

Preface

When Richard Nixon, the US president of the day, took the US dollar off the gold standard on 15 August 1971, it produced major disturbances on national and global financial markets, and also marked the beginning of the end for what had up until then been the dominant intellectual influence on official economic policy-making in the largest world economy, Keynesian economic thought, or so it seemed. Definite confirmation that the system of fixed exchange rates had been abandoned in favour of a freely floating US dollar came in March 1973. As the most important global currency began to suffer major volatility, it meant not just the end of the international financial system based on fixed exchange rates, but also the start of a series of major disruptions on global and national markets for goods, services and financial assets.¹

The first markets for financial derivatives were established in the same year as the United States formalised its transition to a freely floating dollar. That year also saw the first oil crisis, when the price of oil practically quadrupled in just 2 months, a reaction on the part of the oil-producing countries that was both prompted by the fall in the dollar and represented a coordinated approach to limit the supply of this key fuel. The following year, 1974, the Basel Committee for Banking Supervision was created. At the time, 9 of the 10 largest banks in the world were American and the most important oil producers kept their deposits with them. In 1974, the developing countries mooted a proposal to establish new global economic relations, to be called the New Economic Order. Their intention was to respond to the urgent problems caused by rising oil prices, problems financing postcolonial recovery and attempts to re-establish the rules for international trade in goods and services on a new basis.

Chapter 1 of this book presents the international context and some of the reasons that led to this weakening influence of Keynesian economic thought at the

¹ This book has been translated by a native speaker, Desmond Maurer, MA.

beginning and, more especially, during the second half of the 1970s, and the subsequent strengthening of the intellectual influence of the New Classical macroeconomics. It also presents certain Keynesian economic responses offered by circles of economists who belonged (and still belong) to the neo-Keynesian and new Keynesian schools of economic thought.

Because of the intellectual influence previously enjoyed by Keynes' *General Theory of Employment, Interest, and Money*, an influence in large part recovered during the current global financial and economic crisis (to such a degree, indeed, that between 2008 and 2014, it has dominated economic policy-making in the most developed and largest economies of the world, particularly the United States and Japan), Chap. 2 of this book is dedicated to a commentary on the Master's great work. This decision to offer a concise interpretation of the *General Theory* stems from the fact that, although without doubt one of the most significant works of economic science, it nonetheless leaves unresolved a whole series of questions to which Keynes, whether because of his own lack of time or because of his primary focus on dealing with internal imbalances under given technological conditions (in the short-term), either provided no answer or provided answers which served in the 1930s his goal of securing an exit from the immediate trough of the business cycle, but fail to provide clarity now, in an environment of globalisation and very high international mobility of capital, as to the impact of the economic policy measures applied during the global crisis, even though they were almost entirely based on his immediate recommendations for a combination of expansionary monetary and expansionary fiscal policy in the *General Theory*.

Chapter 3 deals with the impact of financial liberalisation on the efficiency of economic policy of major economies in the world, from one side, and its impact on the cost structure in production of globally integrated manufacturing companies. The international capital mobility arising from the financial liberalisation measures implemented in developing countries, particularly the most populous ones like China and India, brought about a sharp reduction in the costs of production, compared to the same costs on the national markets of developed countries. Consequently, one of the fundamental assumptions of both the new classical model and the new Keynesian model of production in developed market environments, that is, the assumption of growing marginal costs and the consequent preoccupation with inflationary pressures, ceased to be a key problem in the period from 1990 to 2010 in the globally connected major economies.

On the other side, the measures of financial liberalisation adopted during the 1990s and in the first 5 years of this century created a situation in which the money supply was predominantly endogenously determined, that is, determined on the basis of the business policies and profit motives of banking groups which unified the operations of commercial and investment banking, as well as those of trading in financial derivatives on rapidly growing and, between 2000 and 2009, almost entirely deregulated over-the-counter markets. Given a US monetary policy that was, during the periods in which financial bubbles were being created, powerless (or uninterested) to step in, through determined measures to increase the interest rate, the enormous growth in lending activity from 2002 to 2008, particularly on the

interbank market, and given the multiple systems for ensuring through the issue and sale of financial derivatives that risk transferred *de facto* onto the public budget, a situation was created which is best described in theoretical terms in the works of the post-Keynesian economists who developed the monetary circuit theory.

Sarajevo, Summer 2014

Fikret Čaušević

The Global Crisis of 2008 and Keynes's General Theory

Causevic, F.

2015, XII, 99 p. 17 illus., Softcover

ISBN: 978-3-319-11450-7