduate Business School, Stanford University, U.S.A.

KEYNES AND GLOBAL GOVERNANCE

UDK 330.1KEYNES(063)=20

Keynes lived and worked during a period of international economic disintegration. In contrast, since his death, forces of globalization have been ascendant. But now many of the issues of global governance that confronted Keynes still remain to be solved. The overarching issue is: In a decentralized world economy, how is international economic order to be established? How establish norms? How evaluate and correct international economic conduct?

This paper explores the problem of global governance (section I) by examining Keynes' views during the inter-war period before Bretton Woods (section II), his role at Bretton Woods (section III), and finally, the future of global governance from the perspective of the past fifty years (section IV).

I. PROBLEM OF GLOBAL GOVERNANCE

During the post-World-War-II period, the internationalization of the economic system has accelerated. The internationalization of markets, international capital flows, international transfers of technology, internationalization of industrial organization, internationalization of communication and transportation—all these multifaceted forces are commonly summarized as constituting "globalization," interdependence," or an intensified process of "internationalization."

Economists applaud the process of globalization because it integrates economies, promotes competition, and yields a more efficient allocation of resources on an international scale. To a national policymaker, however, internationalization is troubling: it heightens the vulnerability of a nation to external developments. The distinction between domestic and international policies is eroded. Domestic autonomy in policymaking is subordinated to international policy considerations. National politics is therefore likely to oppose international economics. And when the domestic economic objectives of different nations clash, international tension and conflict arise, often resulting in a zero sum game among nations.

These conflicts give rise to competitive governmental policies. There are conflicts over markets. Each country would like free market access for its own exports. National governments, however, try to preserve domestic markets through protection for import-competing industries. To promote exports, subsidies may also be used. And access to some import markets might also be restricted.

There are conflicts over the terms of trade. Each country would like to improve its own terms of trade by raising its export prices relative to import prices. Countries may therefore impose tariffs on imports to reduce the import price, or may tax exports to raise their export prices.

Differences also occur over the terms of foreign direct investment. The host government would like to raise the benefit-cost ratio of foreign investment in its economy, whereas the foreign investor would like to raise the benefit-cost ratio for its own enterprise.

There are also conflicts over which country is to adjust to balance of payments problems. The deficit country may be unwilling to depreciate its exchange rate, suffer deflation in its national income, or impose direct controls over its foreign trade. The surplus country, in turn, may be reluctant to let its domestic currency appreciate in terms of foreign currencies, inflate its economy, or remove direct controls over trade. Each nation attempts to minimize the cost of adjusting to a balance of payments problem by avoiding remedial policies or by trying to place some of the burden of adjustment on other countries. Deficit countries call for adjustment by the surplus countries, while the surplus countries insist that the deficit countries should do the adjusting.

Conflicts also arise over domestic stabilization policies. Each nation, in trying to maintain full employment with stable prices, wishes to exercise national economic autonomy over its own fiscal and monetary policies.

Finally, there are conflicts over the common resources of the world and the environment. How are nations to share common resources (for example, deep sea mining, outer space)? Environmental problems that are of a cross-border nature (acid rain, global warming, marine protection, pollution control) are of increasing concern.

These various conflicts arise because the globalization process itself creates gains or losses to different nations and to different groups within a nation. As long as the forces of internationalization create dynamic change in world production and in the distribution of the world product, the distribution of benefits and detriments will be a vexing problem.

In sum, international trade and financial conflicts can be grouped in three categories:

- those that arise because a nation seeks to acquire a larger share of the gains from trade or foreign investment;
- those that arise when a country tries to avoid being damaged by developments in another country; and
- those that arise because a country wants to maintain its domestic autonomy in policymaking when confronted with an international event.

The driving technological, economic, and political forces behind the internationalization process will not wane, but as internationalization proceeds, we shall have to seek policy solutions for future conflicts. The challenge is to improve these policy solutions and provide more effective structures of global governance. This is difficult because the outlines of decision-making processes in the world community remain vague, supranational institutions are few, and their power to pursue international public policy-making is limited.

There is no well-defined international normative process to keep pace with other features of the internationalization process. We therefore must search for a normative order that will accommodate conflicts, make better policy choices, and control change. Is it possible to establish more effective international public management, so that there will be an economic order with less discord? Can nations improve the quality of their own policy-making, without injuring other nations? What rules, norms or standards can be invoked to control the behavior of nations in the world economy?

Answers to these questions cannot come from a set of institutions that are already in place for economic management with a transitional reach. The world economy is a decentralized system that involves decisions by households and firms within each nation, national governments, regional organizations, multinational corporations, international agencies.

There is no central decision mechanism, and—in a literal sense—there can be no "management" of the international economy. The relevant issue is whether global governance can be improved. Can there be more effective mechanisms or structures of governance to shape the international economic conduct of private business and national governments? We cannot yet appeal to an international public sector that might engage as extensively in international economic management as is done by national economic management. There is no international central bank. There is no international fiscal policy. There is no international anti-trust legislation. There is no international industrial policy. There is no international regulation of the natural environment.

What then are the institutions and procedures for making decisions that might govern international order? Before considering answers for the future, we may gain some insights by reviewing Keynes' views on the problem of global governance.

II. INTER-WAR VIEWS

From Keynes's writings during the interwar period, we can glean his thoughts on the governance of international economic affairs.[1]

His first work—*Indian Currency and Finance* (1913)—was concerned with international monetary arrangements, a concern that was to remain until his death. His desire to eliminate gold—"a relic of a time when governments were less trustworthy" (p. 51)—was to persist until he gained its demise at Bretton Woods.

Keynes's next classic—*Economic Consequences of the Peace* (1919)—argued for the precedence of economics over politics in re-establishing the benefits of an orderly international economy, rationally designed. In the pre-war economy, the interference of frontiers and tariffs had been reduced to a minimum and there had been an easy flow of capital and trade (p. 13). The earlier global system, based on free trade with the export of capital, which had supported a growing population with an increasing standard of living, depended on a shared morality. As Skidelsky (1983) notes, "Keynes was staking the claim of the economist to be Prince. All other forms of rule were bankrupt. The economist's vision of welfare, conjoined to a new standard of technical excellence, were the last barriers to chaos, madness and retrogression." (pp. 384–85.) "The war had been fought in the name of nation, state, emperor. These, Keynes argued, were false gods, from whom he sought to divert allegiance towards economic tasks. It was a message calculated to appeal to the nation of Cobden and Bright.... It helped form the outlook of a new generation. The nineteen-twenties saw a new breed of economist-politician, who talked about the gold standard and the balance of trade as fluently as pre-war politicians had talked about the Two-Power standard and the balance of power....The idea that the creation of opulence was the main task of rulers was born in 1919 though it came of age only after the Second World War. The Keynes of the *General Theory...* cannot be

---

1 This section is heavily indebted to Keynes's *Collected Writings*; Johnson (1978), Moggridge (1992), Skidelsky (1983, 1992).

separated from the Keynes of the *Economic Consequences...*" (p. 399).

Clearly evident in these early works was Keynes's critique of gold, his emphasis on the proper management of international credits, and the foundàtions for his proposal of the žbancor' system as the basis for international monetary reconstruction after World War II (Johnson, 1978, pp. 111–118).

His writings in *The Nation* during the 1920s were in response to Britain's unemployment and argued against anti-deflation policies and against a return to gold at the prewar pound: dollar rate. Mistakenly, however, in a neo-Malthusian fashion, Keynes asserted that unemployment was in part a problem of population. He was also critical of foreign investment: an excessive amount of savings went abroad that could have been usefully invested at home, "and must be if our national equipment is to grow as fast as the population."[2]

The *Tract on Monetary Reform* (1923) was the start of Keynes's macro-theory, advocating monetary management to control the business cycle. His attack on the gold standard persisted: periodic devaluations should be allowed according to the needs of the domestic economy. Domestic price stability should be preferred to external exchange stability. There should be management of the dollar and pound, with other countries basing their currencies on the dollar or pound. Moreover, he asserted the "right of the State to control vested interest."[3]

In objecting to a restoration of the gold standard, Keynes observed that the British should not generalize their own national practices—or what they imagined their national practices to have been—into an objective code of good behavior that other nations would follow more or less automatically. Keynes recognized that other nations might define their interest in terms other than a British code of behavior, and that it would not be in Britain's national interests to try to restore a system that it could no longer

2 Skidelsky (1992), p. 184.
3 Skidelsky (1992), p. 160.

control.[4] If Britain no longer had the power to manage an international system, national self sufficiency became the only viable option.

The *End of Laissez Faire (*1926) was a strong plea for public policy to restore the peace and prosperity of the prewar epoch. "It is not a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest.... We must aim," he said, "at separating those services which are technically social from those which are technically individual." The most important items on the Agenda of government are "those functions which fall outside the sphere of the individual, to those decisions which are made by no one if the State does not make them." Keynes then advocates "deliberate control of the currency and of credit by a central institution... a coordinated act of intelligent judgment" concerning the aggregate volume of savings and their distribution between home and foreign investment, and a population policy. Although Skidelsky (1994: 228) recognizes that *The End of Laissez Faire* is a flawed production, he concludes that "it remains the most impressive short attempt on record to define a social and economic philosophy fit for the time of troubles framed by the two world wars."

In his *Treatise on Money* (1930), Keynes returned to his dominant theme that the monetary system exercised the "central controls of our economic life" and that the monetary authority should regulate the stock of money so as to keep savings equal to investment. The overriding objective is to preserve both internal equilibrium and external equilibrium: internal equilibrium should not be subordinated to external change. Again, there was the criticism of gold standard, and the persistent questioning of whether there should be an international standard of value (p 332). The practice of foreign investment was also again criticized: it would worsen the terms of trade or else cause bank rate to be raised with resultant unemployment. Significantly for his future international monetary proposals, Keynes proposed an increase in international liquidity with

4 Robert J. A. Skidelsky, "Retreat from Leadership," in Benjamin M. Rowland, ed., *Balance of Power or Hegemony* (New York: New York University Press, 1976), pp. 170–171.

reserves in foreign exchange and fiduciary reserves in a supernational bank (Keynes, 1930, v. 2, pp. 395ff). He expressed "great hopes in a Supernational Bank for the future" (p. 311) with deposits of "supernational bank-money" (p. 399). The objective of the supernational bank was to avoid inflations and deflations of an international character. Chapter 38 of the *Treatise* discusses Problems of Supernational Management. There is also the proposal of an international commodity standard (p. 391).

At the World Economic Conference in 1933, Keynes proposed an international authority issuing gold-convertible notes to increase international liquidity, a fixed parity with gold, but exchange rate fluctuations of +/– 21/2% on either side of parity. The de facto parity should also be alterable if necessary from time to time. The Conference, however, took no action.

Although he sought international governance of the monetary system, Keynes advocated nationalistic measures in trade policy. His article on "National Self Sufficiency" (*The New Statesman*, 1933) recognized the logic of the free trader, but argued that in the context of 1932–33 protection could benefit Britain. In 1930–31, Keynes had argued for the short-term advantages in protection over the alternative of devaluation. Writing again on "National Self Sufficiency" (*Yale Review*, June 1933), Keynes stated that contrary to his long time belief in free trade, "the orientation of my mind is changed" and that he now sympathizes "with those who would minimize, rather than with those who would maximize, economic entanglement among nations.... [L]et goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national." (p. 758) ... [E]conomic internationalism embracing the free movement of capital and of loanable funds as well as of traded goods may condemn my own country for a generation to come to a much lower degree of material prosperity than could be attained under a different system." (p. 763). But protectionism was only warranted by the depression context of the early 1930s, and there were dangers in economic nationalism—namely, "silliness, haste, and intolerance of criticism."

As a member of the Macmillan Committee (1930), Keynes had recognized the international character of the depression—"the downward slope of an international credit cycle." The troubles were not primarily domestic: "the international problem is at least equally important" (Skidelsky 1994:355-356). When, however, he wrote *The General Theory of Employment, Interest and Money* (1936), he restricted his analysis to a model of the closed economy. There was no concern for or intimation of anything that he was to propose five years later when he began to write on the post-war currency problem. Not the *General Theory* but *How to Pay for the War* (1940)—with its concern for Britain's external financial position and the shape of the post-war world—was the predecessor for Keynes's 1941 memoranda on "Post-War Currency Policy" and "Proposals for an International Clearing Union."

To summarize: Keynes never wrote directly about politics but he was deeply concerned about public affairs throughout the interwar period. In his economic writings, political activities, and policy advising, his guidelines were those of reason and the scientific approach to policy issues. To Keynes, a policy failure was the result of mistaken theory. The economist was a Platonic Guardian who could shape economic policy for the intelligent management of short-run problems. (Skidelsky 1994:224). A world of economic change called for the end of laissez-faire and a positive Agenda for government. But while Keynes gave much attention to domestic policies for economic prosperity, his attention to international problems was only secondary. As for international liberalization, he was at best ambivalent. He strongly opposed the confines of the gold standard, but he did recommend protection in the Great Depression, and he criticized foreign investment. Although he concentrated on savings and investment, he did so only in the context of a closed economy. National autonomy in policymaking should "enable a Central Bank to protect the credit structure of its own country from the repercussions of purely temporary disturbances abroad." (Keynes 1930, v. 2, p. 326). In focusing on such international problems as reparations, international currency arrangements, war finance, and post-war reconstruction, Keynes could have elicited principles of international governance. But before Bretton Woods, he rarely did so. Instead, to the extent that the national interests of Britain were his first priority, his attention to international governance was diminished.

III. BRETTON WOODS

Keynes's views on global governance came to be most clearly expressed in connection with the establishment of the Bretton Woods institutions. His first proposal for an International Clearing Union was prefaced with the following summary of the mistakes of history:

> So far from currency laissez-faire having promoted the international division of labour, which is the avowed goal of laissez-faire, it has been a fruitful source of all those clumsy hindrances to trade which suffering communities have devised in their perplexity as being better than nothing in protecting them from the intolerable burdens flowing from currency disorders. Until quite recently, nearly all departures from international laissez-faire have tackled the symptoms instead of the cause.
>
> International currency laissez-faire was breaking down rapidly before the war. During the war it has disappeared completely. This complete break with the past offers us an opportunity. Things are possibly today which would have been impossible if they involved the prior disestablishment of a settled system.
>
> Moreover in the interval between the wars the world explored in rapid succession almost, as it were, in an intensive laboratory experiment all the alternative false approaches to the solution—
>
> (i) the idea that a freely fluctuating exchange would discover for itself a position of equilibrium;
>
> (ii) liberal credit and loan arrangements between the creditor and the debtor countries flowing from the mere fact of an unbalanced creditor-debtor position, on the false analogy of superficially similar nineteenth-century transactions between old-established and newly-developing countries where the loans were self-liquidating because they themselves created new sources of payment;
>
> (iii) the theory that the unlimited free flow of gold would automatically bring about adjustments of price-levels and

activity in the recipient country which would reverse the pressure;

(iv) the use of deflation, and still worse of competitive deflations, to force an adjustment of wage- and price-levels which would force or attract trade into new channels;

(v) the use of deliberate exchange depreciation, and still worse of competitive exchange depreciations, to attain the same object;

(vi) the erection of tariffs, preferences, subsidies *et hoc genus omne* to restore the balance of international commerce by restriction and discrimination.[5]

With these lessons in mind, and looking to the future, Keynes's objectives were to avoid the recurrence of a depression in the United States that would spread to other countries, to allow nations to pursue full employment policies without concern for the external value of their currency, and to deal with an anticipated surplus in the U.S. balance of payments without nations having to resort to restrictive and discriminatory measures of trade policy.

His overall view of global governance was that international organizations should allow nations to achieve internal balance and external balance without sacrificing full employment and the gains from trade. This required nations to accept the unprecedented actions of surrendering sovereignty over their exchange rates and creating international liquidity by a collective decision. The mistakes of the interwar period were to be avoided by creating a postwar economic system ruled by law.

To this end, Keynes's International Clearing Union would have established considerable official international liquidity based on international bank-money (called bancor), a margin of flexible exchange rates subject to institutional approval, and obligations of remedial policies of adjustment to be undertaken by creditor as well as debtor countries.

---

5 Moggridge (ed.), *The Collected Writings of John Maynard Keynes*, vol. XXV (1980), pp. 22–23.

To achieve the objectives of the International Clearing Union, Keynes enunciated some principles of international economic diplomacy that are highly relevant for global governance. If "an international economic system... is to prove durable:

(i) There should be the least possible interference with internal national policies, and the plan should not wander from the international *terrain.* Since such policies may have important repercussions on international relations, they cannot be left out of account. Nevertheless in the realm of internal policy the authority of the Governing Board of the proposed Institution should be limited to recommendations, or at the most to imposing conditions for the more extended enjoyment of the facilities which the Institution offers.

(ii) The technique of the plan must be capable of application, irrespective of the type and principle of government and economic policy existing in the prospective member States.

(iii) The management of the Institution must be genuinely international without preponderant power of veto or enforcement to any country or group; and the rights and privileges of the smaller countries must be safeguarded.

(iv) Some qualification of the right to act at pleasure is required by any agreement or treaty between nations. But in order that such arrangements may be fully voluntary so long as they last and terminable when they have become irksome, provision must be made for voiding the obligation at due notice. If many member states were to take advantage of this, the plan would have broken down. But if they are free to escape from its provisions if necessary they may be the more willing to go on accepting them;

(v) The plan must operate not only to the general advantage but also to the individual advantage of each of the participants, and must not require a special economic or financial sacrifice from certain countries. No participant must be asked to do or offer anything which is not to his own true long-term interest....

> More generally, we need a means of reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety for causes which are not of its own making, concerning its ability to meet its international liabilities; and which will, therefore, 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."[6]

Keynes placed his specific proposal for an International Clearing Union in a much wider political and economic context. In the original Preface to his Proposals, for instance, Keynes had argued that international economic cooperation should proceed along four main lines: (1) the mechanism of currency and exchange; (2) commercial policy; (3) production, distribution, and pricing of primary products; and (4) international investment. But Keynes never related Bretton Woods to his own plan for primary products, and he left it to the Americans to devise an international investment organization.

After Bretton Woods, Keynes argued against the perpetuation of organized trade discrimination by Britain. Believing that the U.S. would not resort again to isolationism, he advocated a multilateral system.

There was also the anticipation that after the Bretton Woods conference another international organization would be established to deal with trade policies. In 1945, there was the Havana Charter with a proposal for the International Trade Organization, but it was never ratified by the U.S. Congress.

The IMF and IBRD thus stood in isolation—there was not the coordinated institutional recognition of the interdependence of trade, investment, and finance. Only a partial step toward global governance was taken.

---

6 *The Keynes Plan*, Cmd. 6437, April 1943.

IV. FUTURE IN PERSPECTIVE

Let us now consider the future of global governance from the perspective of Keynes—50 years on and beyond.

Keynesian analysis has concentrated on the domestic public sector. Although there is no fully developed international public sector, there are elements of such a sector—for instance, the IMF, World Bank group, GATT and WTO, and specialized agencies of the United Nations. In combination with the operation of international market forces, these institutions establish a variety of international governance mechanisms. A number of extra-market mechanisms also influence international economic conduct: international codes of conduct as represented by the IMF and WTO, international treaties (Treaty of Rome, NAFTA), negotiation or bargaining (OPEC, Paris Club), arbitration, adjudication, and policy coordination among countries to reach a collective decision that resolves conflict (creation of SDRs, Louvre Agreement on exchange rates).

Given an international policy problem, what mechanism or mechanisms of governance are most appropriate? Most of these problems do not lend themselves to mathematics-intensive policy analysis or to "optimization science." For the problems normally involve multiple principals and agents, an ill-defined objective function, variables that are not amenable to subjective probability analysis, and outcomes that cannot be converted to a single utility index. Especially significant is the distinction between "instrumental rationality" and "constitutive rationality." The former is the basis of a rational choice model in which an objective is predetermined, dominant weight is given to the attainment of efficiency relative to other values, and one seeks the most effective policy instrument to achieve the objective. In contrast, "constitutive rationality" requires a "constitution"—that is, decisions about how decisions are to be made. Many of the issues calling for global governance require a determination of the way in which decisions will be made and the boundary of the decisions. Most of the tensions and conflicts that arise from changes in the world economy need for their resolution a governance mechanism that will ameliorate the conflict, provide some social control of the allocation of benefits and costs, and exercise some means of monitoring orderly change.

Although at the level of transnational governance, policy analysis cannot be as rigorous as at the national level, we may at least establish some criteria by which to evaluate the different mechanisms of international governance:

Evaluating a particular policy, a benefit-cost analysis would consider the fulfillment of the objective of the international policy, its external benefits, economic costs to the governing agency and the affected parties, detrimental externalities, and the transition or adjustment costs to the final state.

There are also other objectives to be evaluated beyond the fulfillment of the policy's immediate objective—namely, efficiency, equity, and the appropriateness of the process or procedure for reaching the policy decision.

Finally, there are criteria of "policy technology": the information needed, speed of implementation, specificity in results, simplicity in operation, reversibility or corrective mechanisms, and the jurisdictional domain (correspondence between the reach of the policy and the operational area of the activity being controlled).

Various governance mechanisms will meet these criteria to different degrees. The market, for instance, would receive high marks for such criteria as efficiency, process, information, implementation, and simplicity. But the state might devise governance mechanisms that would merit higher marks for equity, specificity, reversibility, and jurisdictional domain.

Among the various governance mechanisms, centralized decision making and codes of conduct are the most difficult to establish. Although commonly advocated, a code of behavior has its drawbacks. To reach agreement among the diversity of countries, any code will have to contain loopholes and escape clauses that will render the code ineffective, or it will have to be written to satisfy the demands of the lowest common denominator. Otherwise, the code is likely to impose undesirable rigidity, provoke unnecessary controversy, and overstress control or the negative aspects instead of facilitating the creation of opportunities, providing incentives, and promoting desired behavior. Even the GATT and WTO are not really legalistic, but a form of what has more aptly been called "diplomats' jurisprudence."

Nor did the Articles of Agreement of the IMF attempt to specify the meaning of the key condition of "fundamental disequilibrium," but left it to future consultation. The ambiguity in the operations of these international organizations demonstrates that their effectiveness depends on consensus, and that nations must agree on the constitutive rationality of rules. Absent global government or adherence to a definitive international code of conduct, the international economic conduct of firms and states needs to be shaped by other forms of global governance.

The need for an international reach in policy-making is simply a corollary of the principle that the level at which a decision is taken should be high enough to cover the area in which the impact is non-negligible. In order that the decisions regarding necessary policy instruments be optimal, there must not be "external" effects—i.e., the influences exerted on the well-being of groups outside the jurisdiction of those who make the decision should be weak. The area in which the impact of the instrument will be felt determines what decision level will be optimal. For many issues that we have discussed, the nation state is an inappropriate decision-making unit. Decisions taken at the national level are often far too low to be optimal.[7] Governance must reach beyond national jurisdiction.

The Bretton Woods Conference and the Havana Charter recognized some of these underlying issues of governance. But they did not deal with other issues that still remain unsettled. And with intensified globalization, unforeseen problems have come to the fore.

During the first 25 years of its operation, the IMF performed effectively, essentially in conformity with Keynes's views. But during the second 25 years of its operation, the Fund has had to be modified in conformity with changes in the world economy that were unanticipated by Keynes.

At Bretton Woods there were 44 nations; today 180 nations are members of the IMF. Many of these are less developed.

---

7 Jan Tinbergen, "Building a World Order," in J. N. Bhagwati, ed., *Economics and World Order from the 1970s to the 1990s* (New York: 1972), pp. 145–57.

Although he was chairman of the World Bank commission, Keynes gave little attention to problems of economic development. Indeed, on arrival at Bretton Woods, he sent the following dispatch to the British Treasury:

> "Twenty-one countries have been invited which clearly have nothing to contribute and will merely encumber the ground, namely, Colombia, Costa Rica, Dominica, Ecuador, Salvador, Guatemala, Haiti, Honduras, Liberia, Nicaragua, Panama, Paraguay, Philippines, Venezuela, Peru, Uruguay, Ethiopia, Iceland, Iran, Iraq, and Luxembourg—the most monstrous monkey-house assembled for years. To these might perhaps be added: Egypt, Chile and (in present circumstances) Yugoslavia."[18]

Bretton Woods was dominated by the United States and United Kingdom, who wanted to avoid a recurrence of the prewar Great Depression and the international currency disintegration of the interwar years. The AngloAmerican collaboration originally viewed European reconstruction as the fundamental problem of the time. When the Mexican delegation pressed for equal treatment in the Bank, they had to settle for "equitable" treatment. Nor was any special reference made in the IMF's Articles to "economically underdeveloped countries" or "economically backward countries" as the Indian delegation had sought Instead, the Fund emphasized the principle of uniformity—the rights and obligations are the same for all countries, regardless of their stage of development.

After Bretton Woods, however, came a wave of decolonization and the "revolution of rising expectations." Since the mid-1970s, less developed countries (LDCs) have become the major users of IMF resources. And today the transition economies join the LDCs as the main clients of the Bank and Fund.

During the 50 years since Bretton Woods, the World Bank and IMF have added functions and powers directed to developing countries. But now the central question is: Have these institutions

---

8 *The Collected Writings of John Maynard Keynes,* Donald Moggridge (ed.), vol. XXVI, *Activities 1941-1946* (1980), p. 42.

evolved sufficiently to be effective in meeting the present—and future—problems of the LDCs and transition economies?

While Keynes concentrated on the savings-investment problem in a closed economy, it is now the international savings-investment problem that is important for development internationally. Keynes's concern with over-saving has given way to the present concern with under-saving.

There still is, however, the persistent Keynesian questions of whether there is sufficient international official liquidity and what should be the responsibilities of the surplus country. And while Keynes worried about unemployment in advanced economies, the major problem now is that of surplus labor in the less developed economies. Fifty years ago, one could not have imagined the success stories of East Asia, but we now confront the challenge that in the next 20 years the world's labor force will increase by 40%, and 95% of this increase will be in developing countries that will account for less than 15% of the world's capital investments.[9] The Bretton Woods institutions will have to respond to this challenge of transferring savings from rich countries to poor countries with surplus labor.

Despite the increase in international liquidity provided by the IMF and the loans from the World Bank, the international public sector has not yet solved the international saving-investment problem. Bretton Woods was unwilling to follow Keynes and create more international official liquidity and also to put pressure on chronic surplus countries. Instead, the international financial intermediation task of transferring savings from rich countries to investment in the poor countries and transition economies was met first through the United States balance of payments until 1971, and then through the World Bank group, IMF, and Eurocurrency loans from commercial banks. Not only do problems of debt servicing and conditionality remain, but so too does the severe fundamental problem of providing a greater net resource transfer to the LDCs and the transition economies. These challenges mean that if the domestic public sector in the LDC or transition economy is to be diminished

9 Lawrence Summers, "Research Challenges for Development Economists," *Finance and Development*, September 1991, p. 5.

through policies of stabilization, liberalization, and privatization, the international public sector will actually have to be strengthened. The IMF, World Bank, and WTO will have to support the economy's structural transformation through demand management and supply management based on project and program loans, budgetary support, and balance of payments support.

Prospects for debt flows are limited. The worldwide competition for private capital combined with a decline in official development assistance intensifies the demand for increased flows from the World Bank group. At the same time, resources of the World Bank are not increasing sufficiently in real terms. Replenishments of the International Development Association (IDA), soft loan window of the Bank, are still insufficient to meet the growing needs of eligible countries. A capital increase for the International Finance Corporation (equity lending agency of the bank) is also required.

After Bretton Woods, the hegemony of the United States was also to disappear along with the dollar shortage. Inflation—not depression—became the central postwar problem. International capital movements grew markedly. Regional blocs arose. The new protectionism was practiced by many countries. And the transition economies sought to liberalize and integrate into the world economy.

With the United States' unilateral action in 1971 of removing two foundations of the IMF—namely, the par-value system of exchange rates and the gold convertibility of the dollar—the Fund's management of exchange rates was weakened by the establishment of floating exchange rates, albeit with interventions by central banks and monetary authorities.

The IMF has also been marginalized through actions of the G-7 and the rise of regional associations. But while the Fund is now less significant for G-7 countries, its functions have become of extreme importance to developing countries and transition economies—its main clients. Much of the success from adopting appropriate policies within developing countries and transition economies now depends on the conditionality exercised by the Fund, together with policy advice offered by the World Bank.

In the future, the Fund may become even more influential if it devises mechanisms to meet the serious international problem of incomplete risk markets. With floating exchange rates and the globalization of financial markets, the risks from volatile price changes have increased. The risks have increased especially for developing countries that experience volatility in international commodity prices and the repercussions of wide movements in exchange rates and interest rates. Although the solution is not to fix prices, some institutional changes—led by the IMF—should be devised that would allow world capital markets to spread risk and permit it to be borne more efficiently.

Most important, in the changing world economy, the World Bank, IMF, and WTO must recognize the interdependence of trade, investment, and finance and coordinate their operational activities accordingly. The WTO should complement the programs of the Bank and Fund more than did GATT. Joint consultations among the three institutions are needed to consider how trade policy affects the balance of payments or other monetary issues, and, in turn, how monetary affairs, including exchange rates, can affect trade policy. An integrated approach is especially relevant for governing the developing countries. Although the time has not yet come for a merger of the IMF and World Bank, they too will have to collaborate more closely on common problems of governance.

It may be asked why not simply leave the "rules of the game" with respect to international trade and an international monetary regime to the operation of international market forces? Governments have revealed that this will not be allowed. Governments intervene to affect the direction, composition, and terms of trade. And they intervene to affect the foreign exchange rate. An international public sector is therefore necessary—not only to remedy international market failure, but also to mitigate competitive policy-making by national governments. If the IMF was initially concerned with the avoidance of competitive devaluations, international economic agents now have to be concerned with international competitive monetary policies, competitive subsidization policies, competitive trade policies, competitive foreign investment policies. The forces of globalization and liberalization create conflicts in international monetary and trade affairs that call for surveillance over international economic conduct and efforts at international peace-keeping. Improvement in global governance is as important as improvement in domestic governance.

Of prime importance is governance with respect to trade policy, international monetary affairs, international development, and multinational enterprises.

Of these problem-areas, Keynes was mainly concerned with that of international monetary affairs. Still unresolved are some of the fundamental issues of international monetary reform that exercised Keynes throughout the interwar period and at Bretton Woods. Running throughout these issues is the question where must the line be drawn between the authority of an international organization charged with international governance and the authority that governments must retain as safeguards of national interest?

As long ago as 1972, the Executive Directors of the IMF published a study on *Reform of the International Monetary System.* This report identified five main problem areas of the international monetary system that may call for new arrangements through international discussion and negotiation:

(i) the exchange-rate mechanism, including both the indications of when changes in par-values are necessary and the respective responsibilities of the deficit and surplus countries for making par-value changes;

(ii) the reestablishment of convertibility and the arrangements for the settlement of imbalances among countries;

(iii) the position in the system of the various reserve assets and in particular the status and function to be given to foreign exchange reserves, gold, and SDRs;

(iv) the problem of disequilibrating capital movements and what might be done to lessen the intense market pressures that accompany them; and

(v) the possibility of new provisions in the Fund arrangements for the special needs of developing countries.

A quarter century later, this is still a succinct summary of the agenda for international monetary reform.

The dimensions of an international monetary system involve foreign exchange rates, nature of official reserves, and degree of convertibility. The functions involve provision of liquidity, adjustment mechanisms, and confidence. The dimensions and functions may be established by any of a number of organizing principles: automaticity (as in the pure gold standard with spontaneous governance by the market and complete domestic autonomy), supranationality (as with the IMF and its extra-market code of conduct), hegemony (as when the US was the hegemonic power and the dollar ruled), or negotiation (as in the Plaza and Louvre agreements or establishment of the SDR based on international agreement). Application of these principles affect national sovereignty, the degree of domestic autonomy in policy-making, and especially the burden of the adjustment mechanism.

Exchange Rates: We may recognize some strong reasons for believing that freely floating exchange rates is the best exchange rate regime. The impersonal and non-politicized market price system may be favored by economists. But the exchange rate is a special type of price affecting all tradables, and governments reveal their preference for intervention to manage their exchange rates. Going against the market, competitive depreciations, and the use of the exchange rate as an instrument of trade policy may then occur. To counter these actions, a clear and predictable code of conduct with some sanctions would then be desirable.

Since the beginning of managed floating in the early 1970s, however, the IMF has been marginalized, and the best it can do is attempt some surveillance of exchange rates. "The importance of effective Fund surveillance," according to the Managing Director of the IMF, "has increased with globalization. The world really does need effective Fund surveillance to help prevent crises by pinpointing policy weaknesses and emerging tensions at an early stage. Surveillance needs to be strengthened, particularly in terms of its continuity, its monitoring of data, and its attention to capital account developments and financial flows."[10]

Although the IMF may profess surveillance as an absolute priority, the present monetary regime still makes the practice difficult. The Fund is limited in its ability to control volatile exchange rates, disequilibrating capital movements, and governmental interventions. The provision of data to the Fund and consultations

10 Michel Camdessus, "Presentation of the Fiftieth Annual Report," IMF Summary Proceedings, Annual Meeting, 1995, p. 33.

help, but æ absent a strong code of conduct æ the Fund's governance of member actions remains weak.

For those seeking a stronger system of governance, the concepts of "objective indicators" and "target zones" have recurrent appeal. Countries appear unwilling, however, to agree on the magnitudes of "objective indicators" or to undertake the degree of international policy coordination required to maintain exchange rates within target zones. The leading proposal of target zones, by John Williamson of the Institute for International Economics, would commit the G-7 countries to using monetary and fiscal policy, as well as intervention, to keep their exchange rates within bands of plus or minus 10 % around an "internationally agreed" estimate of the "fundamental equilibrium exchange rate," which would be automatically adjusted to allow for differential rates of inflation (in effect, a system of crawling pegs surrounded by bands). Monetary policy would be designed in part to avoid real exchange rate disequilibrium while fiscal policy would be assigned to stabilizing domestic demand. The IMF would be responsible for servicing the international policy coordination process.[11]

Of this proposal, however, *The Economist* states:

> "As Benjamin Cohen, of the University of California at Santa Barbara puts it, `International monetary cooperation, like passionate love, is a good thing, but difficult to sustain.' Experience shows that policy coordination between the three big economies, America, Japan and Germany, is not willing to subordinate national economic policy to an international target. It is hard enough to get agreement on interest-rate changes; on fiscal policy it is near impossible. And yet it was fiscal policy that was largely to blame for the two greatest exchange-rate upsets in recent years—in America in the 1980s and Germany after unification.

11 For details, see J. Williamson and M. Miller, "Targets and Indicators: A Blueprint for International Coordination of Economic Policy," (Washington, DC.: Institute for International Economics), September 1987; Williamson and C. Randall Henning, "Managing the Monetary System" in Peter B. Kenen (ed.), *Managing the World Economy*, (Washington, DC.: Institute for International Economics), September 1994, Ch. 2.

"Another snag is that nobody is sure what might be the žright' level for the dollar, or any other currency. There is no reason why governments should be better judges than the markets. Moreover, even if the governments of the big three economies could agree on policies to keep currencies within their bands, target zones would still be vulnerable to speculative attack as rates approached their limits. In a world of highly mobile capital, there may be no comfortable middle ground between floating exchange rates and permanently fixed rates. Pegged but adjustable exchange rates tend to be unstable."12

Far short of the ideal of macroeconomic governance of the exchange rate regime, the feasible arrangements that nations will tolerate in the near future are probably limited to more intensive surveillance by the IMF and the imposition of the Fund's conditionality over a country's exchange rate and macro policies when it draws on its upper credit tranches in the Fund.

Liquidity. The amount of liquidity created by the IMF also affects the governance of balance of payments policy. The greater the amount of official international liquidity and the more receptive is the lender of last resort, the less is the discipline exercised by the balance of payments. If a country has access to international liquidity, the less does it have to submit to internal measures or external measures to correct its balance of payments deficit.

Just as there is a question of what is the "right" exchange rate, however, so too is there a question of what is the "right" amount of liquidity æ and how should it be created and for whom? With the internationalization of financial markets and the large flows of private capital, one may argue that there is no shortage of liquidity. If creditworthy, countries can engage in sovereign borrowing from international capital markets. The issue, however, is the adequacy of a country's "owned reserves," without recourse to debt.

---

12 *The Economist*, October 7, 1995, p. 34.

The IMF still believes that official reserves should be provided by an international institution. An international decision to increase quotas in the IMF and possibly a new allocation of SDRs could be more efficient and equitable than resort to independent accumulation of "borrowed reserves" from private capital markets. And, of course, if the IMF were ever to evolve into a World Central Bank, it would have to influence or control international liquidity creation.

Those who favor the provision of increased liquidity by the IMF point to the long term need for international reserves as world output and trade grow. "Owned reserves," unlike "borrowed reserves," do not need to be periodically financed; they avoid the higher cost of acquiring reserves through borrowing; and they are not subject to abrupt withdrawal.

The management of the IMF estimated that the global demand for reserves would expand by several hundred billion SDRs during the 6th allocation period of quotas (1992-96). Moreover, at the end of 1992, 20% of the developing countries, and nearly 40% of the transition countries, held nongold international reserves equivalent to less than eight weeks of imports. An allocation of owned reserves is deemed especially necessary for the growth of the LDCs and transition economies.

Even though in the last two decades the share of SDRs in world reserves has averaged only some 5.3%, its share has actually diminished in recent years. If the SDR is ever to become "the principal reserve asset" of the international monetary system as specified in the IMF's Articles of Agreement, an increase in SDRs will be necessary. Although some would favor a special SDR allocation to the developing countries, such special and differential treatment has been denied previously, and it remains unlikely to happen as the IMF reasserts its principle of uniformity in governance. Opposition to an increase in SDRs is also likely to come from industrial countries that enjoy low costs of holding other reserves and see little benefit from SDR allocations that do not give a rate of return above that of other reserve assets.

Adjustment: The relation of international governance to balance of payments adjustment policies is subsumed under the feasible degree of governance over exchange rates, macro-policy coordination, and provision of official liquidity. Underlying this issue, however, is the stumbling block of imposing symmetric adjustment responsibilities on the deficit country and surplus countries. And how can the burden of adjustment be minimized?

While deregulation of national capital markets and the liberalization of international banking and capital markets have been beneficial, they have also imposed costs of greater financial instability and fragility. Systemic risk across markets has become more internationalized. Policy issues related to exchange rates, liquidity, and adjustment are being increasingly shaped by the rapid expansion of global financial markets.

This expansion raises policy questions of global supervision and regulation. Together with the Bank of International Settlements (BIS), the IMF must become more involved with harmonizing different national regulatory authorities and avoiding financial crises that create major international adjustment problems. The Mexican peso crisis in 1994 illustrates the need for the IMF to help countries deal with temporary balance of payments difficulties that stem from capital flows. To help governments cope with speculative attacks on their foreign exchange markets, the IMF may have to establish an intervention fund.

In the future, the degree and quality of global governance of the international monetary regime will be determined mainly by activities of the IMF. Although the IMF has been the prime agent in governing adjustment policies, greater collaboration with the World Bank and the WTO is desirable. A study of the Fund's historical evolution and the key issues in the future concludes as follows: "The world faces an institutional choice between an order in which these aspects of surveillance (over management of global liquidity, adjustment policies, confidence, and trade policy) are fragmented and treated in separation, with a smaller IMF or, preferably, one in which the elements of surveillance are more effectively coordinated, with a stronger IMF. The case for greater coordination between international institutions rests on the substantial extent of the linkages that exist between different global economic problems. Issues such as interest rate levels, macro-economic orientation, debtor problems, and capital flows cannot be treated adequately in isolation from each other."[13]

International Cooperation. Over the past half century, the Keynesian preoccupation with macroeconomic policy has stimulated interest in the possibilities for international cooperation. The degree of cooperation can vary from the exchange of information and consultation to the coordination of policy decisions among nations. Or they might even agree on presumptive rules that limit national discretion and constrain the use of international policy instruments.[14]

Periodically "top level" negotiations among nation-states may reach understandings or formal agreements that establish the "rules of the game" for a given area of international economic conduct. An international regime environment is thus created. Such a regime has at least two dimensions or attributes. One dimension refers to the incidence of agreements among national governments and the principles, norms, rules, and decision-making procedures around which their expectations converge. Another dimension indicates the numbers and strengths of international or supranational institutions and the forums, processes, and decision-making procedures that may be associated with them.

Some types of international regimes also have another dimension denoting the extent of rules versus discretion. Strong governance in an international monetary regime, for example, would emphasize rules of conduct over the discretionary action by national governments. The collapse of the Bretton Woods regime in the early 1970s with a move to flexible exchange rates diminished international cooperation and allowed more national discretion with respect to exchange rates. Through economic summits with the G-7, consultations within the OECD, meetings of the Bank for International Settlements, and greater surveillance by the IMF there

---

13 Harold James, *International Monetary Cooperation since Bretton Woods*, (New York: Oxford University Press), 1996, pp. 617–620.

14 This section follows the analysis of Ralph C. Bryant, "International Cooperation in the Making of National Macroeconomic Policies: Where Do We Stand?" in Peter B. Kenen (ed.), *Understanding Interdependence*, (Princeton: Princeton University Press), 1995, Ch. 11.

could in the future be a weak movement toward more international cooperation and governance of the international monetary regime.

Few would deny the desirability of greater global or transnational governance. A summary case for more governance over international economic transactions can be made as follows. "Spontaneous" governance through international markets is not sufficient because some markets are missing, incomplete, or subject to market failure.[15] Especially significant are externalities that spill over from one country to another. Not valued by any market, these externalities have to be internalized by mechanisms of governance. When the cross-border spillovers are detrimental, other nations need to be protected from damage. When the externalities are beneficial, a greater supply needs to be encouraged. The forces of globalization are now increasing cross-border spillovers that call for more international management.

The market also underestimates international public goods (the environment, monetary stability). Moreover, competitive policy-making by nations needs to be avoided. Instead of allowing "beggar-my-neighbor" policies, mechanisms of governance should seek policy optimization in the sense of making all countries better off (avoidance of trade wars, avoidance of competitive depreciation). Intergovernmental cooperation and coordination are required.

Governance beyond the nation is also necessary to give jurisdictional reach over economic conduct that is international in scope. For example, as we have noted, the activities of MNCs cannot be covered by simply national regulations. Nor can the allocation of the world's resources that are shared among nations (ocean mining, space) be solved by only national legislation.

The feasibility of transnational governance, however, is quite another matter. It is limited for a number of reasons. National governments are unwilling to give up sovereignty or their domestic autonomy in policy-making. Prisoner's dilemma type of situations

---

15 For the distinction between "spontaneous" governance and "intentional" governance structures, see Oliver E. Williamson, "Economic Institutions: Spontaneous and Intentional Governance," *Journal of Law Economics and Organization,* 1991, pp. 159–187.

also apply. Each country has an incentive to act rationally at the other's expense, but the result is collective irrationality as both lose if both act according to only self-interest. In their self interest, countries pursue a protectionist trade policy although it would be in their collective interest to follow free trade. But free trade is not a natural order; it must be enforced by governance mechanisms that lead each country to act in its self interest and collective interest.

Governance that promotes a common goal or common interest among nations can be viewed as an international public good.[16] All countries benefit, irrespective of whether they have contributed to its costs or not. But the free rider problem then results in an undersupply of international public goods. Each country, knowing that others may not contribute, lacks the incentive to contribute to something that benefits others, including itself. If countries want to be free riders and not contribute, of if they fear that, even if they do contribute, no other country does, then the outcome will be that no country contributes.

In game-theoretic analysis of strategic interactions among individual decision-makers, the "supply of cooperation" often falls short of what would be mutually beneficial because collective action is a public good. Individual agents making decentralized and rational decisions, may fail to achieve their mutual interest. These general results for individuals are all the more likely to occur when national governments are the individual decision-making agents.[17]

A corollary is that "public bads" are oversupplied. A single country tends to have no incentive to remove or reduce them, without assurance that others will also share the costs (situations of competitive depreciation, protection, monetary instability, global pollution, overexploitation of exhaustible resources to which no property rights are attached). Again, nationally rational actions will result in a suboptimal collectively irrational outcome.

---

16 Paul P. Streeten, *Thinking About Development*, (Cambridge: Cambridge University Press), 1995, pp. 90–95; C. P. Kindleberger, "International Public Goods Without International Government," *American Economic Review,* March 1986.

17 Bryant, *op. cit.*, p. 408.

It might be thought that if there are well-established property rights and low transactions costs, then there can be efficient negotiations among decision makers, as postulated in the Coase theorem.[18] But negotiations among national governments over the issues we have been considering are limited because property rights may not be well defined, the nation-state does not act as a unitary agent (different bureaucratic interests and various domestic constituencies), information may be asymmetric, and outcomes are unpredictable.[19]

Finally, the intellectual underpinning for mechanisms of global governance is ambiguous and subject to differing interpretations. Competing models of international economic behavior have different implications for the degrees and kinds of governance.[20] When no professional consensus exists about the single best model, international cooperation becomes all the more remote.

The problem of rival models is especially severe for matters of global governance when the type of rationality involved is constitutive rationality. Insofar as the task of designing a structure of global governance is akin to writing a constitution, it is more difficult than simply selecting policy instruments.

In addition to "model uncertainty," the feasibility of international cooperation is also handicapped by other types of uncertainty æ about the objectives and intentions of national governments, their ability to perform on agreements, and about their ability to monitor the compliance of other governments.[21]

---

18 For elaboration, see Richard N. Cooper, "The Coase Theorem and International Economic Relations," *Japan and the World Economy,* 7, 1995, pp. 29–44.

19 Another recent approach to international organization stems from the new institutional economics that focuses on contracting. See Beth V. Yarbrough and Robert M. Yarbrough, "International Contracting and Territorial Control: The Boundary Question," *Journal of International and Theoretical Economics,* 150/1, 1994, pp. 239–264.

20 Bryant, *op. cit.,* pp. 427–434.

21 Bryant, *op. cit.,* pp. 427–430.

For a critique of international cooperation — and the belief that it should not even be attempted æ see Martin Feldstein, "Distinguished Lecture on Economics in Government: Thinking about International

Given the barriers to global governance, how can they be overcome? In the future, as in the past, agreement on some form of governance is most likely to emerge under conditions of crisis management. Governments may then share a common aversion and cooperate to avoid a particular outcome.[22] Aside from the need to take action in a crisis, nations may also submit to more governance, the more often are the attempts to institute such governance (as in repeated games). Progress is also more likely, the fewer the number of nations involved, such as in regional arrangements.[23] As Olson emphasized,[24] cooperative solutions are easier to attain in smaller than larger groups for three reasons: the fraction of a collective benefit enjoyed by any individual agent tends to decline as the size of the groups increases; larger groups are less likely to exhibit the small-group strategic interactions that facilitate the supply of collective goods; and organization costs tend to increase with an increase in group size.

Clearly, global governance is only rudimentary. There is still a long way to go before legal and political institutions catch up with the potential of economic globalization. There must be wider understanding of the potential benefits from global governance. Ultimately, political leadership must promote this understanding and provide the incentives for commitment to global cooperation. In the meanwhile, if globalization continues in the *de facto* sense, there will be less need for mechanisms of global governance in the *de jure* sense provided that global markets deepen, become more complete, and more perfect. For the future, however, as in the past, the central issue for both private and public management will be how states and markets confront the challenge of increasing the

---

Economic Coordination," *Journal of Economic Perspectives,* 2, No. 2, Spring 1988, pp. 3–13.

22 Arthur A. Stein, *Why Nations Cooperate,* (Ithaca: Cornell University Press), 1990, Ch. 2.

23 Beth V. Yarbrough and Robert M. Yarbrough, "Regionalism and Layered Governance: The Choice of Trade Institutions," *Journal of International Affairs,* Spring 1994, 48, No. 1, pp. 95–117.

24 Mancur Olson, "The Logic of Collective Action: Public Goods and the Theory of Groups," 2nd ed., (Cambridge, Mass.: Harvard University Press), 1971.

"size of the pie" (through efficiency and growth) and distributing it (with equity or fairness). In helping to meet this challenge, mechanisms of global governance need to remedy failures in international markets and avoid failures of the international public sector.

At the inaugural meeting of the IMF, Keynes also warned "There is scarcely any enduringly successful experience yet of an international body which has fulfilled the hopes of its progenitors. Either an institution has become diverted to be the instrument of a limited group, or it has been a puppet of sawdust through which the breath of life does not blow." In actuality, although the Bretton Woods institutions have evolved and adapted to some changes in the world economy, the IMF and World Bank are no longer institutions of global management. They are relevant for the developing and transitional economies, but not the industrial world. The Bretton Woods institutions are operating far within the initial vision that Keynes had at Bretton Woods. At the same time, international problems are now more complex than those that confronted Keynes. And new global problems have made some students call for new international organizations. Fred Bergsten, for instance, expects the birth of four new organizations during the next half century: a Global Environmental Organization, another to supervise international capital markets, one to deal with issues arising from international investment, and one to deal with migration.

New supranational institutions will, however, be extremely difficult to establish. Nor is this the time for a second Bretton Woods Conference. Not only would such a Conference with 180 delegations be infeasible: it is not necessary insofar as the Bretton Woods institutions already possess the procedural powers to evolve in a substantive manner.

Fifty years ago, when moving the acceptance of the Final Act at Bretton Woods, Keynes concluded: "Mr. President, we have reached this evening a decisive point. But it is only a beginning. We have to go from here as missionaries, inspired by zeal and faith. We have sold all this to ourselves. But the world at large still needs to be persuaded." This is still true.

Instead of simply zeal and faith, however, we now need deeper understanding of how to reduce the conflict between cross-border economic integration and national political sovereignty, avoid international policy competition, and promote international cooperation in the changing world economy. And we need another Keynes who could persuade with reason and vision.

REFERENCES

Gardner, Richard N., 1969. *Sterling-Dollar Diplomacy*, New York: McGraw-Hill.

Harrod, R. F., (1951). *The Life of John Maynard Keynes*, London: Macmillan.

Johnson, Elizabeth S. and Harry G., 1978. *The Shadow of Keynes*, Oxford: Blackwell.

Keynes, John Maynard, 1980. *Collected Writings*, London: Macmillan.

Keynes, Milo (ed.), 1975. *Essays on John Maynard Keynes*, Cambridge: Cambridge University Press.

Moggridge, D.E., 1992. *John Maynard Keynes: An Economist's Biography*, London and New York: Routledge.

Skidelsky, Robert, 1983. *John Maynard Keynes: vol. 1, Hopes Betrayed, 1883–1920*, New York: Allen Lane.

______, 1992. *John Maynard Keynes, vol. 2, The Economist as Savior, 1920–1937*, New York: Allen Lane.