

“Keynes and Polanyi: the 1920s and the 1990s, Similarities and Differences”

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Why Keynes and Polanyi? Why Now?

In the fractured decade of the 1970s, a counter-revolution in economics restored the neo-classical doctrines prevailing before the Great Depression. By the mid 1980s, the economics profession had furnished the political directorates of the West, and the Bretton Woods institutions, with theoretical justifications for policies of monetarism, liberalisation, deregulation, privatization, balanced budgets and independent central banks. Capital was poised to roll back gains made by labour in the western industrial world, and developmental policies in the third world. The 1990s witnessed devastating financial and economic crises of increasing frequency and severity in Latin America, East Asia, Russia, Brazil, Turkey and most dramatically in Argentina. By 1998, two decades of these policies had brought the world to the brink of the first global deflationary downturn since the 1930s. Developing countries were forced into painful devaluations by capital flight and speculation against weak currencies.

As in the interwar period, when stability of employment and democratic governance were sacrificed to the stability of currencies, economic livelihoods are now subordinated to the macroeconomic prescriptions of the Washington consensus. Complex provisions of multilateral agencies are designed to protect the special interests of creditors and investors from popular political pressures. Global finance is undermining the foundations of the productive economy. Now, as then, there are no effective international institutions for the negotiation of political conflict and financial disorder.

Relentless pressure to open economies to trade and capital flows is eroding the coherence of national economies. Workers and agricultural producers are exposed to competition on a world scale, driving down real wages and commodity prices to benefit a relatively small number of large transnational corporations which control access to technology and markets. Rich countries like Canada can no longer afford the universal right to free education and health care available at a time when GNP per capita was half of what it is today. Why? Because, we are told, we must sacrifice social security to remain competitive. Governments engage in competition to lower taxes to attract and maintain investors. Competitiveness has become enthroned as the operating principle of public policy.

As the world economy lurches from crisis to crisis, and savings are drawn into speculative financial markets, average growth rates in the industrial heartlands of capitalism are at a historical low. ¹For a decade, Japan was mired in a Keynesian liquidity trap, where interest rates close to zero failed to stimulate consumption or investment. A prolonged boom fuelled by the wealth effect of a rising stock market in the United States was followed by the liquidation of billions of dollars of asset values. We are living Keynes' nightmare of a 'casino economy' of speculators and rentier capitalists and Polanyi's false utopia of the self-regulating market. This 'neo-liberal' economic order favours creditors over debtors, finance over production, and the rich over the poor. A growing underclass of marginalized persons is excluded from formal circuits of employment, production and consumption. Hundreds of millions of poor people in poor countries are simply redundant to the requirements of the global capitalist economy. The system is chronically inequitable and endemically unstable. Ultimately, it is politically unsustainable.

Keynes is making a return from intellectual banishment by mainstream economics. Distinguished economists have joined scholars of other disciplines in drawing attention to the importance of Polanyi's insistence that economic policy must be subordinated to broader social objectives. His warning of the perils of subordinating social, cultural and environmental needs to the dictates of the market speak to us as though they were written today.

The end of the cold war promised a peace dividend and a bright future for capitalism. But the political, economic and financial environment required for the expansion of international business is problematic. What in fact we are witnessing is a realignment of the political landscape on a global scale, including neo-colonial military adventures reminiscent of the imperial rivalry of the late 19th century. Historic fault lines are opening. States are fracturing under pressure of resurgent nationalisms. Inequalities are rising almost everywhere. Equity, social justice and democracy are subordinated to the requirements of a predatory style of capitalism, a kind of primitive accumulation more interested in seizing and controlling existing assets, both private and public, than in real productive investment. Politicians and politics are devalued. There is a pervasive sense of apprehension. The environment is threatened by irreversible degradation. Life in the industrial heartlands is

¹ For the period 1986-1995, average growth of GDP in the major advanced economies was 2.7 % and 2.6 % for 1996-2005. Corresponding rates for Newly Industrialised Asian economies are 8.1% and 4.3%. Source: IMF World Economic Output 2004. Statistical Appendix. Table 2.

characterized by deep insecurity and uncertainty. An industrial revolution in China, explosive growth in India and a demographic crisis of the costs of an aging population suggest a shift of growth points to Asia. A new generation of political leaders in Latin America, and similar rumblings in Africa are challenging the claims of the G8 to set the development agenda.

In 1991, the United States emerged as the unrivalled military super-power and the dollar continues to serve as the principal world reserve currency. But, one may ask, how long can the US maintain its position as top metropole given the contradiction between the requirements of business for a peaceful, orderly, internationally regulated world and destabilizing domestic and international consequences of the American project of global military domination?

For Keynes, ‘the great problem of the age is to free modern industrialism from the fetters of financial capitalism’(Dillard 1948:102). Polanyi thought that only the US believed in universal capitalism; he envisaged a world of managed trade between regional blocks with diverse economic and social institutions. The circumstances are different, and historical analogies always hazardous, but we believe that Keynes’ and Polanyi’s accounts of the events of the inter-war years can shed light on our current disordered world. To fashion political institutions which permit policy space for the non-European world to allocate their natural and human resources to the attainment of a modern standard of material welfare, while protecting the environment from further damage, it is essential to assert democratic political control over disintegrating forces of unconstrained economic growth. The insights of Keynes and Polanyi can assist us in restoring and rescuing public spaces from Keynes’ “economic juggernaut”.

The Power Of Ideas

European intellectuals of the generation of Keynes (b.1883) and Polanyi (b.1886) were conditioned to assume responsibility for the welfare of society. Whether as public intellectuals (Keynes) or socially engaged scholars (Polanyi) they believed in the power of ideas to affect the course of world events.

Although they came from different backgrounds, Keynes and Polanyi shared a generational experience for whom the First World War was a traumatic event which closed an era. For Polanyi, an almost personal sense of the responsibility of his generation for the Great War and all its consequences motivated his search for ‘The Origins of Our Times’- the original title of The Great Transformation. Keynes and Polanyi complement each other;

Keynes was a brilliant economist and committed public servant, a product of the best traditions of English liberalism; Polanyi was an economic and social historian whose intellectual formation - and physical location - were Central European and orientation socialist.

More than any other great economist, Keynes was motivated by the desire to influence policy. Keynes believed that 'capitalism, wisely managed can be made more efficient for attaining economic ends than any other system yet in sight' (Keynes, (1971a): 294). What he found profoundly objectionable was 'the fostering, encouragement and protection of the money making motives of individuals'(Keynes, (1971a): 293). His utopia was a society of abundance, leisure, beauty, grace and variety, where 'love of money' is regarded as a mental disease (Keynes, (1971a):329). Polanyi shared the aversion to love of money. But his critique of 'market society' reached beyond Keynes'. He questioned the very existence of 'economic motives' as fundamental human attributes. For Polanyi, industrial capitalism was unique in human history in elevating gain to the fundamental principle of economic organization. Like Marx before him, Polanyi found the 'the origins of our times' in the birthplace of the Industrial Revolution, England.

For the origins of the cataclysm, we must turn to the rise and fall of the market economy. In order to comprehend German fascism, we must revert to Ricardian England. Market economy, free trade and the gold standard were English inventions. These institutions broke down in the nineteen twenties everywhere - in Germany, Italy and Austria the event was merely more political and more dramatic. But whatever the...final episodes, the factors that wrecked that civilization should be studied in the birthplace of the Industrial Revolution, England (Polanyi, 1944:30)

Polanyi warned that 'the self adjusting market could not exist for any length of time without annihilating the human and natural substance of society (Polanyi, 1944:3).'

The 1920s was the last gasp of the long nineteenth century, which terminated in the world economic crisis of 1929/1933. Both Keynes and Polanyi ascribed a principal role to the international monetary order as the transmission mechanism which placed politically unsustainable pressures on countries forced to adjust to the dictates of financial markets in the interests of rentier bondholders. While Keynes' analysis was drawn from the experience of England, where the gold standard assured the value of large overseas investments in fixed income instruments and the burden of adjustment fell on the working class, Polanyi's described the impact of adjustment on Germany and the weak and peripheral succession

states of Central and Eastern Europe, as countries attempted to defend the value of their currencies by sacrificing democracy to 'sound finance' and linked this to the rise of fascism.

The 1990s witnessed an attempt to accelerate policies initiated in the early 1980s, designed to recreate the 'golden age' of 1870--1914 promoted and marketed as 'globalisation'. The 'neo-liberal' project is the creation of an all-embracing 'free' global market for goods, services and capital -- but not labour. In the industrialized world, countervailing social and political pressures (Polanyi's double movement) have to some degree subordinated the freedom of capital to the public good. When this system is transposed to world scale, no such mechanisms exist and we have a kind of global apartheid. Labour is confined within national boundaries, but capital is mobile. Weak states are stripped of fiscal and administrative resources to negotiate conflicting interests. The mechanisms by which this predatory style of capitalism is capsizing viable economies, and impoverishing the human and environmental resources of the developing world are financial. They are encoded in rules governing international finance and investment and enforced by creditor interests acting through multi-lateral organisations including the Bretton Woods Institutions (BWIs) and the World Trade Organisation. The effect is to reproduce - incompletely, less automatically, and with complex political negotiations- the mechanisms of the gold standard.

Karl Polanyi: A Central European View of the World Economic Crisis 1918--33

For Central and Eastern Europe, the First World War was a political earthquake which trashed Imperial Germany, splintered the Austro--Hungarian Empire into a set of weak and fragile succession states, and witnessed a historic socialist revolution in Tsarist Russia. The Soviet Union inherited Tsarist conquests in Central Asia and the Far East. The remnants of the Ottoman Empire were occupied by Britain and France with fateful consequences for the entire region of the Middle East and North Africa, consequences which can still be seen in the headlines of today.

In Vienna, a world had come to an end. The glittering capital of a multi-national empire of 50 million became the capital of the rump Republic of Austria -a country of six million, too small and too poor to be considered a viable state. The first government of the Republic was formed by the Social Democratic Party, and the first finance minister was Joseph Schumpeter (who soon departed for Germany). Chaos and inflation reigned. The provinces were rural and Catholic; Vienna was cosmopolitan and socialist. Educational reforms and model public housing projects of the socialist administration of 'Red' Vienna of

the 1920s made a deep impression on Polanyi - a triumph of social and political forces over unfavourable economic circumstances.

From 1924 his position as senior editor of Oesterreichische Volkswirt, the leading financial and economic weekly of Central Europe, placed him in the eye of the storm of economic and political upheavals in continental Europe. From this post he followed the unravelling of attempts by the western powers to restore the pre-1914 economic order and its eventual break down in 1931, when a financial crisis which in Vienna spread westward to England and ultimately to the entire world economy. In 1933, when the deteriorating political climate did not permit the journal to keep a prominent socialist on their editorial staff, he left for England, but continued to write for the journal.

To underline our emphasis on the significance of Polanyi's Central European perspective, we note that a major feature article on 'The Mechanisms of the World Economic Crisis'¹ written in 1933, starts with the words: 'From a Central European perspective'. The thesis of the article was that:

...the entire post war period, including eight years of miraculous prosperity in the United States; sustained economic growth in several other countries (Canada, Argentina etc.) and the multifaceted technical, economic, currency and trade policy adventures of this whole dismal historical epoch, right down to the crash of 1929 and the world depression of 1933, is one single economic crisis which manifests itself in different forms as it traverses and transforms the world.' (Polanyi 1933:1, Author's translation and emphasis)

The economic crisis of the first post war years was not resolved - just postponed. 'Equilibrium in one location was achieved by shifting the burden of adjustment, deliberately or otherwise, to other economic regions and sectors....When the unavoidable day of reckoning arrived, it not only re-ignited old smouldering fires, but the entire crisis assumed depths and dimensions which made all previous experiences pale by comparison. (Polanyi,1933:1)

Polanyi located the origins of the world economic crisis in the scale of the human and societal destruction of the (first world) war. The social fabric,' he wrote, 'could not sustain the forces of adjustment to a post-war (WWI) equilibrium.' (Polanyi, 1933:2) According to pre war growth rates, industrial production in Europe should have

approximately doubled from 1913 --1933. Instead it increased by only 60 per cent. In 1933, it fell below 1914 levels. The political-sociological shock of the war implied that it would take many years to achieve equilibrium. But the social framework could not be sustained unless political leaders could satisfy the expectations - and prevent the disappointments of three major social claimants - bondholders, workers and peasants. (Polanyi, 1933:2)

There follows an exemplary political-economy analysis of the distributional impact of 'adjustment' to the costs and dislocations of the war on the principal economic classes of West and Central Europe. 'In the victorious (Western) countries,' Polanyi wrote, 'bondholder interests had priority; their faith in the stability of currencies and credit was the basis of the post war reconstruction of Europe'. (Polanyi, 1933:3) Ultimately, the entire burden of adjustment to defend the value of rentier incomes and assets was placed on the working classes. In the defeated countries, a viable social framework demanded the protection of rentier incomes by defence of the currencies; worker incomes by stabilization of real wages; and farm incomes by stabilization of commodity prices. In the war damaged and capital depleted economies of continental Europe the satisfaction of all these demands was impossible. Excess demand of the major categories of income earners could be met from only three sources: 1) domestic redistribution favouring some over others; (e.g. protective tariffs favouring peasant farmers, at the cost of urban consumers or wage inflation favouring workers at the expense of middle class savers); 2) consumption of capital by inflation and sale of assets to foreigners; or 3) external borrowing and increased indebtedness. Ultimately, countries financed their deficits by perpetual external borrowing. Weaker national economies sought assistance from stronger ones.

The source of this ultra modern pipeline for the distribution of credit to the whole of Europe was the unfathomable wealth of America. The enormous profits America made in the war were searching for investment. The reconstruction of Europe appeared as an excellent business - which could also revive American exports. The credit mechanisms, endowed by contemporaries with almost mythical powers, were the principal actors in the ten year postponement of the crisis. (Our emphasis) (Polanyi, 1933:6)

Polanyi traced the geographical course of the crisis from the weaker peripheral countries of the East, to the stronger economies of Western Europe. The restoration of the gold standard in the mid 1920s stripped the defeated states of the 'secret reserves of inflationary finance' (Polanyi, 1933:7). Their structural deficits were increasingly covered by

foreign loans. The burden of these debts was thus transferred to the victorious states - whose currencies were also far from secure. 'The transmission belt which carried the deficits of even the strongest European economies to the credit ledger of American financial institutions was the re-established gold standard.' (Polanyi, 1933:9, our emphasis)

The availability of cheap money in the United States from 1926 to mid 1928 flooded Europe with credits. When in July 1928 the New York FRS rate was raised from 3.5 to 5 per cent to check a speculative stock market bubble, the supply of long-term capital to Europe dried up. In the first half of 1929 the value of European bonds floated in New York was cut to one fifth of the previous year. When the American inflationist policies were reversed, financial pressure on debtor states triggered the world crisis. Neither gold nor new money were available to finance payments deficits. Debtor states now had no alternative to an increase in the export of goods. Since 1928/29 Europe and overseas exporting countries have flooded markets with exports at virtually any price. (Polanyi, 1933:12, our emphasis)

The trend of universally falling world prices manifested in the late 1920s, was the prelude to the world crisis. Then came the credit crisis of 1931; the decline in world trade in 1932; and the collapse of currencies in 1933. The geographic displacement and postponement of economic deficits had run their course. If inflation succeeded in saving the social fabric, it could not save humanity from a painful process of adjustment. Polanyi cited Professor J.B. Condliffe, principal author of the Economic Yearbook of the League of Nations for 1932/33 in support of his analysis.

The real difficulties did not manifest themselves as long as currencies of most of the debtor states were independent of each other, exchange rates were flexible, and international government debts unregulated. But as currencies returned to the gold standard, exchange rates were fixed and debt payments were officially negotiated, tensions in the newly reconstructed international financial mechanism increased. For a few years, from 1925 to 1929 debt service was effected without radical adjustment of national economies by means of large flows of capital to the debtor states, principally from the United States. From 1928 and continuing to 1929, capital flows diminished. As pressure on debtor

states increased, prices declined and credits dried up, the difficulties of international adjustment precipitated the collapse of the whole structure of international payments. (Situation Economique Mondiale 1932/33:277)

Political Destabilization by Currency Crisis

In The Great Transformation, Polanyi described the stabilisation programmes implemented through the League of Nations in Geneva, to restore currencies in Central and Eastern Europe.

According to Geneva social organization had to be wholly subordinated to the restoration of the currency. Deflation was the primary need. Domestic institutions had to adjust as best they might. The deflationists ideal came to be ‘ free economy under a strong government’ but while strong government meant what it said-namely emergency powers and suspension of public liberties- ‘free economy’ meant in practice the opposite of what it said - namely government adjusted prices and wages. While the inflationary governments condemned by Geneva subordinated the stability of the currency to stability of employment and incomes, the deflationary governments put in power by Geneva used no fewer interventions in order to subordinate the stability of incomes and employment to the stability of the currency. (Polanyi, 1944:233)

‘To liberal economists the gold standard was a purely economic institution: they refused even to consider it as a social mechanism’ (Polanyi, 1944: 20). Confidence in the credit worthiness of foreign borrowers rested on a system of fixed exchange rates and guaranteed convertibility. The value of outstanding liabilities greatly exceeded the capacity of the borrowing countries to service these debts, and eventually the whole structure of credits unravelled and collapsed. Polanyi commented: ‘Never in the history of modern capitalism has credit been so politicized’ Comparisons with the politically motivated and politically negotiated rescue packages and structural adjustment programmes of the IMF in the 1980s and 1990s are too obvious to merit further comment.

Polanyi documented the universal faith in the capacity of the gold standard to deliver stability and normalcy which must be understood against the background of the devastating inflations which ravaged national currencies in Central and Eastern Europe after WWI.

Middle class savings were wiped out. Horrendous fortunes were made by speculators. 'Currency has become the pivot of national politics.' (Polanyi, 1944:24) Countries 'literally starved themselves to reach the golden shores' (Polanyi, 1944:25). Vienna became the Mecca of liberal economists on account of a brilliantly successful operation performed on Austria's Krona, which the patient unfortunately did not survive. In Bulgaria, Greece, Finland, Latvia, Lithuania, Estonia, Poland and Romania, the restoration of the currency provided counter-revolution with a claim to power. In Belgium, France and England the Left was thrown out of office in the name of sound monetary standards.' (Polanyi, 1944:24) 'There was hardly an internal crisis in Europe that did not reach its climax over an issue of external economy. Students of politics now grouped countries not according to continents but according to the degree of their adherence to a sound currency (Polanyi, 1944:23) 'Invariably the danger was to the currency, and with equal regularity the responsibility was fixed on inflated wages and unbalanced budgets (Polanyi, 1944:229).

Eventually it all collapsed, ushering in the 'great transformation'. Germany, under National Socialism, reflatated the economy by large public expenditures on war preparations and social programmes. Labour was repressed and profitability restored to capital. Russia adopted 5-year plans. Smaller countries of Europe abandoned the gold standard and partially closed their economies as international trade and investment collapsed. In the United States, the New Deal measures instituted by President Roosevelt directly challenged entrenched financial interests by massive public expenditure on the employment of the unemployed in a variety of innovative programmes.

Economy and Democracy

In a remarkable article on 'Economy and Democracy' published in the Oesterreichische Volkswirt (December 1932) on the eve of the accession of Hitler to power, Polanyi described the impasse of Continental European politics in the inter-war years with the freshness of the contemporary observer. In the victorious Western countries (where rentier interests were favoured) Polanyi observed that left wing governments went down on the currency question. 'In the defeated countries, it was democracy which went down to defeat under the combined pressures of the 'trauma of the war, the economic crisis... and the degeneration of party politics which diminished the authority of democracy.'

In the name of economy and democracy the right and the left are feuding. The left is grounded in democracy, the right in the economy. The resultant disjuncture between economy and democracy is

stretching the tensions of a catastrophic polarity. The world of political democracy gives rise to forces which intervene in the economy, disturb and constrain the economic process. In response, the economy mounts a general attack on democracy as the embodiment of irresponsible and unrealistic hostility to the world of business.(Polanyi, 1932:1) ⁱⁱ Labour entrenched itself in parliament, where its numbers gave it weight. Capitalists built industry into a fortress from which to lord the country (Polanyi, 1944: 235).

Polanyi's account of the indictment of the economy against democracy (and often against politicians) included responsibility for inflation, subsidization, protectionism, trade unionism, monetary management; costly and senseless support for individual enterprises; public assistance and rehabilitation of specific industrial sectors, excessively high wages, and social expenditures. This reads like a list of 'policy errors' and 'price distortions' ascribed by the IMF and the World Bank to 'populist' governments which lack the 'political will' to implement structural reforms. Plus ça change!!

All of this as well as the unrelenting decline in prices, production and consumption and the mounting misery of mass unemployment were laid at the door of democracy. (Polanyi, 1932:1) 'Politics, political parties and parliaments lost credibility. Democracy fell into disrepute. Broad strata of the masses, both right and left, turned against democracy.' (Polanyi, 1932:2)

'In many countries, where parliamentarism and democracy were recently established, as in Germany, Italy, Poland and most of Eastern Europe, economic interests deserted democracy and civil rights. In the postwar period the working classes manifested greater intellectual and moral resistance to dictatorships than did the bourgeoisie.(Polanyi, 1932:4)

Polanyi reminds us that militant liberals - from Maucaulay to Mises, from Spencer to Sumner - expressed their conviction that popular democracy was a danger to capitalism (226). This suggests that current initiatives to bind nations and societies to supra-national rules beyond reach of popular democratic political forces, are an illustration of Polanyi's contention that democracy is incompatible with the "self regulating market"(now global). The term is perhaps misleading because, as he explained, "laissez faire" is not a natural state of affairs, but rather an economic order which cannot function without institutions which safeguard the primacy of markets

over all contesting priorities. More specifically, the capital market because a liberal economy requires “ *absolute confidence in the continuity of titles to property*” (GT 234). This indeed was the central issue in the contest over the proposed Multilateral Agreement on Investment (MAI) and the new regime for investment proposed under the auspices of the WTO and the FTAA. The globalization agenda *explicitly* seeks to subordinate popular democratic politics to the security of investor rights and property claims, now extended to trade in “services” and “trade related intellectual property”.

‘The Great Transformation’

As mentioned earlier in this text, Polanyi located the ultimate cause of the rise European Fascism in the inter-war years in the utopian attempt to subordinate society to the rule of the market. The birthplace of this revolutionary doctrine was nineteenth century England. Like Marx, Polanyi recognized that commodification of human and natural resources was a revolutionary innovation which released productive forces and created the untold wealth of the industrial civilisation of the nineteenth century.

While Marx believed that capitalism would ultimately fail because of inherent economic contradictions, Polanyi’s emphasis was on the social and ecological consequences of the commodification of man and nature. He posited that the growth and expansion of markets would inevitably encounter social contradictions and engender social and political measures and movements to defend society against the disintegrating forces of the market. This he called the ‘double movement’. It is important to understand that this was not a self-correcting mechanism to moderate the excesses of capitalism but an existential contradiction between the requirements of a capitalist market economy for unlimited expansion and the requirements of people to live in mutually supportive relations in society. We note that the much quoted text at the bottom of the first page of The Great Transformation concerning the utopianism of the idea of the self-regulating market and its disastrous consequences is followed by: ‘Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulating market, disorganised industrial life, and thus endangered society in yet another way.’ (Polanyi, 1944:1)

It was Polanyi’s contention that the market-system (‘economy’) is necessarily in perpetual conflict with popular forces in society (‘democracy’) and, in its purest form, cannot tolerate democratic intervention. In its purest form, it is fascism. The fascist solution to the impasse reached by liberal capitalism can be described as a reform of the market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial

and the political realms. The economic system which was in peril of disruption would thus be revitalized, while the people themselves were subjected to a re-education....comprising the tenets of a political religion that denied the idea of the brotherhood of man in all its forms, achieved through an act of mass conversion, enforced against recalcitrants by scientific methods of torture' (Polanyi, 1944:p237) . Is this not a fitting description of Pinochet's Chile, widely acclaimed as an economic success?

J. M. Keynes and The Deflationary Class Bias of the Gold Standard

Keynes described the class war between rentier capital and the industrial working class of Britain in the 1920s - then the richest country in the world. The source of wealth of the 'rentier' British leisure class - whose idyllic pre-war lifestyle Keynes described in a much-quoted passageⁱⁱⁱ - was their large holdings of foreign portfolio investments in bonds and equity. The financial anchor which protected the value of these assets was the stability of the British currency which had maintained a fixed and unchanging parity in terms of gold since 1818. Prior to 1914, Britain's formal and informal colonies of conquest and settlement, together with investments in the United States and Europe, yielded back flows of rentier income of as much as 10 per cent of GDP. Between 1870 and 1914, British capital exports averaged 5 per cent of GNP .(This far surpasses rates of net foreign investment flows from any source country today). The entrenched social class structure of Britain was sustained and re-enforced by an export-oriented economy in which the contribution of wages to purchasing power in domestic markets was of little significance to the investing community. Wages were considered purely as costs, a view shared by the economics profession of the day.

After the First World War, the restoration of the Pound at pre-war parity with gold became the priority objective of the Bank of England, acting on behalf of the interests of bond holders and the City of London as premier financial centre of the world. Although large back flows of interest, profit and other service exports were sufficient to cover about one third of Britain's commodity import bill, export earnings were no longer running at levels that could sustain the volume of new purchases of Canadian and Latin American bonds which British investors wanted to make to maintain and increase their rentier incomes. The (overvalued) Pound was under pressure and the Bank of England borrowed short on the New York money market to shore up unsustainable levels of long term capital outflows. Either British investors would have to reduce foreign investments or the money wages of coal miners would have to be cut to regain the competitiveness of Britain's most important single export.

Keynes understood that what appeared to be a technical matter of a ‘moderate gap’ between Sterling at \$4.40 and its pre-war parity of \$ 4.86 was really a class conflict between workers and rentiers interested in protecting the value of their overseas investments by means of high interest rates (Keynes, (1971a): 223). This had a twofold effect of attracting money from New York and imparting a deflationary bias to the domestic economy, resulting in levels of unemployment of 10 per cent and more. The Bank of England and the Treasury decreed that exports be increased to sustain the value of the Pound. Mine owners were encouraged to demand wage cuts and miners were told to ‘export or die’. Economists lent their weight to these policies and maintained that British prosperity and reduction in unemployment depended on a reduction in money wages.

Keynes charged that these policies resulted in persistent unemployment and under-utilized capacity in Britain’s domestic industries. Wages in the export sector should not be forced down to accommodate the export of capital by rentiers. Investment should be directed to the home market by an easy credit policy. Keynes warned Mr Churchill, then Chancellor of the Exchequer that:

...it will not be politically safe to admit that you are deliberately intensifying unemployment in order to reduce wages’(Keynes, (1971a): 215) ‘On grounds of social justice no case can be made out for reducing the wages of the miners. They are the victims of the ‘economic juggernaut’. They represent in the flesh the “fundamental adjustment” engineered by the Treasury and the Bank of England to satisfy the impatience of the city fathers to bridge the moderate gap between \$4.40 and \$4.86.’ (Keynes, (1971a): 223)

Automatic monetary adjustment by the rules of the gold standard favoured the propertied classes at the expense of the labouring classes: ‘The gold standard with its dependence on pure automatic adjustment’... is an essential emblem for those who sit in the top tier of the machine.’ (Keynes, (1971a):224)

When miners refused to take wage cuts they were locked out. The trade unions called a general strike (1926) which frightened the capitalist class sufficiently that demands for further wage cuts were moderated. In defence of the value of the Pound, budgets were trimmed, adding an additional million to the ranks of the unemployed. Well before the American stock market crash, unemployment in Britain was close to 3 million, and remained at that level until the Second World War. The (overvalued) Pound was defended by interest

rates too high in relation to expected returns in the domestic economy. The result was an excess of savings over investment and an ‘underemployment equilibrium’. The only way the Bank of England could set a rate of interest sufficiently low to allow a level of investment equal to what the community wanted to save, while maintaining the value of the Pound, was to subject the economy to a crushing deflation. ‘This can only attain its end’, Keynes charged, ‘by intensifying unemployment without limit until the workers are ready to accept the necessary reduction of wages under pressure of hard fact’ (Keynes, (1971a): 229). By contrast, investors gained by deflation: lower prices benefited the receivers of interest at the expense of the rest of the community. This consequence of deflation, Keynes commented ‘is deeply embedded in our system of money contract’. (Keynes, (1971a): 229)

The Keynesian Revolution in Economics

In the 1920s, the academic establishment did not consider unemployment to be a subject meriting their attention. They followed the master; Marshall had devoted only two pages of his Principles to the subject. Professor Pigou, who inherited Marshall’s chair in economics, published The Theory of Unemployment in 1933, in the depths of the depression. In this work he concluded that unemployment, beyond that which is frictional, was due to trade union collective bargaining and government interference in labour markets by minimum wage legislation. Between 1932 and 1935 only three papers on the subject of unemployment appeared in the *Economic Journal*. One of these was Professor Cannan’s Presidential Address to the Royal Economic Society, in which he concluded that ‘general unemployment appears when (workers) are asking too much... [the world] should learn to submit to declines in money income without squealing’ (in Ebenstein (ed), 1997: 38) Lionel Robbins, who succeeded Professor Cannan’s chair at London University, denied there had been any breakdown of the capitalist system; ‘It is not capitalism, it is interventionism and monetary uncertainty which are responsible for the persistence of the slump’ (Routh, 1989: 269). Readers may recognize the influence of the ideas of Friedrich von Hayek, who was brought from Vienna to the London School of Economics by Professor Robbins to combat the theories of Keynes and his Cambridge associates, believed to be dangerously inflationary by the City.

Keynes knew that policy advice, no matter how brilliantly argued, could be brushed aside so long as orthodox economic doctrines went unchallenged; to change the way the world thought about economic problems, he would have to invent a new paradigm. In the early 1930s, Keynes and a group of young academic colleagues set about the task of

constructing an analytical model which could show that a free market economy can reach equilibrium with underutilized capacity of capital and labour. The institutional stylized facts embodied in the model were inferred from observation of the realities of capitalist economies of the time. Underlying the model is pervasive uncertainty. Hence the formulation of the trilogy of the consumption function, the demand for money and the marginal efficiency of capital, in terms of psychological propensities, attitudes and expectations. In the useful language introduced by the Scandinavians, all three of these variables are 'ex ante' or 'intended'. None of them can be modeled exactly because all three embody uncertainty, which, unlike risk, is not subject to treatment by the calculus of probability.

Keynesian economics has been attacked for its lack of foundation in micro economic utility theory. The charge is basically valid. Keynes departed from an individual to a group centred conception of behaviour (the consumption function; the demand for money). Unlike the subjective concept of 'utility', Keynes' analytical categories are subject to measurement and estimation - ex post. It was his genius to have invented intellectual constructs that captured important economic realities and provided a guide to policy makers, which has endured as a useful economic paradigm for the management of a modern mixed economy.^{iv}

Initially Keynes won more acceptance in the United States, where a young generation of New Deal economists embraced his teachings before they penetrated the more conservative British academic establishment. In England he gained the confidence of the Treasury as a practicing technocrat and by his active participation in the management of British war (WWII) finance- How to Pay for the War, (Keynes, 1971a:367)- and was charged with the responsibility of negotiating the Bretton Woods Agreements with the United States on behalf of the government of the United Kingdom.

'The End of Laissez Faire': Currency and Credit Controls

By 1944, Keynes had abandoned his earlier belief in 'laissez faire'. 'Experience between the wars', he wrote, 'clearly demonstrated the mischief of unregulated capital movements. It is widely held that control of capital movements, both inward and outward, should be permanent feature of the post war system' (Keynes (1971c:129). In 'The End of Laissez Faire' Keynes proposed the deliberate control of currency and credit by a central institution and social mechanisms of 'co-ordinated intelligent judgement' to determine how much a community as a whole should save, how much savings should go abroad in the form of foreign investments, and whether the capital market distributes savings into the most nationally productive channels (Keynes, (1971a):293). If these proposals sound radical today,

it is only because the neo- liberal counter-revolution has turned the clock back to the 1920s. Keynes challenged received economic doctrine of his day - and would surely contest the same (re-cycled) doctrines today. He rejected socialism as a feasible or desirable alternative to capitalism, but he also rejected 'laissez faire' as a realistic view of the existing capitalism of his day, or as a point of departure for the formulation of policy.

Keynes concluded that the post-WWII international economic order must provide participating countries with policy space to maintain full employment. He advocated permanent capital controls.

'It is characteristic, of a freely convertible international standard that it throws the main burden of adjustment on the country which is in the debtor position in the international balance of payments. (Keynes, (1971c:27) It has been an inherent characteristic of the automatic international metallic currency to force adjustment in the direction most disruptive of social order and to throw the burden on the country least able to support it, making the poor, poorer. (Keynes, (1971c):29)

Keynes proposed an International Clearing Union with special purpose money akin to Special Drawing Rights (SDRs) whereby central banks would clear outstanding credit and debit balances. In order to prevent the kind of disequilibrium which currently prevails in the international economy, surplus countries would be penalized. The International Clearing Union- a kind of World Central bank- was to be financed by the creation of a fund many times exceeding the resources of the International Monetary Fund established at the Bretton Woods Conference. This fund was to be backed by real resources of commodities, including gold. Keynes' design of the Bretton Woods system would have assured countries access to medium term finance to bridge temporary balance of payments shortfalls, without pressures to deflate by recessionary demand compression, as required by the rules of the gold standard. In the negotiations between Britain and the United States, which eventuated in the establishment of the IMF, Keynes was at a severe disadvantage vis-à-vis his American counterpart because Britain was massively indebted to the United States and the latter was determined to dismantle the British preferential system and the Stirling Bloc. Although the US\$ was the unrivalled top currency in the post-war International Financial Order, dollar convertibility to gold and national exchange controls of other major currencies provided an international monetary discipline which lasted until massive loss of gold reserves caused the United States to suspend gold convertibility in 1971. Since currencies were officially floated

in 1973, the United States has been able to settle overseas commitments by dollar denominated credits. The outcome of dollar hegemony has been the thoroughly disordered international financial system which the original Keynes plan sought to prevent.

Then and Now: Some Incomplete Notes of a Larger Research Agenda

As the 20th century recedes, watershed events emerge from the noise. The First World War, followed by the world economic crisis of 1931-33 definitively terminated the 19th century liberal economic order. The attempt by the victorious powers to reconstruct it in the 1920s failed because none of the permissive conditions which had sustained economic liberalism in the long 19th century survived the political earthquakes which followed the war. Britain's long role as top metropole ended when the pound sterling was delinked from gold in 1931. Within 20 years her vast colonial empire in Asia and Africa was rolled back. A similar fate awaited the Dutch, the French and other European powers.

Following Keynes' advice to "study the past, in light of the present, for the purpose of the future", we compare Keynes' and Polanyi's analyses of the 1920s with the 1990s. Of course the world has changed in many important respects. If there are similarities there are also great differences. We suggest that future historians may consider the victory of the western powers in the cold war as a watershed event as important as 1914. It terminated the post-WWII economic and political order.

For convenience we frame our comparison with a generalization of the four institutions which Polanyi identified as supporting the 19th century economic order, now claimed as an earlier 'globalisation'. A Hundred Years Peace in Europe sustained by the Balance of Power between rivalling major powers, served the peace interest of international *haute finance*. The British Pound Sterling with unchanging gold value from 1818 and the City of London as premier financial centre of the world sustained the International Gold Standard which secured the value of international investment. The Self-Regulating Market and free trade were the ideal national economic institutions of the era. Polanyi's fourth institution was the Constitutional State, which transferred political power from the *ancien régime* to the bourgeoisie. With franchise limited to the propertied classes, the state became the agent for the institutionalisation of laissez faire and the disembedding of the economy from society. Polanyi's discussion of the role of the state was largely confined to the

national sphere. Naval and military supremacy and direct and indirect political colonialism assured the security of rentier incomes in overseas investments.

The Geopolitical Order

Shortly before the defeat of the axis powers in the Second World War, the foundations of the post-war political order were laid by Roosevelt, Churchill and Stalin at Yalta. The veto accorded to the five permanent members of the security council of the United Nations secured the territorial division of Europe between the western powers and the Soviet Union, sustained by the mutually assured destructive capacity of the two nuclear superpowers. The contest between communist and capitalist powers was played out in major military conflicts in Korea and Indochina and scores of smaller wars in Africa, Latin America and Central Asia. Nuclear weapons, however, were never used again after Hiroshima and Nagasaki.

A closer examination of the geopolitical landscape emerging from the collapse of the Soviet Union reveals profound and multi-dimensional political instability. The landmarks of the cold war have vanished. The ultimate consequences of the humiliation and impoverishment of Russia- intended or unintended- are as yet unknown. Historic fault lines associated with Great Power rivalry for control over the Balkans and the former regions of the Ottoman empire have reopened. The collapse of the Soviet Empire has contributed to resurgent nationalisms and solidarities based on ethnic and religious identities.

The proximate origin of the jihadist fundamentalism which has attacked the US, its allies and the regimes it supports in the Middle East is to be found in the arming and training of thousands of Islamic fighters in the cold war cause of resisting Soviet occupation of Afghanistan. The inability of the EU to settle the first military engagement on the European continent since the end of WWII in the former Yugoslavia, followed by fundamental disagreement between Britain and other European countries who supported the war in Iraq and France, Germany and others who did not, revealed the absence of consensus regarding a common policy on European security.

The fiscal burden of the reunification of Germany seriously compromised the principal engine of European growth. Pressures to roll back gains made by labour and the introduction of economic reforms to sustain external competitiveness have met with popular opposition, a manifestation of Polanyi's double movement. An

ideological divide led by Britain is opening a rift in the Keynesian compromise which sustained the success of the European project for 40 years.

Unlike the early post-war years, when American economic and financial power was unrivalled, the capitalist world economy now rests on a multi-polar base, with Europe, Japan and the emerging economic powers of China, India and the tiger economies of Asia greatly exceeding the United States in productive capacity. Although the military expenditures of the US now exceed the combined expenditures of the next ten powers, their declared aim of achieving global military dominance is dangerously unrealistic; they have been unable to secure the occupation of two relatively small countries, Afghanistan and Iraq. The unilateralist position of the George W. Bush administration constitutes a break with previous US administrations, democratic or republican. It is difficult to conceive how these policies can serve the interests of American security or indeed of American capitalism.

There is little evidence that international political institutions now have the capacity to negotiate realistic political solutions which take into account the legitimate interests of peoples and states. All the multilateral institutions are now in crisis, including the Security Council and other institutions of the United Nations. The globalization project requires a peaceful and stable international political order. In the circumstances described above, the continued liberalization of international economic relations is problematic. So perhaps also is the future of US hegemony.

The International Financial Order

The essence of the gold standard was its automaticity in bringing external payments of nations into balance and its class bias protecting the value of property incomes and assets from depreciation by inflation. As Polanyi noted it was a social mechanism which protected rentier incomes while shifting the risk inherent in a capitalist market economy onto the productive classes of workers, peasants and entrepreneurs. At the international level, as Keynes explained, the burden of adjustment to disequilibria, whether caused by business cycles, deteriorating terms of trade or other economic shocks, fell exclusively on debtor countries. How, we may ask, could this inequitable system survive for so long? How could the pound sterling maintain a fixed gold value for a hundred years? How could the rentier leisure classes of Britain sustain their comfortable lifestyle while engaging in ever increasing overseas investments amounting to 6 or 7 % of GNP by 1914? In brief, because the

domestic franchise was limited to propertied classes, while debt service on portfolio investment was guaranteed by colonial and quasi colonial governments.

The international financial institution negotiated by Britain and the US at Bretton Woods replaced the gold standard by a modified version of the Keynes plan, created to facilitate adjustment of member national economies to temporary balance of payments disequilibria. Conditionality was minimal. Capital controls, enshrined in article VI of the constitution of the IMF, were the norm and central banks had exclusive rights to trade in currencies. The United States emerged from the second world war as the hegemonic capitalist power and the major source of international finance and investment. Currencies were pegged to the dollar, which was convertible to gold until 1971. Gently rising prices favoured growth of the real economy. Historically unprecedented rates of economic growth in developed and developing countries were sustained for 30 years. World trade grew faster than world output but national finance served its economic role of channelling savings into investment in the expansion of real productive capacity.

When the dollar was freed of the discipline of gold convertibility, an explosion of international liquidity fuelled inflationary pressures. Floating exchange rates and the progressive unleashing of capital from national control favoured labour in the industrial world and sovereign borrowers in the developing world, as real interest rates were low, sometimes negative. To restore profitability of capital a disinflationary shock in the form of hard-line monetarism was administered in 1979/80. This crashed the economies of indebted Latin American and other middle income developing countries. Economies were restructured to reduce domestic absorption and increase export earnings to service un-payable mountains of debt.

For the next two decades, the interests of investors were sustained by enormously complex arrangements devised by multi-lateral financial institutions employing many thousands of highly-paid professional staff to negotiate structural adjustment programmes and supervise the design of national budgets in scores of developing countries. Less efficiently and less completely, the effect has been to replicate the discipline of the gold standard, with no automaticity and a great deal of planning. We are reminded of Polanyi's much quoted dictum that "laissez-faire" was "indeed planned".

In the 1990s, finance, not trade, has determined exchange rates.² While devaluations were initially forced on developing countries to shift internal resources from non tradable to export sectors and balance external payments, in the 1990s, exposure of pension and mutual funds to exchange rate loss in emerging markets encouraged fixed exchange rates. To defend currencies from speculative attack, ensure convertibility, and prevent precipitous devaluations, central banks have been obliged to hold large reserves. In the absence of exchange controls, capital flight inevitably results in depletion of reserves and impoverishment of debtor countries. From the Mexican crisis of 1994 to the Asian crisis of 1997, the magnitude of IMF negotiated bail-out packages to rescue foreign investors became ever larger.

By 1998, there were serious fears of a possible global financial meltdown. The whole dismal experience, including ever increasing bailouts revealed the absence of an effective international financial institution capable of dealing with such an eventuality. Senior Fund officials, who argued the case for the IMF as a “lender of last resort” for the international monetary system were ridiculed by Treasury officials. Only the United States, they were told, has the power to create internationally acceptable reserve currency, and such replenishments require authorisation of Congress.

From this point forward, the disequilibrium in the international financial order has greatly increased. Abandoning all pretence of fiscal discipline, a surplus of 200 billion dollars in 1999 was turned into rapidly increasing annual deficits exceeding 5% of GDP in 2003. Approximately 45 % of US Treasury Bonds of the huge federal fiscal deficit was financed by foreign capital. The world’s strongest economy has become the world’s largest debtor. Excess private and public consumption, including military expenditures, are financed by the transfer of real resources from capital exporting surplus countries and debt-burdened deficit countries. In effect, China and the rest of the world are financing the capacity of U.S consumers to purchase their exports by depositing reserves in low-yielding U.S. government securities. This whole unstable structure now rests on the continued confidence in the value of the US\$, and it’s continuing role as the world’s leading reserve currency. In these

² The value of total derivatives trading (\$5.7 trillion a day) combined with daily turnover in the foreign exchange market (\$1.9 trillion) gives us a figure of \$7.6 trillion/day for 2003, a figure larger than the annual value of global merchandise exports for the same year. Source: Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, April 2004. Bank For International Settlements. <http://www.bis.org/publ/rpfx05.htm>

conditions, how long can confidence in the US \$ hold up? A question posed with increasing frequency. The outcome of dollar hegemony has been the thoroughly disordered international financial system which the original Keynes plan sought to prevent.

The Self-Regulating Market on a Global Scale

In Polanyi's schema, the self-regulating market was a national economic institution moderated by social counter movements. Financial capital and populations moved freely across national borders. Production facilities were generally domestically owned. The large export of portfolio capital financed private and public infrastructure. The value of interest and profits was secured by government guarantees and the rules of the gold standard and financed one third of Britain's commodity import bill before 1914. Millions of peasants displaced by agrarian capitalism migrated to "empty continents" and assured the supply of food and agricultural raw materials by extending the land resource available to the metropole.

By contrast, the US pioneered the modern corporation and the culture of consumerism within its vast domestic market, subsequently extended to foreign countries by the establishment of production facilities abroad. After the Second World War, FDI became the principal form of private long term capital, accompanied by official development assistance for economic infrastructure. Whereas US FDI made important contributions of capital, technology and market access in the first three post-war decades, in the 1980s and especially in the 1990s, FDI increasingly assumed the form of mergers and acquisitions of private and public assets.³ The foreign sales of subsidiaries and affiliates of US corporations have long exceeded US exports of goods and services. Transnational corporations have become increasingly powerful and influential in the formulation of public policy. They financed the think tanks and universities which, as mentioned earlier in this text, furnished the political directorates of the OECD with the neo-liberal policy agenda of globalization.

³ "In the late nineteenth century, there was less than one cent's worth of mergers and acquisitions for every one dollar of 'real' investment. Fast forward another hundred years, and for every one dollar of 'real' investment there were over two dollars put into mergers. In other words, over the entire period mergers have grown roughly 300 times faster than 'real' investment." (Nitzan and Bichler, 2004 :38)

The globalisation project is nothing less than the attempted recreation of the 19th century liberal economic order on a global scale. To assure the “self-regulating” nature of the system required more than a golden straight jacket. It required new international political and economic institutions to protect the property rights of investors from the exercise of sovereignty by national governments. We cite a World Bank publication: "...one effect of globalization is to expand the options available to private individuals and firms while reducing those of policymakers" (WEP1995, 5)

The failure of socialism and the collapse of the Soviet Union encouraged the illusion that globalization was, whether desirable or not, unavoidable. In 1994 the GATT was transformed into the WTO. Its mandate was not confined to the arbitration of trade disputes but included provisions intended to bind countries to agreement on so-called trade related issues such as intellectual property rights. In the same year, the US proposed the establishment of a Free Trade Area of the Americas which went far beyond free trade issues to secure investor rights. The FTAA was intended to extend the NAFTA of 1994 to embrace the entire continent.

In 1995, the OECD initiated Multilateral Agreement on Investment to guarantee national status to foreign investors, was aborted in the face of popular opposition mobilized by NGOs. Also in 1995, the Mexican economy collapsed. In 1997, the East Asian Crisis threatened to derail the globalization agenda. In 1999, mass protests at the Seattle meetings of the WTO stalled progress and reverberated around the world. At Cancun in 2003, the global south blocked progress on the contentious “Singapore issues”. By 2005, all that remained of the FTAA was a free trade agreement with the small countries of Central America. It has been the greatest fear of the international financial community and the large transnational corporations that social and political costs of crises will cause countries to abandon “globalization”. Hence the exclamation of relief by Mr Stanley Fischer, Deputy Director of the IMF, commenting on the Asian Crisis of 1997, that globalization had survived its first crisis. (Fischer, 1999)

Since the 1980s and 1990s a predatory form of Anglo-American "shareholder" capitalism has uprooted socially "embedded" mixed economies. The social, cultural and natural environment has increasingly been invaded, degraded and subordinated to criteria of private profitability. Objectives of full employment and social security in the industrial world have been replaced by the overriding objective of competitiveness in external markets. National institutions and standards which

have protected vulnerable sectors and provided comprehensive systems of social security are being sacrificed. In the developing world, policies of national economic planning and national industrial development which enabled East Asian and some other countries to build a strong industrial base for domestic and export markets have become problematic due to commitments to bilateral and multi-lateral institutions including the World Trade Organisation.

Late 20th century globalization has created a world more uniform in economic institutions - but immensely more inequitable. ⁴ Capital is globally mobile - while immigration of labour to rich countries is highly restricted. Poor people in poor countries are not required as producers or consumers. They are "excess population"; a source of potential political instability, and a threat to the security of foreign investments. A distinguished Canadian of an older generation has no inhibitions in expressing his fear that global corporate power is tending toward fascism. I quote from "Remembering" by Eric Kierans, , past president of the Montreal Stock Exchange, Minister of Government in Quebec provincial and Canadian federal governments, McGill university professor and erstwhile colleague: "We are not born to live in a corporate world, yet that is the world we are moving toward. We have created a society in which so much of the world's riches are accumulated in so few hands - a curve that grows steeper every year - that we are headed for fascism or chaos. Either the few will control the many by force of arms - the example of old South Africa springs to mind - or the mob will rule. When people have nothing to loose as more and more of them are plunged into poverty for the enrichment of others they must either subside or rebel; and there is an end to community, responsibility and society." (Kierans, 2001: 253)

⁴ From 1960 to 1970, the increase of the ratio of the highest 20% to the lowest 20% of holders of income was minimal (30:1 in 1960 to 32:1 in 1970), by 1980 the ratio had increased to 45:1, by 1989, 59:1, and by 1997 had risen to 74:1. (UNDP HDR 1999).

Economy and Democracy

Perhaps the most current legacy of Polanyi pertains to the conflict between economy and democracy. The 19th century constitutional state was the instrument used by the bourgeoisie to institute a “laissez faire” capitalist market economy in England, unencumbered by popular franchise or trade unions⁵. As representative government was extended to the adult population, the state became an arena of contest between economy and democracy, between the requirements of the capitalist economic order, and the social and political demands of citizens.

After the Second World War, full employment and social security tipped the balance of political power toward labour. In the 1980s, capital regained control over public policy. Since that time, deregulation of trade and capital markets has subordinated living standards of citizens to the property rights of investors.

When measures affecting the livelihood of people are locked into supra-national agreements, enforced by punishing penalties, there is effectively no democracy. In Hirschman’s unforgettable words, “exit trumps voice”. Property rights of holders of paper claims (investors), prevail over parliaments, where they exist. Constitutions are regularly suspended or re-written by creditor driven stabilization programs. Multilateral institutions have become instruments for the imposition of economic imperialism.

In the schema of Rodrik’s “political trilemma”, in the absence world government, deep economic integration is incompatible with democratic governance. (Rodrik, 1999: 1) Democracy, whether at a local, subregional or national level operates in public social space. Although there are global social movements, the nation state remains the principal political arena of democratic contestation.

⁵ Eichengreen, Barry. (1996): 195.

“Universal Capitalism or Regional Planning?”

In an article of the same title published in 1945, Polanyi expressed confidence that the post war order would subordinate economics to social objectives. In the 1940s it was widely held that capitalism was discredited by the disasters of the 1930s. Only the United States, Polanyi wrote, believed in “universal capitalism”: "within the nations we are witnessing a development under which the economic system ceases to lay down the law to society, and the primacy of society over that system is secured" (Polanyi, 1945:259). He envisaged a regionalized world of co-existence of different economic and social systems linked by negotiated and managed trade.

Polanyi was wrong in his prediction that universal capitalism was a dead doctrine, but his vision of the co-existence of regional economies with different and diverse economic institutions linked by flows of trade, knowledge and people has new relevance for the world today. Serious crises in excessively open and export dependent economies are likely to redirect attention to domestic markets, not on a national but on a larger regional scale. China and India are perhaps the only countries which have the cultural and historic coherence and population size to undertake economic development based on production for the satisfaction of the basic needs of people. This is not an argument for autarky, but for the exercise of sovereignty over economic and social policy. In Latin America, a new generation of populist political leaders is responding to a profound disillusion with neoliberal policies. Similar currents are stirring in Africa. The common struggle against entrenchment of property rights in the WTO has forged political and economic links between major regions of the global south. Given the severe imbalance of power between the developed and the developing world it is difficult to imagine that a multilateral financial and economic order would not be biased to favour the rich and the mighty. Regional formations would have to furnish themselves with financial institutions to complement the management of external trade and investment.

In this context, the original Keynes plan for a world clearing union, endowed with special purpose money, which could coordinate economic transactions in a multi-polar world of regional economies with widely different economic and political institutions, merits re-examination. Keynes was a liberal; Polanyi was a socialist. However, Polanyi's definition of socialism as "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society" (GT: 242) is

broad enough to embrace political liberalism, social democracy and a variety of associational forms of democratic socialism.

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ⁱ A translation by the author is forthcoming in the new edition of Karl Polanyi in Vienna, edited by Kenneth McRobbie and Kari Polanyi Levitt, published by Black Rose Books, Montreal.

ⁱⁱ Translation by the author.

ⁱⁱⁱ Keynes described idyllic life in pre 1914 England where “internationalization was nearly complete in practice” as an “El Dorado” in which “the inhabitant of London could order by telephone, while sipping his tea in bed, the products of the whole earth, by the same means venture his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion, or even trouble, in their prospective fruits.” (Keynes,1971a:11)

^{iv} In 1935 he wrote to George Bernard Shaw: “I believe myself to be writing a book which will largely revolutionize – not I suppose at once, but in the course of the next ten years – the way the world thinks about economic problems” (Skidelski 1992: 520).