Post-Keynesian Policies for Emerging Economies:
From 'The End of Laissez-Faire' to the end of neoliberalism?

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Abstract: This article revisits John Maynard Keynes' critique of laissez-faire and his proposal for a managed capitalism, interpreting it through a Post-Keynesian lens with particular attention to emerging market economies (EMEs). Given that, first it reconstructs Keynes's rejection of economic liberalism and his conception of a monetary economy, second it draws on Post-Keynesian contributions to show that Keynesian policies should be understood not merely as countercyclical tools, but as a broader institutional framework in which fiscal, monetary, and financial policies continuously shape investment and growth dynamics, and third it examines the constraints EMEs face due to financial globalization, currency hierarchy, and volatile capital flows, which limit policy autonomy.

Key words: Laissez-faire, Keynes, Economic policies, Financial globalization, Emerging economies

Jel classification: B22, E12, E52, E62, F31

1. Introduction

In *The End of Laissez-Faire*, published in 1926, John Maynard Keynes analyzed the individualism doctrine and the liberal economic system, in which later in the 1930s he not only criticized and rejected, but also proposed to replace an alternative economic system, that is, a managed capitalism with 'visible hand' of the State to induce, stimulate, regulate and stabilize the economy. In his words,

> "I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends that any alternative system yet in sight [...]." (Keynes, 1926/1972: 294)

In Chapter 24 of *The General Theory of Employment, Interest and Money* (1936/2007), hereafter GT, Keynes stated that

> "I conceive […] that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of

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> compromises and of devices by which public authority will co-operat.e with private initiative." (Keynes, 1936/2007: 378)

For Post-Keynesians, the idea of 'socialization of investment' concerns the creation of endogenous institutional mechanisms, that is, the existence of a State organization, to mitigate the economic uncertainty when the economic agents make spending decisions, such as consumption and investment (Ferrari-Filho and Conceição, 2005).

Given that, the aim of this article is to present and analyze Keynes' critical ideas on liberalism and his economic policy prescriptions to reform capitalism, and also to discuss how Keynesian policies should be implemented in emerging market economies (EMEs). To this end, first, we examine Keynes' critical vision of economic liberalism and his ideas and arguments to explain the *modus operandi* of a monetary economy and also to formulate a monetary theory of production. Second, based on some ideas and arguments of Post-Keynesian economists – such as Arestis and Sawyer (1998; 2013), Cardim de Carvalho (1992; 1997), Kregel (1994-1995) and Seccareccia (2011-12), among others –, we argue that Keynes' vision of 'socialization of investment' goes beyond adopting countercyclical economic policies, with State policies playing a permanent role in the economic cycle in order to reduce economic fluctuations and achieve full employment. Third, we discuss the implementation of Keynesian economic policies for EMEs to increase policy space[1] for domestic purposes, independent of international conditions. In this particular, our argument is that EMEs face distinct challenges in implementing Keynesian economic policies originally designed for advanced economies.

It is important to mention that EMEs' integration into the global financial system is marked by deep structural asymmetries, both monetary, due to a hierarchical currency system that limits the liquidity and credibility of their currencies, and also financial, given their exposure to volatile, pro-cyclical capital flows driven by investor sentiment and global financial cycles. These conditions severely constrain their policy autonomy,

[1]Policy space for EMEs refers to the effective scope of autonomy that governments have to design and implement macroeconomic, financial, and industrial policies to achieve development objectives, without being constrained by external factors (such as volatile capital flows, exchange-rate pressures, and international agreements) or domestic vulnerabilities (like high inflation, fiscal fragility, or financial instability). It reflects the degree to which policymakers can use economic policies – monetary, fiscal, financial, and industrial – to support structural transformation and growth while maintaining macroeconomic stability.

forcing them to maintain high interest rates to attract capital and rendering them vulnerable to sudden reversals and crises.

This article revisits Keynes's critique of laissez-faire and his proposal for a managed capitalism, arguing – within a Post-Keynesian framework – that the 'socialization of investment' implies a permanent and active role for the State in stabilizing expectations, sustaining effective demand, and promoting structural change. It proceeds in three steps: first, it reconstructs Keynes's rejection of economic liberalism and his conception of a monetary economy driven by uncertainty, expectations, and non-neutral money; second, it draws on Post-Keynesian contributions to interpret Keynesian policies not merely as countercyclical tools but as a broader institutional framework in which fiscal, monetary, and financial policies continuously shape investment and growth dynamics; and third, it examines how such a framework can be adapted to emerging market economies, emphasizing the constraints imposed by financial globalization, currency hierarchy, and volatile capital flows, and outlining a coordinated policy mix – combining monetary, fiscal, exchange-rate, and regulatory instruments – to expand policy space and support development objectives despite external constraints.

The article is divided into three sections. Section 2 presents Keynes' critical view of economic liberalism and his analysis of the *modus operandi* of a monetary economy. Section 3 discusses how to implement Keynesian economic policies to EMEs. Section 4 concludes the article.

2. Keynes' critical view of economic liberalism, the *modus operandi* of a monetary economy, the role of the State and the Keynesian economic policies

2.1. A critical view of the liberal economy and the modus operandi of a monetary economy

Keynes' *The End of Laissez-Faire* is a key essay arguing against the economic foundations of liberalism doctrine, that prevailed from the 18th century to the First World War, such as (i) free market and free economic competition and, as a result, minimal government intervention in the economy,[2] that is, in the business affairs, (ii)

[2] The liberal doctrine argued that the government should only intervene in the economy to ensure property rights and individual freedom.

free trade policy, and (iii) gold-standard monetary system.[3] It is important to mention that the theoretical principles of economic liberalism are as follows: quantity theory of money (QTM), theory of loanable funds (TLF), and Say's Law.[4] Moreover, in his essay, Keynes not only criticized the principles of economic liberalism, but also its moral philosophy, i.e. self-interest as being the best way to economic and social prosperity.

In general, Keynes argued that, on the one hand, economic liberalism is insufficient to maintain full employment and, for this reason, government intervention, particularly in terms of fiscal and monetary policies, is necessary to stabilize the economy. On the other hand, given that private interests cannot align with public interests,[5] Keynes stated that only an institutional arrangement would be able to coordinate economic and social management.

Thus, *The End of Laissez-Faire* was an important step for Keynes, in the 1920s and, mainly, 1930s, to develop his insights about the role of the State in a monetary economy.

Let us explore these arguments.

Going straight to the liberalism's philosophical roots, Keynes argued that "[t]he individualism of the political philosophers" (Keynes, 1926/1972: 275) influenced the citizens and governments to believe that self-interest and a free-market economy, without any government intervention, were able to create a prosperous political, economic and social system.

Keynes was convinced that *laissez-faire*, defined as an economic and political system grounded upon free markets, with government restrictions, in which economic agents pursue their self-interests, could not understand and solve the post-First World War's economic and social problems. Thus, in his view, it was necessary to rethink and reform, respectively, both economic theory and capitalism. The results of Keynes' subsequent efforts were not only to elaborate a monetary theory of production[6] to

[3] The gold-standard was a monetary system in which the unit account of payment was based on a fixed quantity of gold.

[4] Briefly, (i) the QTM suggests that there is a direct and proportional relationship between the quantity of money and the general price level, and, as a result, money is neutral in the economy system, (ii) the TLF argues that the interest rate is determined by the interaction of supply and demand for loanable funds in financial markets, and (iii) the Say's Law means that supply creates its own demand and, as a consequence, the economy tends to be in equilibrium.

[5] In Keynes' words, "private interest and social interest are not harmonious." (Keynes, 1926/1972: 282)

[6] According to Keynes (1979: 78), the monetary theory of production means that in an entrepreneurial economy the "process of production will not be started up, unless the money proceeds expected from the sale of the output are at least equal to the money costs which could be avoided by not starting up the process." For additional details see Cardim de Carvalho (1992).

understand the *modus operandi* of capitalist economies, but also to propose economic policies, both at the national and international levels, to mitigate economic instability.

How, in his main articles and books, did Keynes criticize and reject the liberal economy and, therefore, develop an alternative theory to the Classical economic theory, and propose some institutional measures to reform the capitalism?

In the 1920s, Keynes, in *The End of Laissez-Faire*, *Am I Liberal?*, *A Tract on Monetary Reform* (Tract), and *Economic Possibilities for our Grandchildren*, the last three works were published, respectively, in 1925, 1923, and 1930, criticized and rejected some principles of the economic liberalism and presented some insights that would be the roots of his monetary theory of production and his proposal to reform the capitalism.

In Tract (1923/1971), specifically in chapter 3, Keynes rewrote the QTM in order to introduce, implicitly, the notion of expectations in the economic agents' demand for money. By doing this, his idea is to show that the direct and proportional relationship between the quantity of money and the general price level is true only in the long term because in the short term, the price level affects the income distribution and, as a consequence, the economic production.

Thus, he used a metaphor to argue that money is not neutral in the short term. In his words, "[n]ow 'in the long run' this is probably true [...] But this *long run* is a misleading guide to current affairs. *In the long run* we are all dead." (Keynes, 1923/1971: 65)

This idea of non-neutrality of money would be developed by Keynes in the 1930s with his monetary theory of production.

In *Economic Possibilities for our Grandchildren* Keynes' attention is focused on an issue that would be fundamental for the elaboration of his monetary theory of production that was developed in the 1930s, namely, the pathology of money.

According to Keynes (1930/1972: 323 and 329), "the slow rate of progress" was related to "the failure of capital accumulate" because the main driver of capitalist system was "[t]he love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life […]". So, he believed that the developed society would need "great changes in the code of morals" (Keynes, 1930/1972: 329). In other words, the 'love of money' should be eliminated as the core of individual behavior.

Thus, Keynes' utopia was to replace the 'love of money as a possession' with the love of living. In this stage, individuals would have resolved their economic burdens and thus have the opportunity to "cultivate into a fuller perfection, the art of life itself, and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes" (Keynes, 1972: 328).

In the 1930s, Keynes elaborated his monetary theory of production that was developed in three steps.

First, in *A Treatise on Money* (TM), published in 1930, Keynes outlined an asset choice theory to link the real (industrial circulation of capital) and financial (financial circulation of capital) markets. In the industrial circulation, income and business deposits provide monetary resources to boost consumption and investment, while in the financial circulation, money is either used as a buffer against uncertainty or to speculate in financial markets. In conclusion, given the behavioral expectations of economic agents – bullish and bearish, that is, optimistic and pessimistic outlooks on the future, respectively – money is not neutral, as argued in the QTM. In other words, money affects the levels of production, employment and distribution.

Second, in 1932 and 1933, Keynes typed and handwritten fragments to be part of GT. One of those fragments was *The Distinction between a Co-Operative Economy and an Entrepreneur Economy* (Keynes, 1933/1979), which explicitly presented the main idea of a monetary theory of production.

After defining both economies, 'co-operative' and 'entrepreneur', Keynes, going in the same direction of Karl Marx's idea, that pointed out that the nature of production in the economic world is not C – M – C' (that is, exchanging commodity for money in order to obtain another commodity) but M – C – M' (i.e. initial money obtains commodity in order to have more money), argued that in an entrepreneur economy,

> "the entrepreneur is guided, not by the amount of product he will gain, but by the opportunities for using money having regard to spot and forward price structure taken as whole." (Keynes, 1933/1979: 83)

Thus, according to Keynes, while in a co-operative economy Say's Law prevails, in the second one, production only takes place when the costs of production are smaller than the expected return. Moreover, the purpose of a co-operative economy is the accumulation of goods, whereas monetary accumulation is the aim of business people in Keynes' entrepreneur economy.

Finally, in GT Keynes (1936/2007: vii) conceptualized monetary economy as "essentially one in which changing views about the future are capable of influencing the quantity of employment and not merely its direction". It means that expectations, indirectly, cause fluctuations in effective demand because they influence the demand for money of the economic agents.

The GT has two specific objectives: first, it is explained why in a monetary economy the economic system is not self-correcting either in the short-run and in the long-run; and second, it is suggested countercyclical economic policies to mitigate the economic problems of capitalism, such as fluctuations of effective demand, unemployment, and income and wealth concentration.

According to Davidson (1994), the GT arguments are developed in a context in which the real world has the following characteristics: (i) money matters in both the short-run and long-run, (ii) the future is uncertain, (iii) contracts are denominated in money terms, (iv) money has two specific properties that differentiate it from the other producible goods, and (v) unemployment always occurs in a monetary or entrepreneurial economy, that is, an economy in which fluctuations of effective demand are explained as a monetary phenomenon.

Focusing on Chapter 17 of his GT, Keynes showed why money matters in a monetary economy. Considering that money has two essential properties which follow from the existence of uncertainty – that is, money's elasticity of production is zero (or negligible), and money's elasticity of substitution with respect to the products of industry is zero (or negligible) –, fluctuations in effective demand occur because, when the future is uncertain, economic agents decide to hold money as a store of value. As a consequence, they postpone their expenditure decisions, consumption and investment. In other words, effective demand fluctuations and unemployment equilibrium can always occur because, when the future becomes more uncertain, economic agents increase their demand for liquid assets, mainly money, an asset that is liquid *par excellence*, at the expense of purchasing producible goods. Consequently, consumption declines, investment is postponed, and, finally, unemployment increases.

To sum up, the central issue in Keynesian theory, therefore, concerns the relationship between uncertainty and money. Post-Keynesian theory, for instance, recovers this fundamental Keynesian insight: fluctuations in effective demand are related to individuals' liquidity preferences seeking safeguards against uncertainty; thus, money *is not* neutral (Cardim de Carvalho, 1992; Davidson, 1994).

2.2. The role of the State and the economic policies[7]

As is well known, Keynes did not develop a specific theory of the State, but based on his writings, it is possible to speculate about the role of the State in a modern monetary economy.

In *The End of the Laissez-Faire*, he argued that the survival of capitalism would rely on the 'visible hand' of the State, which is responsible for inducing, regulating, stabilizing, and, ultimately, investing to mitigate the economic instabilities and socioeconomic dysfunctions of the economic system. Thus, on the one hand, Keynes rejected the principles of *laissez-faire* and criticized the doctrinaire Socialism, and, on the other hand, he proposed an *Agenda* of the State "to work out a social organization which shall be as efficient as possible without offending our notions of a satisfactory way of life." (Keynes, 1926/1972: 294)

In *Am I a Liberal?* Keynes (1925/1972: 306) argued that "we must find new policies and new instruments to adapt and control the [...] economic [system] [...] to what is fit and proper in the interests of social stability and social justice." These new policies and instruments, he hoped, would be essential to building a modern capitalism(that is, the social organization) in which public interest should emerge from a collective action by individuals.

For Keynes, the economic system was entering a period of transition characterized by the principles of a new liberalism or, according to O'Donnell (1989), social liberalism. In O'Donnell's words (1989: 286 and 293), Keynes was committed to thinking about and articulating an economic system

> "not individualistic or *laissez-faire* capitalism [...] but consciously and wisely managed capitalism with an active supervisory state […] [in which] the ultimate goal was a decidedly non-capitalist utopia, a form of society with greater similarities to communist or left-wing utopias than to ideal societies built on capitalist or free market norms."

Going in this direction, a key element that appears explicitly and implicitly, respectively, in *The End of the Laissez-Faire* and in *Am I Liberal?* is Keynes' proposal related to regarding the *Agenda* of the State.

This *Agenda* is a set of actions that the State must create to assure welfare and secure the stability and social justice required for long-term progress. The State's actions

[7] This section is partially based on Terra *et al* (2021).

include, among others, economic policies designed to stabilize the economic cycle, distribute wealth and income, maintain financial stability, and enable a functional credit system.

It is important to mention that, in our view, the *Agenda* of State should have tools to limit individual action when it creates "risk, uncertainty, and ignorance [the greatest economic evils of the capitalism]" (Keynes, 1926/1972: 291). Thus, the State action should include in the *Agenda* ways to furnish a set of information, in order to reduce uncertainty, essential conditions to stimulate the private spending, consumption and investment. For this purpose, he pointed out the positive stabilizing role played by "semi-autonomous bodies" within the state and semi-public corporations in the private sector (Keynes, 1926/1972: 288-90).

In GT, Keynes (1936/2007) argued that the

> "State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest [...] Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment."

The quote above can be interpreted in two ways. Some theoretical approaches, believe that Keynes' only proposal for stimulating effective demand is State intervention. For others, the idea of 'socialization of investment' concerns the creation of endogenous institutional mechanisms, such as the existence of a State organization, to mitigate uncertainty surrounding individual decisions.

As mentioned in the Introduction of this article, the second interpretation is explored by Ferrari-Filho and Conceição (2005). Originally, the authors argue that Keynes' GT notion of 'socialization of investment' can be seen as the State creating the best business environment – for instance, in terms of operationalization of fiscal, monetary and exchange rate policies – to reduce the uncertainty and, as a consequence, stimulate the private spending (see also, Cardim de Carvalho, 1997).

In the same line, Marcuzzo (2010: 190) argues that Keynes proclaimed what needed to be done in order "to sustain the level of investment, but it should be interpreted more in the sense of 'stabilizing business confidence' than a plea for debt-financed public works."

In this connection, Seccareccia (1995) emphasizes that Keynes supported the creation of a National Investment Board (NIB) to achieve full employment by

strategically regulating aggregate investment expenditures through effective control of long-term financing. Keynes argued that such a Board should pool the substantial funds accumulated by various public and semi-public institutions. Functioning much like a large publicly run investment bank, the NIB would be responsible for providing long-term financing for investment projects. In this sense, the socialization of investment requires public institutions capable of sustaining long-term financing under conditions of uncertainty.

Given the intrinsic uncertainty in the decision-making of agents, development banks – as the financial arm of public policy – have the capacity to create and shape markets over a long-term horizon, to promote structural changes in a country or region, in favor of resolving major development challenges. These banks can be used to channel credit for sectors with high externalities in the economy (infrastructure, environmental projects, etc.), ensuring that investment is not held hostage by the 'defensive' behaviors of the private financial sector, in addition to fulfilling an important counter-cyclical role during periods of economic slowdown when the banking sector tends to contract the supply of credit (Mazzucato and Penna, 2016).[8]

What does Keynes expect the State to aim for as its ultimate target? According to him (1936/2007: 372), the State would be the solution to "[t]he outstanding faults of the economic society in which we live [which] are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."

To do so, he argued that the State would have to (i) stimulate effective demand and prevent its crises, (ii) mitigate the unemployment rate, and (iii) reduce the unequal income and wealth distribution. In his words, "the central controls necessary to [expand aggregate demand and] ensure full employment will, of course, involve a large extension of the traditional functions of the government" (Keynes, 1936/2007: 379).

The main component of the central controls is the Keynesian economic policies, that is, fiscal, monetary and exchange rate policies, since they act as an anchor to the entrepreneurs' expectations. Thus, economic policy is the true 'market signal' in Keynesian economics, serving as the basis upon which consumers and entrepreneurs can formulate well-thought-out expectations to make sound spending decisions, consumption and investment.

[8]Feil *et al* (2026) support that development banks can be essential actors in the design and promotion of public policies associated with the green transition.

However, the success of the economic policies is not assured, given the uncertainty that prevails. As Keynes (1971: p. 35) warned, "even if such a policy were not wholly successful, either in counteracting expectations or in avoiding actual movements, it would be an improvement on the policy of sitting quietly."

Let us present, briefly, the logic of the main Keynesian economic policies, understood as the "policy implications [that] arise from the perception of the role of aggregate demand in setting the level of economic activity and the lack of automatic forces leading a market economy to full employment" and also by the perception that "laissez-faire market economy would exhibit elements of instability and does not usually generate full employment" (Arestis and Sawyer, 1998: 181).

In terms of fiscal policy, its success should be measured not only by the sheer volume of government investment, and even less by the size of the deficit, but by its ability to demonstrate to private agents that the government is willing and able to intervene effectively (Cardim de Carvalho, 1997: 44).

This long-term investment strategy could be implemented through a 'capital budget', a key element of his long-term program for socializing the investment. Keynes (1980a) distinguished between an *ordinary budget*– related to public administration functions – and a *capital budget*. The ordinary budget should always be balanced or in surplus, with any surplus transferred to the capital budget. Meanwhile, the capital budget could run temporary deficits but should remain balanced over the long term, adjusting to fluctuations in aggregate demand. Operated countercyclically, the capital budget would help stabilize private investment by implementing a long-term fiscal policy. Public investment levels should align with the need to sustain aggregate demand, offsetting cyclical variations in private investment. Therefore, "Keynes' view was that public capital expenditures should be significant enough to stabilize aggregate investment spending over the business cycle so that the investment-boom-and-bust cycle would be eliminated" (Seccareccia, 2011-12: 76).

As Kregel (1994-95: 265-6) explains: "Looked over time, both the ordinary and capital account should be roughly in balance; when demand declined, capital expenditures would increase and create a temporary deficit that would be eliminated as the capital projects paid off in terms of higher tax receipts and surpluses on the ordinary budget." That is, a strong public investment policy that produces deficits in the capital account would normally generate persistent surpluses in the ordinary (current) account, so that a policy of public investment would "pay for itself" over time (Seccareccia,

2011-12: 75).

For Keynes, monetary policy should be conducted by managing the base interest rate in the economy to promote economic growth as its ultimate objective, instantaneously bringing investment and employment levels under the central bank's surveillance. Thus, its target is to align the relative prices of investment assets in the economic system and to influence the financial system's yield curve to stimulate effective demand. In other words, when comparing the various yields on the assets available for choice, economic agents may judge it preferable – in terms of liquidity, carrying cost and quasi-rent (Keynes, 1936/2007: Chapter 17) – to channel their resources into assets that do not generate an expansion in economic activity – and particularly when the productive investments made in the past have resulted in excessive inventories and frustrated expectations.

This emerged from Keynes' (1936/2007) view that the interest rate is a conventional phenomenon, rather than an essentially psychological phenomenon, because "its actual value is largely governed by the prevailing view as to what its value is expected to be. *Any* level of interest which is accepted with sufficient conviction as *likely* to be durable will be durable" (Keynes', 1936/2007: 203, original emphasis). The same policy, on the other hand, may prove easily successful if it appeals to public opinion as being reasonable and practicable and promoted by an authority unlikely to be superseded" (Keynes, 1936/2007: 203). Therefore, expectations about the future behavior of monetary policy depend on what Keynes referred to as the 'safe' interest rate, that is, the interest rate value that the public believes will prevail in the long term. In other words, it depends on a social convention.

In view of the foregoing, the interest rate set by the monetary authorities should by fully public knowledge and be held to a level considered normal by that public, true to its conventions because, as pointed out by Cardim de Carvalho (1997: 45): "people are supposed to form a view as to what is the *normal* rate of interest and to expect that actual rates gravitate around that level", therefore "it is through the anticipation of expected movements of the rates of interest that monetary policy acts". Accordingly, as the future is incalculably unknown, economic agents will always attempt to anticipate the interest rate, which they monitor closely so as not to incur high investment opportunity costs.

Going in this direction, aware that economic agents prefer to stay liquid, given the "rentier aspect of capitalism" (Keynes, 1936/2007: 376), speculating about the price

of securities, which depends on the yield curve, Keynes proposed that the monetary policy should use all the available tools to aim at keeping interest rates permanently low, that is, "the euthanasia of the rentier" (Keynes, 1936/2007: 376).

According to Post-Keynesians, such as Cardim de Carvalho (1992) and Arestis and Sawyer (2013), if the monetary authorities wish to expand the volume of capital, they should lower the policy rate to stimulate productive investments. This would, as a result, keep the interest rate at levels compatible with eliminating capital scarcity, a scarcity which would result in 'euthanasia of the rentier', a class that is not remunerated for its "risk and exercise of skill and judgment", but for "exploiting the scarcity value of capital" (Keynes, 1936/2007: 375-6).

Keynes' exchange rate policy thinking and proposals point towards establishing a managed exchange rate regime to ensure external balance and, in particular, price stability (Ferrari-Filho, 2006: Chapter 3). In his *International Clearing Union* (Keynes, 1980b), Keynes makes this idea clear by signaling that one of the aims of having a fixed exchange rate that is nonetheless alterable to suit circumstances should be to reduce uncertainties about future prices of assets and tradable goods when economic agents take decisions to close exchange contracts.

Additionally, for Keynes (1980b), to ensure the success of the managed exchange rate, capital control mechanisms should be adopted because, first, they make entrepreneurial expectations less uncertain, and, second, they afford greater freedom to pursue monetary policy, both by hindering exchange rate pass-through effects on domestic prices, as well as by making it possible for the interest rate not to be used the whole time to attract external speculative capital, which can inhibit productive investments.

To conclude this sub-section, Keynes' ideas related to the role of the State and economic policies did not seek the end of capitalism, quite the opposite. He desired to save it and make its progress, its development. Rejecting the *laissez-faire* doctrine, Keynes proposed a regulated capitalism, whose market dysfunction was addressed through State intervention. Keynes's economic policy proposals extensively suggested regular State economic intervention to regulate economic activity and, consequently, reduce unemployment and mitigate the unequal distribution of income and wealth. State economic intervention was seen by Keynes as indispensable to 'stabilize the instability', as pointed out by Minsky (2008), inherent to capitalism.

3. Keynesian economic policies for emerging countries

3.1. Subordinated financial integration of EMEs

The set of Keynesian policies analyzed in the former section is usually formulated for center (or developed) economies specifically. But is this also adequate for EMEs? What are the specificities of these economies? What are the constraints they face in implementing Keynesian policies? How can such economies implement economic policies oriented to 'socialization of investment' under an environment of higher macroeconomic instability (compared to developed countries)?

One of the main specificities of EMEs in the financial sphere is that they are subject two interconnected asymmetries: international monetary asymmetry (related to currency hierarchy) and international financial asymmetry. Both have structural implications for EMEs: the international monetary asymmetry associated with the currency hierarchy, reinforced by financial globalization, imposes important constraints on the adoption of Keynesian policies in these economies, limiting their policy space to implement policies oriented toward domestic purposes.

According to the Keynesian-structuralist approach, currencies are hierarchically positioned according to their degree of liquidity, which relates to their ability to perform the three functions of money internationally (means of payment, unit of account and denomination of contracts, and store of value). The key currency (currently, the fiduciary and flexible US dollar) has the highest liquidity premium as it performs these three functions. Below the key currency stands the euro and, subsequently, the currencies issued by the other center countries – also liquid currencies but with a smaller liquidity premium than the key currency, because they perform these functions only partially. The peripheral countries, in turn, issue non-liquid currencies positioned at the bottom of the currency hierarchy because they do not – or only marginally – perform international functions, and thus have the lowest liquidity premium (Andrade and Prates, 2013; Paula *et al.*, 2017). EMEs' currencies are lower down the currency hierarchy because they have lower liquidity premiums and do not offer the security of the central currencies. To offset this condition, these countries are forced to use high-interest rates to attract foreign investment and compensate for their low liquidity premium (Paula *et al.*, 2017; Fritz *et al.*, 2018).

In addition to monetary asymmetry, characterized by currency asymmetry, EMEs also face financial asymmetry. The end of the Bretton Woods agreement heralded a new global configuration based on the US dollar as the key currency, floating

exchange rates, and free capital mobility. In the early 1980s, neoliberal ideas were disseminated under the dollar-flexible standard. In that context, capital flows became freely mobile on a global scale, ushering in a new phase of globalization known as financial globalization. With their appetite for higher risk in times of economic boom and euphoria, international investors seek to expand their gains by investing in EMEs. As these countries offer a high-interest differential, investors who expect asset yields will appreciate. When the cycle reverses and uncertainty increases, EMEs are considered risky and high returns are no longer sufficient to retain foreign capital. As a result, investors withdraw capital from the periphery and migrate to currencies that offergreater liquidity and protection, a phenomenon known as capital flight. This pendular movement of capital flows leaves EMEs' exchange rates extremely volatile and sensitive to oscillations in investors' appetite for risk. Given the high degree of global financial integration and their dependence on foreign capital, peripheral economies endeavor to compensate for their currencies' low liquidity premiums and poor security by raising interest rates (Kaltenbrunner, 2011; Paula *et al.*, 2017; Fritz *et al.*, 2018).

There is a substantial body of research examining the constraints that financial globalization imposes on the autonomy of national governments (Strange, 1998; Rodrik, 2012). Typically, these constraints arise from investors' ability to move capital globally to punish or reward governments based on their adherence (or not) to a neoliberal agenda, leveraging the large volume of resources at their disposal. This dynamic is especially stark for EMEs in the current era of financial globalization, as they are closely monitored by financial market agents, including credit rating agencies. Their policy space is highly vulnerable to international conditions, particularly the global financial cycle and commodity cycles, depending on their degree of economic specialization (Campello, 2015; Machado and Paula, 2023).

This condition – often described as subordinated financial integration or international financial subordination – refers to the systemic limitation of EMEs' monetary and financial policy space due to their dependent and unequal integration into a global financial system dominated by core-currency-issuing countries. EMEs face external financing constraints, disadvantages arising from the currency hierarchy, limited policy autonomy, and heightened exposure to global shocks. This framework captures the subordinate and dependent manner in which EMEs are integrated into the international financial system. The unstable, pro-cyclical nature of capital flows –

subject to boom-and-bust cycles largely driven by exogenous factors – generates macroeconomic instability in peripheral economies and further restricts their policy space. Some Post-Keynesian authors, such as Kaltenbrunner and Painceira (2017), in the financialization literature connect this form of integration to the specific configuration of EMEs' domestic financial systems.

One important feature of EMEs is that there are different degrees of international financial subordination across these economies, depending primarily on: (i) the nature of their integration into global financial markets, and (ii) the characteristics of their productive structure, particularly the degree of diversification and technological sophistication. In this regard, commodity-exporting economies – such as many in Latin America – tend to exhibit low diversification and limited economic complexity, incorporate relatively little technological progress, and remain highly dependent on foreign capital, making them more vulnerable to boom – bust cycles. By contrast, dynamic emerging Asian economies are characterized by more diversified production structures and export baskets concentrated in higher value-added manufactured goods, which support stronger balance-of-payments positions–reflected in sustained current account surpluses, substantial foreign exchange reserves, and capital inflows predominantly in the form of foreign direct investment (Paula *et al.*, 2024).

In terms of economic policy, for countries issuing peripheral currencies at the bottom of the currency hierarchy, attracting capital inflows typically requires maintaining higher interest rates relative to external rates to compensate for a lower liquidity premium. This 'growth-cum-external-debt' strategy may, at best, increase domestic investment, but it also tends to appreciate the domestic currency, reducing international competitiveness. In the medium term, this dynamic can render growth unsustainable, as rising external vulnerabilities fuel expectations of devaluation and can eventually trigger a reversal of capital flows, potentially resulting in a financial crisis.

The Post-Keynesian literature (Schulmeister, 1988; Davidson, 2000; Harvey, 2009) has long emphasized that short-term capital flows and expectations about yield or liquidity differentials are key determinants of exchange rates. For EMEs at the lower end of the currency hierarchy, capital flow volatility is even greater than in advanced economies and is more sensitive to changes in monetary policy in the center. Exchange rates therefore tend to be more volatile, necessitating frequent central bank interventions, which in turn reinforce the interaction between the exchange rate and the

policy rate. As a result, monetary autonomy is significantly eroded in a context of free capital mobility.

Moreover, the macroeconomic challenges facing EMEs extend beyond monetary policy to exchange rate policy. Exchange rate volatility is particularly damaging because of its adverse effects on growth, financial stability, and inflation (Flassbeck, 2001). During periods of cyclical reversal, shifts in monetary policy in core countries, or increases in investors' liquidity preference, EMEs' financial assets are often the first to be sold off in a global flight to quality, as they cannot serve as safe havens under conditions of global uncertainty.

Finally, under the conditions of monetary and financial asymmetries that characterize EMEs' integration into the global economy, fiscal policy often ends up being managed in a pro-cyclical manner. Abrupt reversals of capital inflows – even when triggered by exogenous factors – can force fiscal tightening to offset the negative effects of currency depreciation on the fiscal balance and to restore investor confidence. Indeed, one consequence of capital account liberalization in a world marked by monetary and financial asymmetries is that the 'fundamentals' of emerging economies are constantly subject to the scrutiny of foreign investors and rating agencies.

Regardless of whether concerns about, for example, fiscal stance are justified, the reactions of financial market actors cannot simply be ignored (Neville, 2012). Wealth holders can convert domestic currency into foreign currency at any time, causing depreciation of the local currency and potentially inflationary effects through tradable goods prices. This can compel the central bank to raise interest rates, thereby increasing the cost of financing not only private debt but also public debt, depending on the composition and maturity of the latter. In this way, investor reactions to perceived policy deviations exert pressure on governments to adopt orthodox economic policies.

3.2. Keynesian economic policies for emerging economies

Since the collapse of the Bretton Woods international monetary system in the early 1970s, globalization – marked by increasing international capital mobility and financial deregulation – has significantly transformed the dynamics of the global economy. In the absence of macroeconomic policies to stimulate growth and curb the destabilizing effects of capital flows, this heightened mobility has led to serious monetary and exchange rate challenges, particularly for emerging market economies

(EMEs). As Grabel (2003: 251) notes, "[e]conomies with internationally integrated, liquid, liberalized financial systems are inherently crisis prone."

A key debate in the literature on macroeconomic policy in EMEs revolves around the choice of an appropriate exchange rate regime. One perspective, known as the 'bipolar view', argues that intermediate regimes– those between fully floating and fixed exchange rate systems – are less suitable for countries deeply integrated into global capital markets. These regimes, it is argued, increase vulnerability to speculative attacks (Fischer, 2001).

Rey (2015) further challenges the traditional trilemma (or 'impossible trinity') of open-economy macroeconomics, which posits that countries must choose between exchange rate stability, monetary independence, and capital mobility. Her analysis shows that global financial cycles – driven primarily by monetary conditions in advanced economies – transmit across borders through credit and leverage, regardless of the exchange rate regime. This undermines the notion that floating exchange rates alone can preserve monetary autonomy.

Conversely, the 'fear of floating' view highlights that many EMEs, despite officially adopting flexible exchange rate regimes, often intervene to limit currency fluctuations. This aversion is driven by factors such as weak policy and institutional credibility, high exchange rate pass-through to domestic prices, and concerns about the impact of volatility – particularly depreciation – on unhedged foreign currency liabilities in the banking and corporate sectors (Calvo and Reinhart, 2002). Exchange rate fluctuations also introduce uncertainty that may hinder trade and investment. For example, prolonged real appreciation due to large capital inflows can erode export competitiveness and discourage investment in tradable sectors.

In this context, flexibility under floating exchange rate regimes can help absorb capital inflows, cushion external shocks, and reflect shifts in economic fundamentals. It can also deter short-term speculative flows by signaling exchange rate risk (Grenville, 2000: 59). A managed floating exchange rate regime may be particularly useful when the central bank aims to reduce exchange rate volatility and influence the real exchange rate to support trade objectives (Ferrari-Filho and Paula, 2009). Unlike a pegged regime, such a system allows for nominal exchange rate flexibility while enabling targeted interventions to discourage speculative flows. A competitive and stable real exchange rate can serve as an intermediate target of macroeconomic policy aimed at promoting

employment and growth (Frenkel, 2006), as it facilitates external balance and reduces constraints on expansionary policies.

According to Post-Keynesian monetary theory, the ‘compensation thesis’ refers to the idea that the central bank passively accommodates changes in the demand for reserves in order to maintain control over the short-term interest rate, thereby ensuring the smooth functioning of the payments system (see, among others, Lavoie, 2021). The hypothesis holds that when autonomous factors (e.g., government flows, cash withdrawals, or capital movements) create excesses or shortages of bank reserves, the central bank ‘compensates’ by conducting open market operations or using standing facilities to offset these imbalances. In the event of an increase in foreign reserves, the central bank sterilizes the increase in high-powered money by selling government securities. This behavior implies that the supply of reserves – and hence the money supply – is endogenous, driven by the needs of the banking system and the demand for credit, rather than exogenously fixed by the central bank. In this framework, the policy rate is the true instrument of monetary policy, while quantities (reserves, money) adjust elastically, reinforcing the Post-Keynesian rejection of the notion of exogenous money supply.

The application of the compensation thesis to EMEs highlights both the relevance and the limits of monetary endogeneity under financial globalization. In principle, central banks in EMEs, like those in advanced economies, must accommodate the banking system’s demand for reserves to maintain control over the short-term interest rate, implying endogenous money and a price-based monetary policy. However, as we have already pointed out, in EMEs this accommodation is constrained by external factors: volatile capital flows, exchange-rate pressures, and the currency hierarchy mean that liquidity provision cannot be entirely determined domestically. As a result, central banks often face a ‘dual compensation’ problem: simultaneously stabilizing domestic liquidity conditions while managing foreign exchange markets to avoid excessive depreciation or inflation pass-through. This leads to a more complex policy framework in which reserve accommodation is combined with foreign-exchange interventions, accumulation of international reserves, and sometimes capital flow management measures. Thus, while the compensation hypothesis still holds at the operational level, its application in EMEs reveals that monetary policy autonomy is structurally limited, and requires coordination with exchange-rate policy, macroprudential tools, and capital account management to preserve both internal and external stability (Paula *et al.*, 2026).

Therefore, to enhance exchange rate management, EMEs may also adopt 'capital management techniques', including capital controls – rules governing the volume, composition, and direction of private international capital flows – and prudential financial regulations, such as capital adequacy standards and lending restrictions (Epstein, 2005). These tools can serve multiple purposes: (i) reducing vulnerability to financial crises and capital flight; (ii) creating a wedge between onshore and offshore interest rates to provide monetary policy autonomy; and (iii) easing pressure on the exchange rate during periods of excessive inflows. By altering the composition and maturity of capital flows, these measures strengthen the authorities' ability to intervene in foreign exchange markets.

Epstein (2017) defines capital controls broadly as policy measures designed to influence or regulate the volume, composition, or allocation of cross-border financial flows. Capital controls can be broadly divided into price-based and quantity-based instruments. Price-based controls operate by altering the cost of cross-border financial transactions – such as taxes on capital inflows (e.g., Brazil's IOF) or unremunerated reserve requirements (as used in Chile) – thereby discouraging short-term or speculative flows without outright prohibiting them. In contrast, quantity-based controls impose direct limits or restrictions on the volume or composition of capital movements, such as ceilings on foreign borrowing, minimum holding periods, or outright bans on certain types of flows. Epstein emphasizes that capital controls should not be understood solely as rigid or prohibitive restrictions, but rather as part of a wider toolkit of 'capital management techniques' that can be flexibly deployed. In his analysis, such measures are often integrated with macroprudential and monetary policies, blurring the line between traditional controls and financial regulation more generally.

Capital flow regulation can also counter upward pressure on interest rates. By maintaining a differential between domestic and international interest rates, capital controls enhance policy autonomy. In particular, a combination of foreign exchange reserves and capital account regulations can promote exchange rate stability, increasing investor confidence that authorities have the tools to manage volatility. This, in turn, can reduce exchange rate risk and help lower domestic interest rates.

Finally, inflation targeting, widely adopted in EMEs, may not be the most appropriate policy framework. Empirical evidence suggests that central banks under this regime often pursue asymmetric exchange rate policies – resisting depreciation while tolerating appreciation – to meet inflation targets. This behavior fosters expectations of

a stronger currency, encouraging speculative capital inflows and exacerbating exchange rate volatility and boom-bust cycles (Kaltenbrunner, 2011). As Stiglitz (1999: 99) warns, "the single-minded focus on inflation may not only distort economic policies – preventing the economy from living up to its full growth and output potentials – but also lead to institutional arrangements that reduce economic flexibility without gaining important growth benefits."

Therefore, central banks in EMEs should adopt a dual mandate that includes both inflation control and employment promotion. More recently, many central banks, including those in EMEs, have assumed financial stability mandates and must address climate-related financial risks. Central banks have increasingly incorporated climate-related financial risks into their mandates–primarily under financial stability–by developing supervisory, analytical, and policy tools to address both physical and transition risks. Many central banks are also integrating climate considerations into macroprudential regulation, collateral frameworks, and, in some cases, monetary policy operations (e.g., tilting asset purchases toward greener assets) (NGFS, 2021).

On the other hand, reconciling an inflation targeting regime with an industrial policy agenda – crucial for economies in the process of catching up – requires moving from a narrow, short-term focus on price stability toward a more flexible, coordinated macroeconomic framework. Central banks can preserve credibility by maintaining a medium-term inflation anchor while allowing temporary deviations to accommodate structural transformation, especially when industrial policy induces relative price changes (e.g., through subsidies, public investment, or exchange-rate management). This implies closer coordination between monetary, fiscal, and industrial authorities, including the use of complementary tools – such as targeted credit policies, macroprudential regulation, and development banking – to support priority sectors without overburdening interest rates. In this context, inflation targeting becomes 'flexible' and development-compatible, ensuring that price stability does not come at the expense of productive diversification, technological upgrading, and long-term growth.

Following Tinbergen's principle, if authorities pursue multiple objectives, they require multiple policy instruments. These may include macroprudential tools, public bank-led credit controls, and financial regulations. Given the sensitivity of investment to interest rates, relying solely on interest rates to control inflation may be counterproductive. Instead, a broader and more pragmatic policy mix is warranted, especially considering the nature of inflation. For instance, governments may use buffer

stocks of essential goods, regulate administered prices (e.g., private healthcare), and manage the exchange rate to avoid undermining competitiveness. Income policies, such as nominal wage guidelines linked to productivity growth and inflation, can also help anchor inflation. Aligning real wages with productivity, as Flassbeck (2014) suggests, can sustainably stabilize domestic demand–which is especially important in EMEs where collective bargaining is weak.

Fiscal policy also plays a critical role in Keynesian economics due to its strong impact on economic activity, as it is a powerful tool for stimulating aggregate demand, particularly during the upturn of the economic cycle. In recent years, EMEs have increasingly adopted fiscal rules – particularly cyclically adjusted or structural balance rules – to promote countercyclical policy. Chile provides a notable example, with a credible framework combining a fiscal council and a structural balance rule. Commodity-exporting countries may additionally benefit from stabilization funds, which save windfall revenues during boom periods to cushion downturns. These funds enhance fiscal space, reduce pro-cyclicality, and promote long-term fiscal sustainability (Huidrom *et al.*, 2016).

Furthermore, regulating capital flows not only enables monetary autonomy by maintaining interest rate differentials but also expands the policy space for countercyclical fiscal measures by limiting domestic and foreign investors' capacity to speculate in foreign exchange markets.

Policy coordination is essential for the effective implementation of Keynesian policies in EMEs. In particular, it helps ease the burden on monetary policy while maintaining moderately low inflation and creating the necessary space for countercyclical fiscal measures – both of which are crucial for promoting growth and ensuring macroeconomic stability. A well-coordinated policy mix can also reduce EMEs' international financial subordination and expand their policy autonomy to pursue domestic development objectives.

4. Final remarks

The article presented and analyzed the Keynes' critical ideas on liberalism based not only on the *The End of Laissez-Faire*, but also on some of his political and philosophical articles published in the 1920s. The arguments showed that Keynes's critical view of economic liberalism is related to his ideas and arguments to explain the *modus operandi* of a monetary economy and, consequently, to the development of his

monetary theory of production. Moreover, an analytical scheme was presented in terms of Keynesian economic policies related to the 'socialization of investment' and the role of the State in reducing economic fluctuations and achieving full employment in monetary economies.

It has also provided an initial overall analysis and of the limitations of macroeconomic policy space in countries whose currencies occupy a subordinate position in the international monetary hierarchy. These constraints manifest in various dimensions, including monetary, exchange rate, and fiscal policy. In this context, the international financial subordination of EMEs, coupled with heightened macroeconomic volatility, calls for adapting Keynesian policy frameworks to account for the specific characteristics and vulnerabilities of these economies.

Indeed, EMEs face significant constraints in adopting Keynesian policies due to their subordinated integration into the global financial system. This subordination stems from two interconnected asymmetries: monetary asymmetry, reflecting the global currency hierarchy in which EMEs' currencies have low liquidity premiums, and financial asymmetry, marked by volatile, pro-cyclical capital flows. These structural conditions force EMEs to maintain higher interest rates to attract capital, exposing them to boom-and-bust cycles and capital flight when investor sentiment shifts. Their limited policy autonomy is further constrained by investor scrutiny and credit rating agencies, with fiscal policy often turning pro-cyclical under external financing pressures. The volatility of capital flows and exchange rates undermines monetary sovereignty and heightens macroeconomic instability, making conventional Keynesian tools harder to implement effectively.

Given these challenges, EMEs need tailored policy strategies that go beyond orthodox prescriptions like inflation targeting. A pragmatic Keynesian approach in the periphery should include managed floating exchange rates, capital controls, and macroprudential regulation to curb speculative flows and enhance monetary policy autonomy. Such measures can help maintain competitive and stable real exchange rates, reduce vulnerability to external shocks, and support domestic investment. Fiscal policy should be countercyclical, with frameworks like structural balance rules or stabilization funds to smooth commodity revenue volatility. Coordination between monetary, fiscal, and regulatory tools is essential to expand policy space, promote employment, and achieve more sustainable and inclusive growth, thus mitigating the constraints imposed by international financial subordination.

This article showed that – as recommended by Keynesian theory – in a context of financial globalization, i.e. greater economic interdependence and more intense inter-country capital flows, conditions must be created in order for national economic policies to be operated autonomously in EMEs. On this point, in view of the lack of any institutional arrangement for international monetary cooperation to organize the world economy, EMEs' response to financial globalization depends on their introducing (i) mechanisms to permit economic policies to assure domestic policy objectives and promote a more predictable environment for productive investment and productive activity in general, and (ii) capital controls to preserve the independence of their economic, and especially monetary and fiscal policies.

In EMEs, regional safety nets, multilateral arrangements, and local-currency settlement mechanisms have increasingly functioned as important complements to domestic macroeconomic and financial strategies, particularly in managing external vulnerability and financial subordination (IMF, 2025). Regional arrangements, such as reserve pooling mechanisms (e.g., the Chiang Mai Initiative Multilateralization), provide contingent liquidity support, reducing reliance on crisis-driven assistance from the IMF and thereby expanding policy autonomy. At the same time, multilateral development banks and South–South financial cooperation (including the New Development Bank) help mobilize long-term financing aligned with development and climate goals. Complementing these, local-currency settlement arrangements and swap lines (often involving central banks and institutions such as the People's Bank of China) reduce dependence on hard currencies, mitigate exchange rate risk, and ease balance-of-payments constraints (Lin *et al.*, 2016). Together, these mechanisms strengthen resilience to volatile capital flows and enhance the effectiveness of domestic policies– such as capital controls and macroprudential regulation– although their scope remains uneven and still constrained by the hierarchical structure of the international monetary system (Paula *et al.*, 2017).

The 'financialization' and financial globalization show us that, unfortunately, not only the 'love of money' still rules the mood of capitalism, but classical liberalism, described as laissez-faire, has metamorphosed into neoliberalism.

Given that, almost one century after Keynes' *The End of Laissez-Faire* article, recently the 2007-2008 international financial crisis (IFC) and the 2020-2021 COVID-19 pandemic crisis showed us that Keynes' ideas and economic policies are still relevant to mitigate the economic and social problems of capitalism in the neoliberal era. It

means that Keynesian ideas and proposals weigh heavily on us today.

Thus, considering that (i) Keynesian theory revolutionized economic thinking, and (ii) the Keynes's legacy was the 'gold age of capitalism', from the Second World War to beginning of the 1970s, when the Welfare State was built based, largely, on his *Agenda* of State, is it possible to speculate that, after the IFC and COVID-19, the end of neoliberalism is near? In other words, in the future, will the 'love of money' be replaced by the love of life (pleasure)? This seems to be the main challenge for economic theory and policymakers.

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