

Yes, we may all be Keynesians – but he has more to teach us

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From Dr Paul R. Epstein.

Sir, They say there are no atheists in a foxhole; it seems there are no market fundamentalists in a recession. Yes, we are all Keynesians now, write Chris Giles, Ralph Atkins and Krishna Guha (“[The undeniable shift to Keynes](#)”, December 30). But are large economic stimuli the only lesson we have to learn from this learned man?

There was a great deal more to John Maynard Keynes’ framework than fiscal, deficit-spending measures. As chair of the Bretton Woods 1944 conference, Keynes oversaw a major overhaul in the monetary rules and institutions that would shape the post-world war two international financial architecture. Bretton Woods delegates established three ground rules: free trade in goods, fixed exchange rates and constraints on the international flow of capital. Taking a page out of Smith and Ricardo, it was understood that comparative advantage and healthy competition among nations were not viable if capital flowed freely across borders.

Bretton Woods also gave birth to the two primary international financial institutions (IFIs); to administer the rules and funds. And large carrots, like the Marshall Plan and the GI Bill in the US, soon followed to fuel the post-war period of prosperity.

But all that changed in 1971, when US President Richard Nixon abandoned the last two rules, despite his claim that “We are all Keynesians now”. The unhinging of exchange rates and capital constraints unleashed decades of petrodollar-driven loans, insurmountable debts and two massive rounds of “hot money” and speculation (in the 1990s and 2000s), ending when the financial head of the economy finally found itself severed from the body.

Enormous carrots are indeed needed today to lead the global economy into a recovery. And, as was done with the highway system in the US in the 1950s, targeting global stimuli to construct a clean energy backbone is the necessary first step, given the other constraints we face - from nature. We may not return to the old rules, but we do need to realign the rules, regulations and rewards and reframe the mission of IFIs, if we are to launch ourselves successfully onto a healthy and sustainable path.

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