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Democracy, Austerity and Freedom: The Importance of a Monetary Production Economy during the Post-crisis Period

The Great Transformation by Polanyi provides enough elements to debate the current juncture from the deterioration of democracy and freedom in an atmosphere of austerity that prevails during the current post-crisis period. Austerity has hampered the exchange relations and decreased wealth creation and employment opportunities. It has not only subsumed human beings to the rentier capital, as defined by Keynes, but it has also altered market itself. One of the pillars of a democratic society is a monetary system that allows growth and economic development. From Polanyi's point of view, democracy and freedom are based on the good performance of societies in which there are distinguishable monetary exchange and credit relations in order to access employment through a regulatory State that guarantees the economic welfare and the democratic regimen.

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JEL codes: B, B1, B3, E, G, F

1. Introduction

After several years of austerity, one of the most important concerns during the post-crisis period is the deterioration of democracy and freedom. The austerity era, as pointed out by Parguez (2013), has been reinforced since the Great Crisis, permeating the Great Recession and, with that, the destruction of employment and of exchange and credit relations, which are highly meaningful and necessary for emerging economies that are developing. "This ideology is the *austerity doctrine*", imposed, just like the inquisition, on all governments and its experts (Parguez, 2013:161) who have revolutionized the hegemonic thought by appropriating the principles of the market in what refers to the social life of individuals. *The Great Transformation: The Political and Economic Origins of Our Time* by Polanyi invites the social scientist to reflect on the meaning that had the period between wars during the last century and the mirror of these years during the current juncture. The legacy of the historical interpretation of the economic, political, and social thought of one of the most important works of the twentieth century may be linked, in the present time, with the book called *From the*

Great Transformation to the Great Financialization: On Karl Polanyi and Other Essays. The emphasis of the latter develops from the deregulation of the markets and the importance of financialization emphasized by Kari Polanyi.

At the heart of both texts, the axis is located in currency and its importance in what refers to economic unfoldment. Although the first work is based on the importance of the gold standard and its fall; the creation of the Monetary System of Bretton Woods and its fall, altered the regulatory pillar of the market and of the exchange and credit transactions. So much so that exchange relations in a capitalist system, in comparison to a tribal system, places at the core of the debate the creation of wealth and its distribution. Therefore, the discussion is focused on how to alter the core of a monetary production economy in which the markets should be regulated; society's democracy and freedom get distorted. Austerity responds to the transference of the economic surplus in order to feed financialization.

One of the pillars of a democratic society is the access to employment, which determines, at the same time, economic and social welfare based on a monetary system that allows growth and economic development. In monetary production economies, the general equivalent plays an important role in what refers to income and to wealth distribution. Undoubtedly, austerity hampers the realization of value and gets human beings, and their freedom, subsumed to the interests of international financial intermediaries; but it also moves the State itself away from its role as surplus and social justice regulator. The objective of the present conference is to intersperse the contributions made by Polanyi in what refers to democracy and freedom of the human beings when immerse in an austerity process controlled by the interests of the rentier capital during the post-crisis period. What is behind Polanyi's work when he talks about the importance of a monetary system and of a democratic regimen? How to understand the great contradictions during the period between wars from Polanyi's point of view? And, are the threats of the Great Recession and deflation dangerous to a point in which they are capable of altering the European democratic regimen? How far is the limit of the post-crisis period? How to break the rampant circle that leads to situations of nationalist revival, homophobia, and dignity loss?

2. The Monetary System and The Democratic Regime

The importance of the general equivalent, which abstraction in a monetary production economy is the currency that shapes the network of exchange relations from a specific monetary system, lies in the fact of it being a referent of power and of respect on the part of governmental institutions. Currency, or rather the general equivalent, is the symbol of the power of an institution, be it the State or a tribe. Therefore the monetary referent performs an economic, political, and social function within the space of relations between human beings. But one should not confuse currency in its abstraction as a general equivalent that guarantees exchange with it functioning as money or credit, which lever for the accumulation process is of major importance in a capitalist economy.

The gold standard, in which currency had its reference between the nineteenth and the twentieth centuries, performed an economic and political function for over a century by

providing stability and lasting peace. When the gold standard fell, Polanyi mentions, “Hardly anyone understood the political function of the international monetary system; the awful suddenness of the transformation thus took the World completely by surprise. And yet the gold standard was the only remaining pillar of the traditional World economy; when it broke, the effect was bound to be instantaneous. To liberal economist the gold standard was a purely economic institution; they refused even to consider it as a part of a social mechanism. Thus it happened that the democratic countries were the last to realize the true nature of the catastrophe and the slowest to counter its effects.” (Polanyi, 2001:21)

The latter had an effect to such an extent that the basis of a monetary system, that regulates social life, is essential for economic, political, and social peace. While among non-monetary production economies the tribal chief is the one who distributes the supplies when it refers to societies in which currency not only allows exchange but also capital accumulation and, with that, profit. Political power increased from the distribution of goods (Polanyi, 2012:100). “And just as the transition to a democratic system and representative politics involved a complete reversal of the trend of the age, the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society” (Polanyi, 2001:73). The interpretation of Polanyi’s idea is the criticism of the current monetarist thought in which the metaphor of Friedman comes to life when noticing that money is an exogenous variable, determined only by the supply and demand, and not characterized as a creation of the State. The criticism of the regulated market becomes significant when Polanyi mentions “*The congenital weakness of nineteenth-century society was not that it was industrial but that it was a market society.* Industrial civilization will continue to exist when the utopian experiment of self-regulating market will be no more than a memory” (Polanyi, 2001:258).

3. Currency and Democracy

In the United States the period between wars, characterized by the Crack of 29, set the foundations for a regulation supported by banks in order to avoid future crises. The division between commercial banking and investment banking, as well as the important investment of the Federal Reserve through the New Deal, remedied the situation in order to strengthen large corporations and military power. It did not happen the same for Europe; this country’s contradictions, provoked that the outbreaks of democracy in the nations sank, to give way to fascism. The military conflict destroyed democracies and repression fell over majorities. What Polanyi points out is the way in which the democratic governments did not realize the importance of administered currencies and the harmful effect of balanced budgets.

Economic liberalism set the foundations for industrial and commercial liberalism, as well as the illusion of the fall of dictatorships. The situation that arose was absolutely opposite to that. Fascism and war developed, democracies did not understand the structural basis of their fracture, neither the strengthening of fascism. “By virtue of this creed democratic governments were the last to understand the implications of managed currencies and directed trade, even when they happened by force of circumstances to be practicing these methods themselves; also, the legacy of economic liberalism barred the way to timely rearmament in the name of

balanced budgets and free enterprise, which were supposed to provide the only secure foundations of economic strength in war” (Polanyi, 2001:149).

4. Democracy, Austerity, and Financialization

The principles of democracy face an ideological battle when it comes to the austerity policies implemented in order to satisfy the interests of the rentier capital. In a regimen of principles there is a profound controversy in the middle of the financial crisis, especially when taking into account the economic austerity that has affected the pillars of the political and social stability, and their capability to satisfy the profits of rentier capital. The actions, in what refers to economic austerity, that have been applied in order to get out of the crisis, have destroyed the right to employment, an indisputable element of democratic regimes. In every democracy, it is essential that employment is considered a human right from the perspective of economic sciences; every inhabitant that wants to have a job should have the right, guaranteed by the State, to have one. As a consequence, in a democratic state, the project for national development should not only satisfy the need for employment, but also should generate economic opportunities for the society and the welfare of its population. The opportunity of having a job causes people to remain happy and free within a democratic society, contrary to the society of austerity, not only uses financialization as a cover for the rentier capital, but also decreases the freedom of a person.

There is no better resignation, the meeting point in which ideas and their justification are conjugated in the “Davos man”: the sacrifice, the austerity, and the cancellation of economic human rights are the paradigm. It would seem that the period between wars during the twentieth century, is similar to the current juncture of the Great Recession and the post-crisis, a *sui generis* period similar to the one described in *The Great Transformation* by Kari Polanyi. Asking one self if the current capitalism is still attached to democratic principles or if the lack of employment and the stagnation are jeopardizing the ideology of the International Monetary Fund, the European Central Bank, the European Commission, and many others. Their policies have functioned as a straitjacket, not only for the countries of the European Union, but also to the emerging countries which commercial relations are very close to that region. This ideology is subsumed to the financialization principles and the imposition of a central bank that does not fund its country, favoring the balance of finance, is still blocking economic recovery. While governments are abandoning step by step their fundamental tasks, inherent to their governmental functions such as currency and security, their central bank concedes its monetary sovereignty to financial markets. The hegemonic-financial ideal, throughout the performance of the public policies, is provoking enormous and unquantifiable damage to society, degrading social life and human dignity to their limits. At the same time, financial businesses and banking organization itself block any kind of repositioning of a democratic regimen that does not respond to its profits. Therefore, posing for debate the democratic regimen and capitalism in high financial concentration and extreme social vulnerability conditions is subject for the Development Theory.

The financialization process, through the shadow or parallel financial system, not only caused its own bankruptcy during 2008, it also destroyed lives, families, and employments, but has

resurfaced again and with more strength. The utopia of the universalization of the market, globalization, has been questioned. Every process of financial deregulation and related to the liberalization of financial markets, has deepened not only financialization, but also the fragility of the emerging countries. Financialization focuses on commodities such as foodstuffs and the extractive industry. Securitization and derivatives instruments have launched new promotions and deepened volatility; structured finances seem to be, again, the exit for great remuneration for financial conglomerates while Southern countries are watching the fall of the prices of the export products and the withdrawal of minor retentions facing the demand of their products.

Undoubtedly, economy is a social construction that involves laws and institutions as shown, among others and in a remarkable way, by Galbraith and Polanyi. Altogether, the power of democracy should subsume to the globalization of the market in order to satisfy the needs of society and employment is an essential part of the construction of the dignity of man as well as of economic development. To reform the reforms applied in order to favor the people, changing the ideas of sacrifice, punishment, and vigil becomes necessary. Nowadays, ideas should be confronted so that it is possible to look for a path towards development regarding nature, traditions, and cultural roots.

5. Conclusion

The importance of a monetary production economy throughout capitalism exists and is represented within the economic cycle. The abrupt drops after a long period of development of financial instability, as Minsky describes it in his hypothesis of financial stability, is related to the alternative policies presented by the central bank. Undoubtedly, the rupture of a regulating monetary system jeopardizes the democratic regimen currently active in Europe, which is the most dramatic example of the post-crisis period. Austerity policies, when leaving majorities unemployed, encourage more repressive economic policies and propitiate an antidemocratic austerity circle, thus decreasing the freedom when looking for a job.

The legacy of Polanyi's work reinforces the importance of an exchange monetary system and credit for democratic societies.

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