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## **Development and Regionalism**

### *Karl Polanyi's Ideas and the Contemporary World System*

November is a season for remembering. It is the season of all saints and all souls. A season to take stock of the past and take courage for the struggles of the future. It is a fitting season for remembering that this year marks the 60<sup>th</sup> anniversary of the publication, first in the USA, of Karl Polanyi's *The Great Transformation* in 1944 which has now been translated into 15 languages.

In 1919, my father emigrated to Vienna where he contributed to an emigré Hungarian publication edited by his friend Oskar Jaszi, and engaged Ludwig Von Mises in a debate on the feasibility of a socialist economy in the pages of the premier German language social science journal.<sup>1</sup> From 1924 to 1933, his position as a 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 on the continent. In "The Mechanisms of the World Economic Crisis" written in 1933, he traced the impact of the crisis on workers, agricultural producers and middle-class rentiers and concluded that the social and political fabric of these countries in continental Europe could not withstand the adjustments required by adherence to the financial discipline of the international gold standard. In 1933, he went to England, where he obtained employment as a tutor for the Workers Educational Association (WEA), the adult education extension program of Oxford University. His lecture notes, which we have in our archives, for his WEA classes are the skeleton upon which he later developed *The Great Transformation*. The book was written from 1941-43 in the United States.

The principle thesis of the book is that the utopian attempt to restore the 19<sup>th</sup> century liberal economic order after the First World War created economic and social upheavals and political tensions which were the essential cause of the world economic crisis and of the demise of democracy in most of the states of continental Europe. With a few exceptions like France, the Netherlands and Scandinavia, continental European countries turned inward on national solidarities and adopted fascisms of one kind or another. In a striking passage he concluded that "in order to comprehend German fascism, we must revert to Ricardian England" (Polanyi, (1945)

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<sup>1</sup> See, for example:

Polanyi, Karl. "Sozialistische Rechnungslegung" in *Archiv fur Sozialwissenschaft und Sozialpolitik*. Bd. 49, 2, pp. 377-420.

Mises, Ludwig, V. "Neue Beitrage Zum Problem der Sozialistischen Wirtschaftsrechnung" in *Archiv fur Sozialwissenschaft und Sozialpolitik*. Bd. 51, 2, 410.

2000:32) It is a very profound statement and one which I think has rather shocked English audiences.

The English edition of *The Great Transformation*, entitled *The Origins of Our Times*, was published in 1945, the same year as the publication of Hayek's *Road to Serfdom*.<sup>2</sup> These two intellectuals, both from Vienna, were occupied with the similar problem of freedom in an industrial society but the diagnoses they made were polar opposites. By 1945, it was widely believed, except in the USA, that the experiences of the inter-war years had discredited laissez-faire capitalism and that private enterprise would in the future have to be subordinated to the social objectives of national societies, and indeed this is more or less what happened from 1945 to the mid-1970s. In the West full employment and social security were the first priorities of national policy. In Africa and Asia, the full mobilization of human and natural resources to raise living standards was the principle objective of movements of national liberation. Polanyi envisaged a world of diverse economic and social systems coexisting in managed inter-regional exchange.<sup>3</sup>

In the 1940s and 1950s, some independent minded economists turned their attention to the problems of economic underdevelopment with important support from the early United Nations. With few exceptions, they came from regions peripheral to the heartlands of industrial capitalism. They came from Scandinavia, Central Europe, including Hungary- Nicolas Kaldor has already been mentioned-, India, the West Indies, Argentina, Brazil and Japan. When my father founded the journal *Coexistence* early in the 1960s as a means of communicating across the cold war divide, many of these eminent development economists. -- Gunnar Myrdal, Oskar Lange, Jan Tinbergen, P.C. Mahalanobis, Ragnar Frisch, Shigeto Tsuru and the one and only Joan Robinson - - leant their support and joined the editorial board of the journal.

At that time, Polanyi was engaged in research at Columbia University (1947-57) on the place of the economy and the institutions which governed the organisation of economic life in a variety of ancient and primitive societies He set out to demonstrate the fallacy implicit in the ascription of market mechanisms to pre-capitalist societies. His path-breaking article the "Two Meanings of Economics" was greeted with considerable hostility by academic anthropologists. In his search for general principles underlying the organisation of the provision of the material necessities of life he posited reciprocity, redistribution and exchange as patterns of integration. In this optic, the market economy appears as a special case. The approach was comparative. There was, in his work, no suggestion that modern societies are more advanced or more developed than those of the past. Polanyi contended that the 19<sup>th</sup> century market economy was 'economic' in the distinctive sense that it chose to base itself on a motive never before raised to the level of

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<sup>2</sup> Hayek, Friedrich A. *The Road to Serfdom*. Foreword by John Chamberlain. University of Chicago Press, Chicago. 1944.

<sup>3</sup> Polanyi, Karl. "Universal Capitalism or Regional Planning" *The London Quarterly of World Affairs* . Jan 1945: pp 1-6.

justification of action and behaviour in everyday life, namely individual gain. (Polanyi (1945) 2000:30)

After the demise of the Bretton Woods monetary order in the early 1970s, various maladies overcame the capitalist system -- creeping inflation, declining productivity and profits, low or negative real interest rates favouring debtors and a wave of political radicalism in the South – causing a counter-revolution favouring capital. A macro economic regime change precipitated the Latin American debt crisis of the 1980s, the Reagan and Thatcher administrations rolled back gains made by labour, and the Bretton Woods institutions were encouraged to use financial leverage to remove restrictions on trade and capital in developing countries.

The World Bank took the lead in an intellectual attack on development economics. It declared that there was one and only one economics, and economic science could explain the functioning of the economy anytime, anyplace, anywhere regardless of institutions. Developing countries, no matter where, were deemed to be no different from the leading industrial countries, only poorer. Development economics was demonised as structuralist heresies bordering on socialism.

In the mid-1980s, an influential Swedish trade economist was brought to the World Bank, and wrote a research memorandum in which the entire responsibility for the debt crisis was laid upon the indebted countries. They were not letting the market work properly, they were not getting prices right; they were imposing wicked subsidies on basic foods, and assisting small farmers with loans at concessional rates, along with a whole list of other “erroneous” policies. This litany of economic sins is very similar to Polanyi’s account of charges laid against countries in the context of the stabilisation programs of the League of Nations in the 1920s. We now have doctrines of balanced budgets and other measures whose sole objective is to protect the value of money and the security of investors. By the end of the 1980s Hayek had achieved his declared objective of turning the doctrinal clock back to the 1920s.

Since the fateful date 1991, the neo-liberal agenda of deregulation, liberalization and privatization was put into fast-forward mode. In 1994 a word appeared from apparently nowhere, ‘globalization’. The World Bank in the mid-1990s went as far as to suggest that globalization offered a return to the “golden age of the late 19<sup>th</sup> century” which could bring prosperity to the developing world so long as countries adhered to the market principle. In 1994, the General Agreement on Trade and Tariffs was converted to the World Trade Organisation, the North American Free Trade Agreement was signed and the project to extend it to the entire hemisphere was initiated in Miami.

Liberalisation of trade and investment was accompanied by an explosion of short-term global finance far surpassing the requirements of trade. The returns on short-term portfolio investments and the opportunities for capital gains exceeded profits from productive activity. Corporations moved assets from production to finance and the national accounts of almost all

countries showed an extraordinary growth in the contribution of financial services to GDP. In some developing countries this financialisation equalled or surpassed the contribution of manufacturing, reflecting the rewards to holders of government debt and other financial assets. This financialisation which accompanied globalization was a mechanism of transferring real resources from producers and tax payers to individual or institutional owners of financial assets. Both at the domestic and international levels it has been an engine of inequality and instability. We have seen financial crises more frequent and more severe than those of the 1930s – not, to be sure, in the heartlands of capitalism, but in East Asia, Latin America, Turkey, Brazil, Argentina and Russia. In many developing countries, living standards have plunged not by 2 or 5%, but by 20, 30 or even 50% at a time.

Whereas capitalism brought great benefits in the form of increases in material production in the 19<sup>th</sup> and 20<sup>th</sup> centuries, what we now see is a predatory style of capitalism. While Britain's 19<sup>th</sup> century overseas investments were principally in railroads, ports and other infrastructure, U.S. foreign investment takes the form of establishment of subsidiaries of trans-national corporations more concerned with acquiring existing assets, both private and public, than with the systematic increase in the real productive capacities of countries. This style of capitalism resembles the plundering practices of early mercantile capitalism. Hence the operations of multi-national corporations represent a “new mercantilism”.

For developing countries this model has been implemented by a complex set of financial negotiations which impose increasing constraints on their policy space.

How, we may ask, is imperialist domination of the developing world possible in this day and age? Most Latin American countries and many others in the developing world are now governed by institutions of representative democracy. How is it that neo-liberalism has become so entrenched, seemingly regardless of the party elected to power?

What we may call the democratic deficit stems from the limitations on sovereignty imposed by external obligations to creditors and multi-lateral institutions . But also, as Osvaldo Sunkel showed 30 years ago, it follows from the incorporation of significant strata of industrial, commercial and professional domestic classes into the metropolitan circuits of production, consumption and accumulation. Their aspirations and lifestyles have more in common with those prevailing in the industrialised world than those of their poorer compatriots. In many countries they have benefited from the financing of domestic governments by the issue of domestic debt carrying high rates of interest and placed their earnings in foreign banks, safe from financial instability. This is one reason why governments elected with wide popular support on progressive platforms find it difficult to deliver the expected results.

We have arrived at a critical moment in history. To gain perspective on possible futures we need to lengthen parameters of inquiry to embrace the history of European hegemony and the

evolution of capitalism from its beginnings in mercantilist conquest. The establishment of production facilities on capitalist principles was pioneered on the slave plantations of the Caribbean.

For Polanyi's insights into the historic transformation of agricultural societies to industrial civilisation we must turn to his contention that price-making markets for the fictitious commodities of land, labour and money were an innovation more revolutionary than the mechanical inventions of early industrial capitalism.

The commodification of labour in England began with the systematic dispossession of the peasantry by the enclosure of the commons to create agrarian capitalist enterprises whether for the rearing of sheep or the cultivation of wheat with wage labour.<sup>4</sup> Whether from patrician motives of responsibility or fear of social upheaval, the landed gentry provided a measure of poor relief to large numbers of dispossessed and impoverished people roaming the countryside, until the urban bourgeoisie gained control of parliament in 1832, and instituted a draconian labour regime.

No such humanitarian considerations applied to African labour transported to the plantations of the new world from the 16<sup>th</sup> century on. If we think of slaves as embodied labour power, bought and sold on a slave market, plantation slavery was a form of agrarian capitalism for the production of commodities for sale. The Good Hope Plantation, in Jamaica, had 3000 slaves at a time when Adam Smith was describing the merits of the division of labour in a pin factory employing 10 people. The suggestion here is that the technical advantages of the division of labour were pioneered on the plantations of the West Indies. Plantation slavery was a forerunner of capitalist industry.<sup>5</sup>

In the industrial revolution land and labour, people and nature, were transformed into instruments for achieving the sole objective of increased production of commodities, whether in the form of goods or services. **Capital, as a factor of production, has been problematic in the history of economics and the subject of important controversy, but economists conveniently sweep these aside by the use of a mathematical symbol (k) in algebraic expressions which may indeed include any number of other so-called factors of production. The economy is presented as an interdependent system of structural and behavioural market relations between transactors imagined as a self-contained and complex mechanism which can be tweaked and manipulated to explore the functioning and disfunctioning, the equilibria and disequilibria of the economy. This intellectual construct of economics carries a very strong normative message; if economies do not function like this, this is how they ought to function.** The conceptualisation of economic science mirrors Polanyi's concept of the disembedded

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4 A reminder of the agrarian origins of English capitalism is furnished by Ricardo's concept of diminishing returns at the margin of cultivable land. The economics of the firm derived from the economics of the farm.

5 The slave trade and the slave plantations were enormously profitable and accounted for one quarter of England's imports in the 18th century.

economy which lifts the economy out of its social and cultural base. The problem, of course, is that this picture of the economy does not conform to reality. The reality is that people work for all sorts of reasons, but a lot of work that is performed is not remunerated, and therefore is assigned no value. The economists' view of nature is equally strange: regarding natural resources as having no value if they are not commercialized or do not have the potential to be so.

Because the disembedding of the economy is in fact socially unsustainable, Polanyi suggested that society protected itself from impersonal market forces in a variety of ways. Polanyi warned, in a frequently cited passage that: (the self regulating market) "could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself -- by protective labour, civic, social and political movements and legislative measures enacted by national states -- but whatever measures it took impaired the self-regulation of the market, disorganized industrial life and thus endangered society in yet another way."(Polanyi (1945) 2000:3

Polanyi shared Marx's fundamental insight into the historically limited nature of the organisation of economic life by the universalisation of the market principle, including private ownership of the means of production. Whereas Marx anticipated the eventual breakdown of the capitalist order on account of inherent *economic* contradictions, Polanyi emphasised the contradiction between the requirements of the capitalist market economy for limitless expansion and the human requirement to be sustained by mutually supportive social relations. In Polanyi's account the outcome is not determinate. There are no impersonal historical forces which inevitably move humanity forward.

After the Second World War, a prolonged period of relative economic stability and strong economic growth in Europe and North America encouraged a reading of Polanyi's 'double movement' as a kind of self-correcting mechanism. Such illusions were shattered by the impact of globalisation in the 1980s and 1990s. Liberalisation of capital from national control has accelerated social dislocation and exclusion on a global scale and created polarising inequalities never before experienced in human history, but there are no international institutions to offset or check the law of accumulation.

This globalization or neo-liberalism manifests similarities with earlier penetrations of capitalism into the developing world: first, with the era of mercantilism from 1500-1800; second, with the creation of the world economy in the 19<sup>th</sup> century, which led to the First World war and the world economic crisis of the 1930s. The present, third wave which began with the counter-revolution of capital to roll back gains made by labour. Each of these have left deep historic traces and legacies on the various regions of the developing world.

North-South relations of dominance and dependence were established in the era of mercantilism. The indigenous civilisations of North and South America were destroyed and their

populations decimated. The persistence of ethnic cleavage between indigenous peoples and populations of European origin explains the extraordinary inequality of assets, income and opportunity in contemporary Latin America, which far surpass those in any other part of the world, and led to endemic political and economic instability. Mercantilism was about conquest and unequal trade. There was essentially no technical progress.

The second phase of globalisation created a world economy when in the 19<sup>th</sup> century industrial capitalism spread from England and North West Europe to the rest of the continent, North America, and Japan. There was an enormous increase in productive capacity, and large metropolitan investments in railways, ports and shipping served as infrastructure to an expanding volume of international trade.

Peripheral countries were transformed – by the so-called traditional division of labour -- into export economies serving the ever growing needs of the metropolitan markets. Distinct patterns emerged in the structure of international trade: the stronger metropolitan centres controlling distribution, finance, communication and access to technology, and the peripheries producing export commodities, mainly raw materials, and later some manufactures. This institutional asymmetry of power disappears from view in the treatment of international trade in economics textbooks, which treat international trade as if it were simply a matter of mutually beneficial exchange between two or more equal partners.

Late industrialisers challenged British supremacy and by the end of the century intensified competition resulted in a prolonged crisis of overproduction. Rivalry between national capitalisms extended political colonialism to embrace all of Africa save Ethiopia and vast regions of Asia. While the economic benefit of new colonial conquests was perhaps marginal, the damage to the social fabric and natural environment was far reaching and long lasting.

It all came crashing down in the imperialist war of 1914-18 followed by a world economic crisis in 1929-33. In Latin American history 1929 marks the end of a century of export dependent economic development. Imperialism was discredited, and peripheral countries set their hopes on industrialisation as a means to escape export dependence. By the beginning of mass decolonisation in 1945, it was believed that territorial colonialism was a thing of the past.

Prior to the accession of George W. Bush to office in 2000, globalization was manifested principally by the exercise of economic and financial power. What this really adds up to is a project to impose Anglo-American institutions and an Anglo-American style of capitalism on the world. Since 2000 the United States has adopted an explicit policy of the unilateral exercise of military power including the implementation of a doctrine of “space superiority”. Colonial wars seem to have returned. The United States has undertaken to exercise hegemony by the establishment of military outposts on a global scale. So far they have been unable to digest the occupation of a relatively small country of Iraq. Yet they may bring terrible damage to the world.

By the end of the 1990s it had become evident that neo-liberal policies had failed to produce economic growth with stability and had greatly widened disparities of income in Latin America, where there is now a critical reassessment under way due to the resurgence of popular pressures to deliver the benefits of economic development to the masses. In Sub-Saharan Africa, where the World Bank implemented hundreds of Structural Adjustment Programs, living standards have fallen, wars have ravaged the continent and HIV/AIDs has decimated the population. Unlike Latin America where neo-liberalism had captured the imagination of a generation of economists, Africans charged with implementing these programs did so under duress of the fiscal burden of debt service. They never believed in this neo-colonial management of their affairs by the staffs of the BWIs. There is a growing consensus that African development requires a totally different approach, respectful of indigenous institutions and values and based on the appropriate allocation of the great resources of the continent for the economic and social requirements of their diverse communities.

In contrast, with some exceptions, the Bretton Woods institutions exercised minimal influence over national economic policy in East, South East and South Asia. While participation in international trade and investment has played an important role in the economic success of the region -- China is emerging as the world's second largest economy and Americans are currently obsessed with the outsourcing of services to India -- the wellspring of the extraordinary economic growth in East Asia is firmly domestic. In one way or another, the state has provided economic and social infrastructure in education and research, and assisted industry to climb up the value chain by strategic incentives and control over access to credit and foreign exchange. They have replicated the success of European late industrialisers in a mere 20 or 30 years. In this connection, the work of the early development economists is being revisited.

There is reason to expect the emergence of a powerful East Asian regional formation including China, Japan, Taiwan province of China and Korea associated with the ASEAN group of countries. India, with a population approaching 1 billion, a strong industrial base and high levels of tertiary education and a middle class approximating 300 million with significant purchasing power, is negotiating long standing problems with Pakistan and also China. This is the background against which we assess the prospects of the US-led drive to restructure the world in the image of their own institutions, because that is what the globalisation agenda is all about. Initiatives toward regionalism in the South are also evident in Latin America, the Caribbean and Africa. The love affair of elites in the European transition countries with the United States is fading. Some countries have joined the European Union and others aspire to do so.

Rather some form of world government, from the point of view of the developing world, an objective for the foreseeable future could be the formation of large regions of economic integration with political institutions of governance appropriate to geographic and historical realities. Only China and India or perhaps the entire South Asian region have size, diversity and

historical and political coherence to stand alone as viable regions. Such a re-configuration of the international system implies a reform of the international financial order to replace the dollar as the hegemonic reserve currency. Keynes' plan for a special purpose money for clearing international balances deserves re-examination.

Such an imagined future constitutes a significant retreat from the universal capitalism of globalisation. Regionalism could embrace the diversity of its constituent parts, as indeed is the case in the European Union. Economic, social and indeed political institutions of the various regions would be quite different. Such arrangements would permit the re-allocation of resources on a regional scale to meet the requirements of domestic consumption. Trade would perform its proper function with the benefits of mutual exchange, without displacing or constraining domestic development. This is a variant of Polanyi's model of an international economy. His historical investigation of the place of the economy in society and his deconstruction of the roles of money, markets and trade point to a variety of economic institutions which indeed can coexist as they do in a modern mixed economy, in which markets will always have an important role to play. All of this is possible if regional economies are to some degree closed in order to allow the allocation of domestic resources to be sheltered from prices prevailing in the stronger economies. For the set of prices appropriate to one region may be different from the set of prices appropriate to the resource allocation of another.

In view of the fact that the richest 25% of the world's population consume 80% of the world's limited natural resources, this enormous gap can only be narrowed when the regions of China, Asia, Latin America, and Africa are able to provide their populations with the basic amenities of modern life. They will have to have access to sufficient natural resources to do so. This implies nothing less than an absolute decline in the use of these resources in the capitalist heartlands. It is difficult to conceive how capitalist organisation of the economy, based on ever growing consumer demand, can adjust to what amounts to a radical change of lifestyle, short of the threat of military confrontation.

It seems clear that the contradictions between the requirements of the capitalist economy for unlimited expansion and the requirements of people to live in mutually supportive relations cannot be resolved without a civilizational change to transform institutions governing economic life. This is a long-term process, yet in the history of humanity, the past two centuries of industrial capitalism are but a moment. As Robert Heilbroner reminds us<sup>6</sup>, none of the great economists -- not Smith, Marx, Schumpeter nor Keynes -- projected a long untroubled future for capitalism. Nor did Karl Polanyi. In the interim, many non-profit initiatives of civil society are examples of social solidarity based on cooperation, not competition, on association, not individual gain. But as important as they are, they cannot substitute for democratic control of the state which remains

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<sup>6</sup> Heilbroner, Robert. "21<sup>st</sup> Century Capitalism". Massey Lectures. Anansi, 1992. Concord, Ont. : p. 103

essential to the organisation of economic livelihood in a modern society in the North as in the South.

It is because basic human needs of security, affection, respect and protection have no place in formal economics that the transformation of the capitalist order requires a new calculus of the value of work, the value of human needs, and the value of nature. When economic decisions have to be made, the underlying value system must be one that accords with the realities of real people living in real societies, one that acknowledges our very real dependence on the natural environment and its very real limitations. Economics has to return to some very basic questions of use value and exchange value. We have to take into account the real value of human effort and work, and that is very different from its market value. We have to protect nature and our social and cultural heritage. People do not like to be valued and respected only for the income which they can earn, and to be totally disrespected if they are not able to earn income for whatever reason. The reconciliation of criteria of technical efficiency with distributive justice and democratic process was the problem which Karl Polanyi attempted to solve in the debate with Ludwig Von Mises, mentor of Friedrich Hayek, on the feasibility of an associational democratic socialist economy. He did not solve the problem, but the legacy of his research into institutions of non-market exchange, the use of single purpose moneys or reciprocal and redistributive arrangements of various kinds, may expand the boundaries of the possible. This is the challenge which Karl Polanyi has presented to us and to future generations.