The scholarship of John Maynard Keynes marks a revolutionary turn in the 20th century development of economic theory. His macroeconomics of effective demand became an alternative to micro-level economics of the individual and his preferences, and facilitated a policy reform that helped the USA and Western Europe recover from the Great Depression. A major part of Keynes’ political economy was his vision of finance and investment. Being aware of the in-built volatility and speculative drive of financial markets, Keynes believed in strong, pro-active governmental policy of regulation and control over financial markets, investment flows, and international monetary affairs. His design for the Bretton Woods regime of international economic cooperation included a world central bank (ICU – International Clearing Union) and a global neutral currency (bancor). These institutional mechanisms were supposed to alleviate current account imbalances, and promote global distribution of savings and investment in accordance with the flows of trade and services. Although Keynes’ vision of the Bretton Woods system was never implemented due to the

1 There exist quite different versions of the ‘Keynesian’ tradition in current macroeconomics. They range from more mainstream-oriented new Keynesians to post-Keynesians, who reject the basic assumptions of monetarism and neoclassical economic theory. But they would probably all agree on the fact that money (and financial structures) matter too much to be assumed neutral given the actual functioning of capitalism. Moreover, the difference between financial and real transactions is much more emphasised in Keynesian framework than in the neoclassical perspective (Binswanger 1999: 7).
opposition of the US side, his conceptual insights into the nature of finance, speculation and monetary and fiscal policies continue to shape alternative approaches to finance and financial crises to this day.

Money, finance and speculation

Ironically, although Keynes has pioneered heterodox research in the psychology of financial markets, it is hard to find a comprehensive formulation of financial crisis theory in Keynes’ own works. He produced a revolution in general economic theory, offering a new vision of the economic system and policy – a theory of macro-economic demand economics. Yet it would probably be fair to say that it was Keynes’ followers such as Hyman Minsky, Michael Kalecki, Charles Kindleberger, Paul Davidson and many others, rather than the man himself, who have developed what is now called (post)-Keynesian theory of financial fragility and crisis. Before we take a look at the work of these scholars though, let us briefly review the foundations of Keynesian political economy.

Keynes’ *General Theory* is a portrait of a monetary economy with sophisticated financial institutions. In such an economy, money is not just a vehicle that makes ‘the double coincidence of wants’ unnecessary for trading to take place. Instead, money is a special type of bond that emerges as positions in capital assets are financed. Consequently, in an economy with a sophisticated financial system, the ‘financing veil’ encompasses many more financial instruments than any narrow money concept includes (Minsky 1982a: 61, 62). In this instance, Keynes pointed out that the price of existing assets, both real and financial, as well as the cash payment constraints imposed by the liability structures of the holders of capital assets, may lead to an inappropriate amount or type of investment. ‘Speculation, the activities identified with Wall Street, make business cycles, including the occasional deep depression cycles, rather than equilibrium seeking and sustaining behaviour, the normal result of economic processes’ (1936, in Minsky 1991a, 1975).

In the Keynesian view, the monetary mechanism is tied to credit and therefore, to the financing of enterprises in the real economy. This close focus on the interaction between the financial and the production systems sharply contrasts with the Smithian theory, where some asymmetry in the perceptions of an assumed exogenous shock in the