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INVITED ARTICLE

Developing Countries: The Legacy of Keynes and Post-Keynesian Economists

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Abstract

Geoffrey Harcourt remained a steadfast left Keynesian all his life. He applied his economic analysis in framing policy recommendations targeting the welfare of the poor. He undertook incisive and comprehensive surveys of the work of Cambridge post-Keynesians, some of whom were involved intellectually or practically in the economics of developing economies. Keynes, remaining an imperialist as far as India was concerned, nevertheless produced a corpus which has been immensely helpful in understanding developing economies and prescribing policy solutions for them. First, Keynes created the modern macroeconomics discipline and refined the concept of national income, allowing methods of collecting and organising economic and social data enabling assessment of intersectoral impacts. Second, still relevant today is his idea of an International Clearing Union, disciplining countries with excessive balance of payments surpluses or deficits, even though American opposition at Bretton Woods prevented its adoption. Third, although an economist of the short run, Keynes took up issues of vital concern for the development of an underdeveloped economy, departing from his long-held fears about excessive population growth and contributing to policies for stabilising commodity prices. While Keynes remained a Eurocentric imperialist, his dreams for Europe in general and Britain in particular proved relevant for many developing countries today. He supported public investment and state involvement in solving problems of unemployment and industrial restructuring. His analysis of the instability of stock markets and dangers of financialisation remains highly relevant in a world experiencing major stock market crashes in almost every decade since the 1970s.

Keywords: developing countries; financialisation; Geoffrey Harcourt John Maynard Keynes; neoliberalism

JEL Codes: 610; E660; O110; O160

Geoffrey Harcourt, Keynesianism and post-Keynesian economics

Geoffrey Colin Harcourt (Geoff, to his innumerable friends) has been called the 'beating heart of Australian economics' by eulogists citing Geoff's words that he wanted to study economics because he hated injustice, unemployment, and poverty (Hawkins and Cornish, 2021). Much of his life was devoted to policy prescriptions attacking these evils. Much has been written about Geoff's professional writings and his quality as a teacher. I want to add another special quality of Geoff's as a teacher. All good teachers give their assigned students careful instruction in their subject and advice about academic work and take care of them when they are in trouble. What was special about Geoff at Cambridge (of which I have direct knowledge) is that any student of economics, no matter who his/her official

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supervisor was, could approach Geoff and he would listen to them patiently and give his advice.

Now I turn to Harcourt's professional writings. He straddled four areas of economics – Keynesian economics, post-Keynesian economics, capital theory, and economic thought – with verve and vigor. I will confine myself to post-Keynesian economics. Harcourt (2006) is a definitive survey of the field of post-Keynesian economics (see also Harcourt (2001) in this connection). While he admired his seniors in the practice of post-Keynesian economics, there was no idolatry in that admiration. For instance, he criticised Keynes for his ham-handed algebraic formulation in chapter 11 of the *General Theory*. He also pointed out that Joan Robinson defined disguised unemployment as a situation where workers earned less than their marginal productivity, the basis of which concept she excoriated.

Harcourt (2006) brought to our notice little-known nuggets such as Kalecki's review in Polish in 1936 of Keynes (1936) – which unfortunately did not get translated into English until 1982 (Targetti and Kinda-Hass 1982). That review showed that Kalecki had independently discovered practically all the elements of Keynes's *General Theory*. Another item he brought to our notice was Kahn's King's College Fellowship dissertation, which Cristina Marcuzzo and he had helped to bring to public attention (Kahn 1989[1930]). That dissertation establishes Kahn as a pioneer of the imperfect competition revolution. There Kahn also discovered the kinked demand curve, anticipating Hall and Hitch (1939) and Sweezy (1939) by 9 years.

Harcourt (2006) also brought to our attention Hahn's PhD dissertation in which he formulated a macroeconomic theory of distribution entirely on Keynesian lines, anticipating Kaldor's Keynesian theory of distribution by about 8 years (later published as Hahn 1972). Harcourt and Kerr (2009) is a definitive intellectual biography of Joan Robinson and I can add nothing to that.

I turn next to some aspects of the thought and activities of the post-Keynesian economists that escaped Harcourt's eagle eye. Harcourt discussed the properties of Kaldor's (1955, 1956, 1957) endogenous growth model, which had the demand side driving growth, but he assumed full employment. Bhaduri (2006) has remedied that defect by still getting the demand side driving growth but assuming the existence of unemployment. To quote him:

> The focus on the adoption and diffusion of labour productivity growth permits viewing supply as being driven endogenously by inter-class conflict over distribution as well as inter-class conflict among rival firms over market shares. The result is a race between the growth rates in labour productivity and, in the real wage rate, which drives demand and productivity growth on the one hand while making wage share reasonably constant on the other. (p. 69)

Another item Harcourt does not seem to have explored adequately is Kaldor's Neo-Pasinetti theorem (Kaldor 1966a). There Kaldor proved, by bringing in property income and stocks explicitly, first, that the share of profits in national income is independent not only in the long run as Pasinetti had proved but also in the short run. With the introduction of capital gains and the possibility that firms expand primarily through the accumulation of retained earnings, the share of profits need not remain constant: it can increase possibly indefinitely (Lavoie 1998) and can be changed by appropriate taxation. Another contribution of Kaldor (anticipated by Myrdal 1957) was to use the concept of circular and cumulative causation to explain the reasons for the slow rate of growth of the UK economy in the 1950s and 1960s (Kaldor 1966b), advocate policies for growth of relatively backward regions (Kaldor1970), and demolish the basis of equilibrium economics – the idea of constant returns and exogenously generated technical change (Kaldor 1972).

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As against that idea Kaldor advanced the notion of increasing returns to firms, industries, and the economy as a whole (Kaldor probably imbibed the idea from Myrdal (1957) when both were working in the Economic Commission for Europe; for a useful summary, see Thirlwall 1987, chapter 13). To conclude this part of the analysis:

> The post-Keynesian view of the economy is as an historical process, with the unchangeable past influencing the present, and with inherent uncertainty about the future. This leads to a concern with historical time, where expectations have a significant and unavoidable impact on economic events. The world is messy and all important economic decisions are made within an environment of inescapable, fundamental uncertainty. (Harcourt and Kriesler 2020, 28)

Following Keynes, in post-Keynesian analysis, money and finance are integrated closely and the water-tight separation between the real sectors and financial sectors becomes a futile analysis. The analysis has also to be contextually and historically grounded. In Geoff Harcourt's felicitous formulation, you need 'horses for courses': 'Post-Keynesian analysis includes the presence of conflict and antagonism between different classes, with different characteristics and roles to play in the economic saga' (Harcourt and Kriesler 2020, 29). Further,

> Underpinning this analysis is a view of society as driven along by ruthless, swash-buckling capitalists (comprising all three: industrial, commercial and financial) rather than by lifetime utility-maximising consumer queens.
>
> Imperfectly competitive and oligopolistic market structures, increasingly those containing large multi-national oligopolies, dominate national governments and the creation of institutions, national and international. Firms in these markets have economic and political power, which they use to improve their profits and further expand their power. From a post-Keynesian perspective, the principal sequence associated with the processes at work in modern capitalism is regarded as finance' leading to investment leading to saving. (Ibid)

Four of the post-Keynesian economists became involved in thinking about or giving policy advice to developing countries. Kalecki went to India as an economic advisor to the Government of India and identified the supply of agricultural commodities as a major constraint on India's economic growth (Kalecki 1955). Kaldor (1956) wrote a report on tax reform for the Government of India, advising the introduction of a set of interlocking taxes – an expenditure tax, a wealth tax, a gift tax, a death duty, and income tax, keeping the marginal rate of income tax low at 45%, so that property-owners could escape taxes only by saving more. Reddaway went to India as an advisor to the Planning Commission and produced a framework for India's Third Five Year Plan, using a set of input–output flows for the economy. Joan Robinson (1980) severely criticised free trade policies as recommended, for instance, by Little et al. (1970) and warned underdeveloped countries against taking foreign loans and getting into a debt trap.

Keynes from the India Office to the serious study of unemployment problems

John Maynard Keynes, after passing the Indian Civil Service examination, joined the India Office in 1906 (Moggridge 1992, 167). He looked at India's economic and financial problems entirely from the vantage point of the India Office (Bagchi 1991; Moggridge 1992, chapter 7). This perspective was reflected in his first book-length publication (Keynes 1913, quoted in Bagchi 1991, 166). He was immensely influenced by his stint with

the India Office (including his membership of the Chamberlain Commission on Indian Currency and Finance) and his experience as a Treasury official during World War I, to develop into an applied economist with an enormous capacity for paying attention to details (Robinson 1972).

Keynes remained an imperialist in his views throughout his career, from his early opposition to India's industrialisation (Keynes 1911) to his polemical piece on the Versailles Treaty (Keynes 1919), where he remained exclusively concerned with the welfare of Europe. In Bagchi (2005), I have argued that after World War 2, Keynes remained centered on the place of the British Empire in the world and the place of Europe as the fountainhead of world civilisation. He continued to believe, as he had after the first world war, that global prosperity was anchored in the restoration of European prosperity by restraining the madmen who had crafted the Versailles Treaty and the bankers who hankered after the pre-war (gold) parities of the major currencies and especially sterling (see Keynes 1919).

From the time Keynes began editing the *Manchester Guardian* Supplements on European economies, and stretching to the writing and defense of the *General Theory*, he alerted the world and the British public about the dangers of deflationary policies, competitive devaluation, free mobility of capital and lack of co-ordination among central bankers regarding the acceptable levels, and necessary changes in exchange rates (Bagchi 2005). But surprisingly for the hard realist that Keynes was, he continued to be haunted by the phantom of excessive population growth and the declining terms of trade (Toye 1997).

He engaged in a debate on the terms of trade of industrialised countries (which, according to him were declining after 1900) with William Beveridge in 1923–24 and lost (Keynes 1926; Marcuzzo 2010, 188–205). In his essay on population, Keynes argued, inter alia, that efforts to raise the standard of living in India and Egypt were negated by excessive population growth, a view shared by most British writers at the time. But his jaundiced view of the standard of living underwent a change when he wrote *The Economic Possibilities for Our Grandchildren* (1930[1932a]). There he wrote:

> From the sixteenth century, with a cumulative crescendo after the eighteenth, the great age of science and technical inventions began, which since the beginning of the nineteenth century has been in full flood—coal, steam, electricity, petrol, steel, rubber, cotton, the chemical industries, chemical industries, automatic machinery and the methods of mass production, wireless, printing, Newton, Darwin, and Einstein, and thousands of other things and men too famous and familiar to catalogue . . . .
>
> In spite of an enormous growth in the population of the world, which it has been necessary to equip with houses and machines, the average standard of life in Europe and the United States has been raised, I think, about fourfold. The growth of capital has been on a scale which is far beyond a hundredfold of what any previous age had known. And from now on we need not expect so great an increase of population. (358–359)

Keynes in the 1920s: Problem of reducing unemployment caused by Britain's declining export industries

In the 1920s, all the major export industries of Britain – coal, cotton textiles, ship-building, and engineering industries – were suffering from excess capacity largely because of the rise of new competitors, but the constriction of the domestic market was also causing problems, leading to a high level of unemployment (for a succinct analysis of the malaise of Britain's export industries, see Lewis: 1949, Chapter V).

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Keynes became directly involved with the problems of the cotton textile industry and became an advisor to the Cotton Yarn Association (Moggridge 1992, 450–451). By the end of 1926, Keynes was moving toward a new kind of liberalism, under which the state would move in to solve urgent economic and social problems.

Already in 1924 in the Sidney Ball Lecture, Keynes had announced the end of laissez faire (Crotty 2019). In this lecture, later published as a pamphlet, he argued the concepts of collective choice and collective action caused by saving-investment imbalance and instability caused by the operation of stock markets (Keynes 1934, 926). In 1928 in the Liberal Industrial Inquiry, he proposed the setting up of an Economic General Staff and a National Investment Board. In 1929, in its election manifesto, the Liberal Party proposed 'a large-scale programme of road building, house building, telephone service expansion, electrification, rail improvement, local drainage and London transport improvement' (Moggridge 1992, 461). It was hoped that this would substantially reduce unemployment. This program had Keynes's full support.

By 1932, Keynes came to have a positive view of socialism and the Labour Party. In 'The Dilemma of Modern Socialism', Keynes (1932b) pointed out that there was always a conflict in socialism between wanting to do things that are economically sound and wanting to do things that are economically unsound but that would serve higher goals like justice and equality. In conclusion, Keynes wrote:

> For my part I would like to define the socialist programme as aiming at political power, with a view to doing in the first instance what is economically sound, in order that, later on, the community may become rich enough to afford what is economically unsound. My goal is the ideal, my object is to put economic considerations into a back seat, but my method at this moment of economic and social evolution would be to advance towards the goal by doing what is economically sound. (Keynes 1932b, 156)

Keynes wrote an article called 'Monetary policy of the Labour Party' in *The New Statesman and Nation*, 17 and 24 September 1932 (Keynes 1932c). In it, he approved of the Labour Party resolution calling for the nationalisation of the Bank of England, but thought that the nationalisation of the Big Five banks, if at all implemented, could wait for a later stage. He also approved of the setting up of a National Investment Fund (it was, after all, his idea in the first place) and discussed the difficulties of running it properly, especially with regard to keeping an appropriate balance between domestic and foreign investment:

> Occasionally it would be the duty of the Board to damp down the rate of investment. But as a rule, I should expect that the chief problem would be to maintain the level of investment at a high enough at a high enough rate to maintain an optimum level of employment. I consider, therefore, that this part of the Labour programme should be more ambitious . . . The grappling of these controls is the rightly conceived socialism of the future. (Keynes 1932c, 137)

From the Treatise on Money to The General Theory

In the *Treatise on Money*, published in Volume VI of the Collected Writings, Keynes analysed the figures on investment in the USA from 1925–26 to 1929–30 and concluded that 'the boom of 1928–9 and the slump of 1929–30 in the United States correspond respectively to an excess and to a deficiency of investment' (Keynes 2013, 172):

> One might have expected that the very high short-money rates enforced by the Federal Reserve Banks would have had a more rapid effect in retarding investment

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> and so bringing the period of business prosperity to an earlier conclusion. That this was not so, is to be ascribed partly to the fact that high short-money rates reacted less than usual on bond rates, but largely to the fact that the very high prices of common shares, relatively to their dividend yields, offered joint stock enterprises an exceptionally cheap method of financing themselves. Thus, whilst short-money rates were very high and bond rates somewhat high, it was cheaper than at any previous period to finance new investment by the issue of common stocks. (Keynes 2013, 172)

This irrational exuberance was accompanied by what Keynes called 'two views' about the stock market: The 'bulls' continued to buy stocks even with borrowed money at high rates of interest, whereas the 'bears' preferred to hold their wealth in the form of money. As the latter view came to predominate, it precipitated the crisis. Keynes thus combined the analysis of the real economy with that of the financial sector.

This analysis was followed by a series of articles on the 1930s depression, pre-dating, and following the *General Theory*. For example, in 1934, answering the question, 'Can America spend its way into recovery?', Keynes wrote:

> The nation is simply, a collection of individuals. If, for any reason, the individuals who comprise the nation are unwilling, each in his private capacity, to spend sufficient to employ the resources with which the nation is endowed, then it is for the government, the collective representative of all the individuals in the nation to fill the gap. ... When the government borrows in order to spend, it undoubtedly gets the nation into debt. But the debt of the nation to its citizens is a very different thing from the debt of a private individual. The nation is the citizens who comprise it – no more and no less- and to owe money to them is not very different from owing money to one's self ... It is easy to exaggerate the extent to which the government need get into unproductive debt. Let us take, for purposes of illustration, a government hydro-electric power scheme. The government pays out money, which it borrows to pay the men employed in the scheme. But the benefit does not stop there. (Keynes 1934, 335–336)

These workers spend their wages on comforts of existence: Keynes then lays out the whole multiplier process.

While writing many such popular or semi-academic articles, Keynes, partly through discussions with the Circus – Richard Kahn, Joan and Austin Robinson, Piero Sraffa – was gearing up to produce his revolutionary *General Theory* (Keynes 1936). It is only necessary to point out that the theory applied, with allowance for some local variations, to all countries. Second, Keynes's warning is still valid everywhere:

> Speculators do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development *of a country becomes a by-product of a casino, the job is likely to be ill-done*. (Keynes 1936, 158)

Another major point of the book, namely that there is no stable relation between the quantity of money and effective demand, has been vindicated by the utter failure of monetarism either as a policy or predictive tool. Finally, as the post-Keynesians continued to argue with facts at their disposal, Keynes's central point, that in all capitalist countries it is investment rather than saving that drives effective demand and national income, still remains valid.

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In a further development and defense of his theory in the *Quarterly Journal of Economics*, Keynes wrote:

> The prices of capital-assets move until, having regard to their prospective yields and accounts being taken of those elements of doubt and uncertainty, interested and disinterested advice, fashion, convention and what else you will which affect the mind of the investor, they offer an apparent equal advantage to the marginal investor who is wavering between one kind of investment and another. (Keynes 1937, 217)

This passage, in my view, laid down the basics of the modern theory of asset bubbles.

Before I proceed any further, it should be noted that Rao (1952) argued that Keynes's theory was inapplicable to underdeveloped countries because constrained by resource crunch, an increase in investment will largely spend itself in price rise rather than in a rise in employment. Many other economists studying underdeveloped countries agreed with him. There are two answers to this. The first is that even in underdeveloped countries, there are unemployed resources, including labour and capital, so that an increase in investment will first use these unemployed resources without raising prices. Second, in chapter 21 of *The General Theory,* Keynes had foreseen that in the presence of non-homogeneous resources, after some time, an increase in investment would lead partly to an increase in the price level and partly in a rise in employment (Keynes 1936, 296).

Keynes was against the indiscriminate globalisation of production of goods and of finance in particular. In 1933, he wrote:

> I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel - these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national. Yet, at the same time, those who seek to disembarrass a country of its entanglements should be very slow and wary. (Keynes 1933, 756)

Keynes (1936) used a Marshallian partial equilibrium framework and a purely competitive system to work out his theory. It is curious that he should not have used the results of the imperfect competition model that was pioneered in Cambridge by Sraffa (1926), Kahn (1989[1930]), and Joan Robinson (1933). The assumption of imperfect competition would have not only fitted the facts of economic organisation better but would also have suited a situation of unemployment because unemployment creates market failure and the basic assumptions of perfect competition break down.

Keynes, public investment, and capitalism with a human face or democratic socialism?

The idea that Keynes might have been a closet socialist was fostered by Keynes's statement in *The General Theory* that if private decisions cannot guarantee full employment, he wanted the 'socialisation of investment' (Keynes 1936, 378). Or was he really seeking a capitalism that would serve some basic human values such as liberty, justice, equality, and people's education and health? In either case, what mechanism did he recommend for attaining either kind of state? It is important to ask this question, because, for example, in 1976 India was declared to be a sovereign, secular socialist democratic

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republic. Many African countries such as Ghana and Mali declared themselves to be socialist states. Many Arab countries adopted the slogan of 'Arab socialism'.

As I have noted earlier, by the 1930s, Keynes was sufficiently interested in a moderate kind of socialism to comment seriously on the Labour Party's election manifesto. As Crotty (2019) pointed out, Keynes deplored the cut-throat competition under capitalism and recognised that economies of scale would generate gigantic corporations with enormous power and so on. But there is no evidence that he wanted to nationalise such corporations. His moderately regulated capitalism would always leave room for private enterprise and the 'animal spirits' that drive investment and innovation.

Keynes and his close friends were greatly influenced by GE Moore's *Principia Ethica*, published in 1903, a year after Keynes went up to Cambridge to study Moral Sciences Tripos. Moore's insistence on getting the meaning of a word or phrase such as states of mind exactly right greatly influenced Keynes. He found a new religion in getting rid of the sense of original sin and defining morality for himself (Keynes 2010[1938b]). Most of his undergraduate friends became artists and writers. Keynes became a hardcore economist to pursue the quest for economic efficiency that would support art, literature, or philosophy. For him economics became a moral science (Davis 1991; Dostaler 1996). What a reader takes away from Keynes's musings and his practice as a patron of arts and philosophy is that collective choice and public investment are absolutely essential in areas in which private enterprise is unlikely to enter or will enter on terms that will do more or harm than good. This dictum is even more applicable to the governance of developing countries than of developed countries.

Two schemes of Keynes that would have benefited developing countries directly: Commod Control and the International Clearing Union

Keynes, worried about the instability of commodity prices, developed, in two articles in the *Economic Journal,* a scheme for stabilisation of commodity prices, formulated the idea of stabilising their prices with the help of publicly held buffer stocks, and intervention by the public authorities whenever the prices of commodities threatened to shoot up or crash (Keynes 1938a, 1942). He then wanted the scheme to be internationalised and at the Bretton Woods conference proposed the creation of a Commod Control agency, but could not get it accepted because of the opposition of the Americans.

The problem of price instability has subsequently become endemic to developing countries (Maizels 1988). The instability of oil and gas prices plagues developed as well as developing countries. Oil, which, along with coal and natural gas, has been the major source of energy for all countries, has displayed a very high degree of price instability since the 1970s. In 2007 dollars, the price of oil per barrel used to be US$10 to US$20, jumped to US$53 in 1974 after the OPEC Organisation of the Petroleum Exporting Countries raised oil prices in 1973, and rose to US$81 in 1981. It crashed to US$21 in 1986, skidded to US$21 in 1998 in the wake of the Asian financial crisis, and soared to US$145 in July 2008, only to fall below US$40 before the end of 2008 (Smith 2009). Oil prices have continued their roller-coaster behaviour since 2008 and have spiked after the onset of the Russia–Ukraine war. Keynes's proposal, to hold buffer stocks under an international authority, would have helped smooth oil prices.

Nevertheless, the fact of the existence of the OPEC cartel and the concentration of oil production in a few countries of the world would always have militated against the establishment of an international authority for the purpose of minimising oil price instability.

A much more feasible proposition would be to try and create an international authority to stabilise food prices. Countries of the Middle East and North Africa are utterly dependent on imports for their food needs. There are other countries in Africa and Latin America

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which also import large amounts of food to supplement their own output. The Covid-19 pandemic and droughts induced by the climate crisis had already pushed some countries to the brink of mass hunger. The Russia–Ukraine war has aggravated the crisis because Russia and Ukraine account for 30% of the world's wheat output and a much larger proportion of global wheat exports (Behnassi and Habiba, 2022; Hassen and El Bilali, 2022). The authority of Commod Control would surely have gone a long way in mitigating hunger and enhancing food security in many developing countries.

Another plan of Keynes's would have benefited most developing countries that chronically suffer balance of payments deficits. During the pre-Bretton Woods negotiations that led in the end to the establishment of the International Monetary fund (IMF), Keynes, leading the British delegation, proposed an International Clearing Union (ICU) allowing countries to finance their payments imbalances by building up and running down balances called 'bancor', to be used solely for international settlements. Assets of the ICU would consist of a new reserve currency, the 'bancor', and its liabilities would be central bank deposits. Each country would be assigned a quota of 'bancor' and allowed overdrafts according to this quota. The agents of clearing would have been central banks and multilateral clearing would be attained by the transfer of 'bancor' in which the surplus countries had a credit balance with the ICU while the deficit countries had a debit balance (Moggridge 1992, 672–74). Member nations would pay a quota in proportion to their total trade. Surplus countries would build up large 'bancor' balances on which they would be charged interest. As the major surplus country was the USA, its negotiating team, led by Harry Dexter White, vetoed the ICU scheme and proposed an alternative International Stabilisation Fund. This, however, had no multilateral clearing mechanism and its proposed currency, the 'unitas', was only a unit of account. White's proposal for a settlement of imbalances using a mixed bag of currencies 'of good standing' was rejected by Keynes, as was his alternative of monetising the 'unitas' through permission for a nation to borrow 20% above quota, and undertake its currency to another member in exchange for the transfer of 'unitas' at parity on the books of the Fund. The US delegates were constrained from expanding the American commitment beyond what would be domestically acceptable (Williamson, 2011). The outcome was the establishment of the IMF, whose neoliberal impacts are discussed below.

Trashing Keynes's legacy: Neoliberalism, the IMF, the World Bank, World Trade Organisation, and financialisation

It was after the end of the so-called Golden Age of Capitalism (Marglin and Schor, 1990) – from say 1945 to 1970 – that we witness the full unfurling of neoliberalism. Neoliberalism is a symptom of capitalism in extremis, of the involution of the system. It dissolves all social ties and makes money the measure of everything. As Turner (2007) has pointed out, ever since Adam Smith popularised free trade as a doctrine, neoliberalism was lurking around the corner. In Britain in the nineteenth century, it was restrained by the rulers' realisation that a healthy and educated working class was in their own interest as well as by the rise of the power of the working class in the first industrialising nation. However, in the USA, with a tradition of slave-holding and from the second part of the nineteenth century, an enormous influx of cheap European labour, there was no such restraint. One of the key features of neoliberalism is that it seeks to privatise everything, including water supply, public transport, health, and education. As an early example, in the late eighteenth century, Aaron Barr, then a state senator, established the Manhattan Corporation to supply water to New York City. But Philadelphia organised a public utility and supplied water more cheaply. There was a ding-dong battle between the privatisers and the pursuers of public interest (Cohen and Mikaelian 2021).

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The basic ideology of neoliberalism was propounded by Friedrich von Hayek, who was funded by an anti-New Deal capitalist. Then the Chicago School of Economics, led by Milton Friedman, made it a mission to propagate and implement neoliberalism globally (Nik-Khali and Van Horn, 2012). However, developed countries had to wait until the so-called Golden Age of Capitalism was over, with the USA giving up the linking of the dollar to gold (Marglin and Schor 1990). There followed a period of stagflation, marked by workers' movement struggles to retain the gains they had made during the Golden Age and the oil crisis, with OPEC quadrupling oil price in 1973. In 1973, the basic theory of derivatives, one of the instruments of neoliberalism, was formulated (Merton 1973; Black and Scholes 1973). Then the coming to power of Margaret Thatcher and of Ronald Reagan completed the victory of neoliberalism in developed countries and fostered its spread through the rest of the world (Harvey 2005).

We have seen that the first casualty of neoliberalism in the twentieth century was Keynes's proposal for an ICU, discussed in July 1944 as part of the United Nations Monetary and Financial Conference at Bretton Woods. This proposal was unacceptable to the USA, the principal surplus country of the time. Instead, the IMF was born (Boughton 2002).

As an example of the consequences, I will cite only the troubles of Argentina as the paradigmatic case of the depredations of the IMF in developing countries. Similar stories can be told about all countries of Latin America and Sub-Saharan Africa. Argentina's troubles started in 1976, when Isabel Peron, then President of Argentina, faced with hyper-inflation and a large balance of payments deficit, was negotiating for an IMF standby loan, but the IMF was dragging its feet. Then the military junta carried out a coup and after a week, without any negotiation, the IMF granted a loan of over US$100 million to Argentina. Thus, the IMF was complicit in the dictatorship from the beginning (Cooney 2007), as it was also complicit with the Pinochet dictatorship in Chile. The junta decided to give up promotion of manufacturing and decided to focus on agro-industry, because this would quell labour unrest and please multinational capital, which would no longer have to compete with subsidised domestic manufacture. After the military take-over, Argentina's debt ballooned resulting in a full-blown debt crisis in 1982. Neoliberal reforms were then mandatory under the dictates of the IMF, followed by the World Bank. When the dictatorship collapsed because of its defeat in the Malvinas war, the democratically elected government of Raul Alfonsin tried to break away from the neoliberal reforms but soon had to give in and seek an IMF loan, as the balance of payments deficit deteriorated. Argentina was forced to lift trade restrictions (Cooney 2007). The succeeding Carlos Menem government, with Washington's poster-boy Domingo Cavallo as finance minister, went beyond IMF requirements, to privatise public enterprises, including banks, utilities, and social security, and to dollarise the economy (Cooney 2007; Ciblis and Vuolo, 2007). However, Argentina's public debt continued to grow mainly because of the many concessions made to predominantly domestic capital. Capital began to flow out of the country and in 2001 Argentina defaulted on its record debt of more than US$100 billion. After several changes in government Nestor Kirchner became president. He refused to bow down to the IMF and began separate negotiations with the creditors, offering them a reduced scale of payments. Defying all predictions, the economy began to grow at a fast clip (Rohter 2004). Argentina has again got into trouble and sought an IMF loan, but the stand taken by Argentina in 2001–2 should be encouraging for others.

Actually neoliberal reforms started not in Argentina nor Chile, but in Indonesia in 1965, when General Suharto came to power by carrying out a coup against President Sukarno and a genocide of a million Indonesians, eliminating the largest communist party outside China (Bevins, 2017; Cribb 2001; Ransom 1970). According to these authors' research, cultural and diplomatic preparations for the implementation of neoliberal reforms, replacing the nationalism of Sukarno, were prepared in the USA. Two young

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Indonesian aristocrats, Soedjatmoko, called 'Koko' by his American friends, and an economist and diplomat named Sumitro Djojohadikusumo, led the assault. The Ford Foundation, the CIA, and the training of Indonesian generals by the US army were also involved. So imperialism was complicit with neoliberalism from the very outset.

An example of neoliberal impacts can be found in a study of 41 countries which borrowed from the IMF. The study, carried out by the Washington-based Center for Economic and Policy Research, found that 31 of the 41 agreements analysed contained pro-cyclical macroeconomic policies – requirements for either fiscal or monetary measures that, in the face of a significant slowdown in growth or a recession, would be expected to exacerbate the downturn. In 15 cases, both fiscal and monetary pro-cyclical measures were mandated (Weisbrot et al. 2009). One reason for this situation is that in all IMF and World Bank mandated adjustment policies, 'austerity' had become a mantra (Blyth 2013).

The World Trade Organisation (WTO) is the latest and in some ways the most lethal instrument for damaging all people-friendly policies globally. It was the result of a conspiracy hatched from 1972 by Edward Pratt, CEO of Pfizer, the biggest drug company in the world and also one of the most profitable, assiduously assisted by the US government. In order to fend off competition from drug companies from developing countries and much looser patent protection, Pratt and the US government decided to link intellectual property rights to trade agreements. Before the birth of WTO, international trade-related matters were handled by the General Agreement on Trade and Tariffs and intellectual property matters by the World Intellectual Property Organisation. Some of the most important steps toward the foundation of WTO are as follows.

In 1974, the US Trade Act was passed. It includes the Jackson–Vanik Amendment linking trade to intellectual property. Section 301 of this Act gives the US government authority to investigate 'unfair practices' of other governments and impose punitive tariffs and other restrictions on imports from that country. Beginning with South Korea, Section 301was used to target problem countries including Brazil, India, Mexico, China, Egypt, Korea, Saudi Arabia, Taiwan, and Thailand. Along with such coercion on developing countries, persuasion was used by Pratt, who, in 1981, became chairman of the Advisory Committee on Trade Negotiations. Pratt and other US officials managed to persuade all the developed countries Europe, Japan, Canada, Sweden, Switzerland, and Australia to join Friends of Intellectual Property in 1986. By then the die was cast. On April 15, 1994 TRIPS (the agreement on Trade-Related Aspects of Intellectual Property Rights) was signed as part of Final Act of Uruguay Round. On January 1, 1995, TRIPS came into force (Drahos and Braithwaite 2002).

Before the TRIPS provision granted patents on products and processes, several developing countries, including Brazil and India, had been able to produce much cheaper generics than the versions produced by multinationals (Chaudhuri, 2005). The WTO allowed some flexibilities in TRIPS in cases of national emergencies such as those of public health. South Africa was the country most devastated by HIV/AIDS. In 2002, in the wake of a well-publicised campaign, the South African government sought cheaper drugs from the pharmaceutical companies for their AIDS patients. The companies were forced by public opinion more generally and Amnesty International to back down and agree. At the WTO meeting in November 2002, it was announced that the WTO would allow cheaper drugs for developing countries. Then, a month later, the WTO changed its mind 'They did so because US pharmaceutical companies objected to the impact that cheaper drugs for South African AIDS victims would have had on their profits' (Mooney 2012, 75–76). The US government also weighed in on the side of the drug companies. But eventually, bolstered by global public opinion, the South African government won. However, because of the long period of patent protection and the multinationals' ability to tweak patents to make them much longer, essential drugs have been much costlier for the poor everywhere.

The effect of the General Agreement on Trade in Services can be briefly told. Many of the banks domiciled in developed countries had already an extensive branch network in

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developing countries. Now insurance companies have established subsidiaries or joint ventures in developing countries. Many universities from developed countries also opened branches in developed countries. All these generally cater to an elite clientele and undermine publicly funded institutions.

The 'trade related investment measures' (TRIMS) provisions of the WTO, as Wade (2003) observes, effectively deprive developing country governments of their autonomy in choosing companies they permit to operate in their territory. Their regulatory powers are restricted, such as their power to require a minimum local content in their production: 'In effect, the new regulations are designed to expand the options of developed country firms to enter and exit markets more easily, with fewer restrictions and obligations, and to lock- in their appropriation of technological rents' (Wade 2003, 1).

Finally, I turn to financialisation because as I have noted above, basically Keynes wanted finance to serve the real economy, not the other way round. The basic theory of financialisation of the economy was developed by Hilferding (1981[2010]), basing himself on the credit economy chapters of Marx (1966[1894]). As Epstein (2002, 1) has defined it: '"Financialization" refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international levels'. He focuses on one aspect, the increased use by central banks of 'inflation targeting'. Investment bankers such as James Pierpont Morgan were already dictating terms such as mergers and cartelisation to their industrial clients. With the development of futures markets, options pricing, and options pricing analysis, financiers could play havoc with the real economy. As Rajan (2005) pointed out, these financial innovations have made economies much more prone to crashes and fluctuations, from the Latin American debt crisis of 1982, Black Monday in the New York stock market in 1987, through the Savings and Loans crisis, the Asian financial crisis of 1997–98 (Dodd, 2000), the dot.com crisis, the subprime crisis in the USA, the Northern Rock crisis in Britain, and the financial crash of 2008, leading to a long-drawn-out recession. As Stockhammer (2010) has pointed out, capital market liberalisation (one aspect of TRIMS) has not led to a sustained growth in investment: there has been a roller-coaster behaviour of capital inflows and outflows, creating great uncertainty and turbulence in the economy.

Keynes would have tried his level best to prevent the developments narrated in this section.

Conclusion

This tribute to Geoff Harcourt has noted his warm but critical relationship to the Keynesian and post-Keynesian traditions. In 1924, Keynes cited words of Marshall's:

> It will be my most cherished ambition, my highest endeavour, to do what . . . I may, to increase the number of those whom Cambridge, the great mother of strong men, sends out into the world with cool heads and warm hearts, willing to give some at least of their best powers to grappling with the social suffering around them, resolved not to rest content till they have done what in them lies to discover how far it is possible to open up for all the material means of a refined and noble life. (Marshall, cited by Keynes 2024, 367)

In 2013, Geoff's son Tim, writing in a festschrift co-organised with Geoff for their dear friend John Nevile, *ELRR*'s patron, invoked the 'cool heads, warm hearts' ideal. It is one that defines the lives, work, and contributions of both JM Keynes and GC Harcourt.

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