International Money and Keynes:
What should we learn from him for a sound key currency?

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Summary

In memory of John Maynard Keynes who departed from this life 70 years ago, this paper critically explains international monetary history, based on his international monetary theory. As this paper shows, Keynes's international monetary theory opposes American common theories which are prevalent today in the field of international monetary economics. Historically, this opposition reflects the not-very-good Anglo-American relationship on international monetary affairs before World War II in the process of Britain's decline and the United States' rise as the key-currency country. After World War II, while Keynesian macroeconomics has extensively been accepted by many US economists, Keynes's international monetary theory has substantially been ignored or regarded as heterodox by them who have preferred their own international monetary theories convenient for "explaining" US international monetary behaviors. I think, however, that Keynes's international monetary theory should really be orthodox in the field of international monetary economics even today and that US international monetary theories presented after World War II are fallacious academically. This paper thus criticizes Triffin's, Kindleberger's and McKinnon's theories in historical context, from the viewpoint of Keynes's theory, for the sake of a sound key-currency system in the future.

This paper is constructed as follows. I first explain that Britain before World War I observed a certain principle in supplying the pound sterling to foreigners and that the observance of the principle essentially supported the stable gold-pound convertibility in that era (1880-1913) on the basis of Britain's small amount of gold reserve. Keynes understood already in his young age the principle's importance for the pound sterling's confidence. I therefore call the principle the Keynes principle. Next, I explain that Britain deviated from the Keynes principle after World War I and that the United States didn't take over the principle in the interwar years (1919-1939). Then, I explain how the US dollar was supplied to foreigners under the Bretton Woods system and why the gold-dollar convertibility collapsed, from the viewpoint of Keynes's international monetary theory. Next, I criticize the Triffin dilemma proposition which many US economists have used in explaining the collapse of the gold-dollar convertibility. I argue that the proposition contradicts the Keynes principle and Britain's experiences before World War I. Then, I criticize the "popularized" version of the Triffin dilemma proposition, Kindleberger's "minority view", and McKinnon's argument on the "N−1" problem. All of these US international monetary theories are convenient to US economists and the US government for excusing or justifying US "deficits", but are contrary to the Keynes principle. Finally, I state the conclusion, hoping that the knowledge of the Keynes principle would become widespread and be utilized for a sound key-currency system.