

“The Transformation of the World System: Some Insights from the Work of Karl Polanyi”

Kari Polanyi Levitt

Inaugural Lecture. International Conference on *Development and Regionalism. Karl Polanyi's Ideas and the Contemporary World System Transformation*. November 5-6, 2004. Budapest

I wish to begin by expressing my deepest thanks to President Vizi of the Hungarian Academy of Sciences, to my colleagues Tamas Szentes and Mihaly Simai who were instrumental in bringing us together here, and to Margie Mendell who has sustained the work of the Karl Polanyi Institute of Political Economy at Concordia University for so many years. My approach to the conference theme will focus on the impact of globalization on the developing world.

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 this conference which marks the 60th anniversary of the publication of *The Great Transformation* in 1944. This book has now been translated into 15 languages and a new Hungarian edition has been launched, including a translation of the preface by Joseph Stiglitz. The last time we met in this hall was in 1986, and some of you present today were there, when the Hungarian Academy of Sciences hosted an important conference to celebrate the centenary of my fathers' life and work, and the earthly remains of my parents Polanyi, Karoly and Duscynska, Ilona, were returned to their final resting place in Hungary. I wish to record a special thanks to the late Joseph Bogner, who presided over the conference from this platform. He was a true friend and we remember him with affection and respect. The platform was also shared by Ilona's ancient Corona Smith typewriter on which she typed so many of my fathers manuscripts and her own memoirs.

October 1986 happened also to be the 30th anniversary of 1956, a historic event which united my parents in a kind of return to Hungary late in their lives. They undertook a project of translating the work of some of their favourite Hungarian Poets to English in the only book jointly authored by them, *The Plough and The Pen*.¹ A year before his death in 1964, my father returned to Budapest for the first time since he left for Vienna in 1919. Accompanied by Ilona, he was reunited with family members and old friends, some of whom knew him since times of the Galilee Circle before the First World War.

Karl Polanyi's life was, as he noted, “a world life”, but its formative years were lived here in Budapest, more precisely in these streets and in this area where we are presently meeting. It was here that he first confronted the philosophical question of freedom in a modern industrial society, a continuing concern throughout his life. On that occasion, I think, he wrote that all he had achieved he owed ultimately to Hungary. I myself have never lived in this country and I cannot speak your remarkable language which has

¹ Ilona Duczyska and Karl Polanyi, *The Plough and the Pen: Writings from Hungary, 1930-1956*, London: Peter Owen, 1963.

given rise to so much original thought in so many areas of science. I was born in Vienna, but as I told Prof. Vizi, I know that my ultimate origins are here. It gives me a special satisfaction to be receiving the honour of becoming a member of your scientific community; it is a sort of return to origins late in my life.

In 1919, my father emigrated to Vienna where he met my mother; they were married in 1923. There, 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.² 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. The first two chapters of *The Great Transformation* are a vivid account of the crises of the inter-war years. Many interesting comparisons can be made between the pressures exerted on the weak and fragile succession states of Central Europe in the inter-war period and the Structural Adjustment Programs imposed on indebted developing countries in the 1980s and 1990s and indeed up to now.

In 1933, he was relieved of his position because the journal could not afford to keep a prominent socialist on its editorial staff after the accession of Hitler to office in Germany. Polanyi left Vienna for London but continued to contribute to the journal until it ceased publication in 1938.

In England, he obtained employment as a tutor for the Workers Educational Association (WEA), the adult education extension program of Oxford University. He taught evening classes in provincial towns of Kent and Sussex on international relations and English social and economic history, a subject entirely new to him. There he experienced a profound culture shock. On overnight stays with families in these small provincial towns he discovered the profound cultural impoverishment of the working class, in what was then richest country in Europe, and compared it with the condition of the working class of socialist Red Vienna in impoverished post-1914 Austria, which he much admired. The 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 this book was that the economic and social upheavals and political tensions resulting from the utopian attempt to restore the 19th century liberal economic order after the First World War 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

² 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.

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

I cannot mention German Fascism without telling you that I never thought that in my life we would ever again witness fascism in a modern industrial country. In November 2001, at our Mexico Conference I noted that in the US we see a creeping fascism. That was three years ago and I fear we now see a galloping fascism. All of its aspects and manifestations are there. I believe that as social scientists it bears investigation to trace these very unfortunate developments to their historic origins and to the ultimate source of the Anglo-American relationship which has now assumed a military manifestation.

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*.³ These two intellectuals, both from Vienna, were occupied with the similar problem of freedom in an industrial society but the diagnoses they made were at polar opposites. By 1945, it was widely believed 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. Only the Americans, Polanyi wrote, still believed in universal capitalism, a discredited adventure of the past. 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.⁴

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. These were the early group of development economists and many names come to mind. 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 leant their support and joined the editorial board of the journal. We honour their names and those of you familiar with this field will know that they were indeed eminent; Gunnar Myrdal, Oskar Lange, Jan Tinbergen, P.C. Mahalanobis, Ragnar Frisch, Shigeto Tsuru and the one and only Joan Robinson.

When I first encountered the early literature of development economics in the late 1950s, I hastened to share my enthusiasm with my father. He did not discourage my newfound interest in the subject, but his response was characteristic. “Development, Kari? I don't what that is”.

³ Hayek, Friedrich A. *The Road to Serfdom*. Foreword by John Chamberlain. University of Chicago Press, Chicago. 1944.

⁴ Polanyi, Karl. “Universal Capitalism or Regional Planning” *The London Quarterly of World Affairs* . Jan 1945: pp 1-6.

As we know, he was, at that time, engaged in research on the place of the economy and the institutions which governed the organisation of economic life in a variety of ancient and primitive societies at Columbia University (1947-57). He set out to prove the fallacy implicit in the ascription of market mechanisms to pre-capitalist societies. He contrasted the formal apparatus of economics, posited on the behaviour of individual producers and consumers optimizing choices under constraint with the substantive investigation of the role of economic institutions in the organisation of economic livelihood. His path-breaking article on 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 of progress nor any implication that modern societies are more advanced or more developed than those of the past. Polanyi contended that the 19th 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 justification of action and behaviour in everyday life, namely individual gain. (Polanyi (1945) 2000:30)

His unforgettable reaction to my discovery of the new subject of development economics did not reflect indifference to the emerging nations of post-colonial Asia and Africa; on the contrary. In an important letter written to a friend of his youth, Be Deward, he dedicated his work to the “new peoples” of Asia and Africa. He expressed the hope that his ideas would stand vindicated in ten years. He did not live that long, and his ideas took a great deal longer to become vindicated.

As we all know, after the demise of the Bretton Woods monetary order in the early 1970s and various maladies which overcame the capitalist system including creeping inflation, declining productivity and profits, low or negative real interest rates favouring debtors and a wave of political radicalism in the South a counter-revolution was unleashed 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 in the first three post-war decades, and the Bretton Woods institutions were encouraged to use financial leverage to remove restrictions on trade and capital in developing countries.

Keynes was banished and development economics was drummed out of the Academy. The World Bank took the lead in an intellectual attack on development economics as a sub-discipline of economics devoted to problems of developing countries. The Bank 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 as diverse as anything you can find from, Asia, Africa and Latin America were 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 which I will never forget. I could not believe what I was reading. The entire responsibility for the debt crisis was laid upon 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, a whole list of “erroneous” policies. This list of 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, even enshrined in constitutions, removal of subsidies, freedom of capital transactions and independent central banks with the sole objective of protecting 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 1991- which I think may rank as a date as important as 1914, we do not yet know, because that is for future historians to tell us- 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 word was not found in the two vast volumes of the Oxford Shorter English dictionaries nor in the spell checks of personal computers in 1995. Suddenly it was everywhere; you could hardly read a commentary on economic affairs in magazines or newspapers that did not refer to it. 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 19th 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 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 19th and 20th centuries, what we now see is a predatory style of capitalism. In contrast to an earlier era of British hegemony, when the export of capital in the form of long-term bond-financed investments amounted to 6-8% of Britain's GNP, the United States is financing its excess public and private consumption by the import of capital from poorer regions of the world including Japan, China, Taiwan and other surplus countries, amounting to 5% of its GDP. While Britain's 19th 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. In recent times, these have been 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, which has privileged finance over production and forced privatisation of public assets at fire-sale prices to service debt resembles the plunder of early mercantile

capitalism. A long time ago I described the operations of multi-national corporations as a “new mercantilism”.

For developing countries this model has been implemented by a complex set of financial negotiations to secure capital account liberalisation with conditionalities which impose increasing constraints on policy space of these countries and put them in a straight-jacket, not a golden one but some other form of straight jacket of obligations to external multi-lateral agencies and financial creditors.

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?

The limitations on sovereignty imposed by external obligations to creditors and multi-lateral institutions alone cannot account for the democratic deficit. A model developed by Osvaldo Sunkel 30 years ago depicts 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 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 creation of the developing, or underdeveloped world is, historically speaking, a rather recent phenomenon. The continuities over 500 years are best observed from the Caribbean and Sub-Saharan Africa. The establishment of production facilities on capitalist principles was pioneered on the slave plantations of the Caribbean. The legacy of the inferior status of the African diaspora in the Americas has yet to be extinguished. The demographic shock of 300 years of the slave trade disorganised African societies and retarded African economic development and even population growth.

For Polanyi’s insights into the historic transformation of agricultural societies to industrial civilisation we must turn to the concepts which underlie the narrative of *The Great Transformation*; the *fictitious commodities*, the *disembedded economy* and the *double movement*. While markets have existed since earliest times, it was Polanyi’s 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 is generally dated to the New Poor Law of 1834. But it was preceded by two centuries of 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. It is here that we find the source of the cultural impoverishment of the English working class noted by Polanyi.

⁵Whether 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 across the middle passage to work on the slave plantations of the new world from the 16th century until abolition in the 19th century. If we think of slaves as embodied labour power, bought and sold on a slave market, plantation slavery was a form of agrarian capitalism. The principle capital asset was the stock of slaves and the sole purpose of the enterprise was the production of a commodity for sale. The Good Hope Plantation, in Jamaica, had 3000 slaves. This was division of labour on a huge scale and at a great level of complexity 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.⁶

In the industrial revolution land and labour, people and nature, were transposed into factors of production with a market price determined by supply and demand. They 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 more 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 they ought to function.

The conceptualisations of economic science mirror Polanyi's disembedded economy, which has lifted the economy out of its social and cultural base. The problems 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. Some work is remunerated and a lot of work that is done is not remunerated, but economics students are taught that non-remunerated work has no value. The economists view of nature is equally strange. I remember that in our economics department a test of whether a student could think like an economist was whether that student could understand that natural resources have no value if they are not commercialized or do not have the potential to be so. These are the skills that we teach our students, and this is really very troubling.

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

⁵ 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:

⁶ The slave trade and the slave plantations were enormously profitable and accounted for one quarter of England's imports in the 18th century.

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, 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) The reference here is to the ‘double movement’ of the explosive spread of market economy and checks to its expansion by protective labour, civic, social and political movements and legislative measures enacted by national states.

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 of this existential contradiction the outcome is not determinate. There is no grand design of progress. 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.

I suggest that from the point of view the developing world this globalization, neo-liberalism, or imperialism, whatever you may want to call it, manifests similarities with earlier penetrations of capitalism into the developing world. From this perspective we may note three waves of capitalist expansion in the 500 years of the modern world system. The initial one, the era of mercantilism from 1500-1800, a second, the creation of the world economy in the 19th century, which eventuated in the First World war and the world economic crisis of the 1930s, and the third and present 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 conquistadors and missionaries came with sword and bible and the prevailing religion of Europe was effectively implanted in the Americas. 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. This has contributed to the endemic political and economic instability which forms the principle obstacle to the achievement of growth with equity.

Asia was at this time, more wealthy than Europe in every way and its manufactures and capacity for material production more sophisticated. Societies were not destroyed or damaged as in the Americas and Africa.

The mutually advantageous relationships between large trans-national corporations and their home governments in the current globalisation is reminiscent of that of the great trading companies and monarchs of the mercantile era. Mercantilism was about conquest and unequal trade. There was essentially no technical progress.

The second globalisation created a world economy. In the 19th century industrial capitalism spread from England and North West Europe to the rest of the continent, to North America and at the end of the century also to Japan. There was an enormous increase in productive capacity. Large metropolitan investments in railways, ports and ocean transportation served as infrastructure to an expanding volume of international trade. Surplus labour displaced by industrialisation emigrated by the millions to the so-called empty lands of the Americas and other regions.

Peripheral countries were transformed into export economies serving the ever growing need for foodstuffs and agricultural and mineral raw materials in metropolitan markets. The so-called traditional division of labour between centres exporting manufactures and peripheries exporting primary products was established. A more general legacy of this era is the carving of distinct patterns into the structure of international trade, whereby the stronger metropolitan centres control distribution, finance, communication and access to technology, and the peripheries produce export commodities which now include 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. Capital responded by concentration in mergers trusts and monopolies. Rivalry between national capitalisms extended political colonialism to embrace all of Africa save Ethiopia and vast regions of Asia. Imperialism was accompanied by a discourse of the “civilising mission” and the “white man’s burden”. While the economic benefits of new colonial conquests was perhaps marginal in relation to the cost of acquiring and defending them, the damage to the social fabric and natural environment was far reaching and long lasting. This was the “golden age” which advocates of neo-liberal globalisation hold up as a model to be replicated on a now larger global scale.

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 the George W. Bush administration to office in 2000, globalization was manifested principally by the exercise of economic and financial power. I suggest 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. I believe that the project of American empire is bound to fail. So far they have been unable to digest the occupation of a relatively small country of Iraq. It may last a little longer than Hitler’s promise of 1000 years of peace in Europe, but I don’t think it is a viable proposition, though it can 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 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.

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 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.

Because of the present imbalance of power in the world, any form of world government, however attractive it may appear, would be an instrument for the maintenance of the status-quo. 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 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 of benefits of mutual exchange. The resources devoted to trade would no longer displace or constrain domestic development. It 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 points to a variety of economic institutions which indeed can coexist as they do in a modern mixed economy, and markets will always have an important role to play. All of this is possible if regional economies are to some degree closed to allow the allocation of domestic resources to be sheltered from prices prevailing in the stronger economies. The set of prices appropriate to one region may be different from the set of prices appropriate to the resource allocation of another.

The richest 25% of the world's population consumes 80% of the world's limited natural resources. If there is to be any way of closing these enormous gaps the regions of China, Asia, Latin America, and Africa will have to be able to provide their populations with the basic amenities of modern life. They will have to have access to the natural resources required to do so. This implies an absolute decline in the use of these resources in the capitalist heartlands. It is difficult to conceive how the capitalist organisation of the economy, based on ever growing consumer demand can adjust to what amounts to a radical change of lifestyles. Unfortunately it is more likely that military power will be used to appropriate scarce resources.

We conclude 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, but in the history of humanity, the past two centuries of industrial capitalism are a moment. As Heilbroner reminds us⁷, none of the great economists, not Smith nor Marx nor Schumpeter nor Keynes, projected a long untroubled future for capitalism. Nor did Karl Polanyi. Many non-profit initiatives of civil society are examples of social solidarity based on cooperation, not competition, on association, not individual gain. Important as they are, however, they cannot substitute for democratic control of the state which remains essential to the organisation of economic livelihood in a modern society in the North as in the South.

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; basic human needs of security,

⁷ Heilbroner, Robert. "21st Century Capitalism". Massey Lectures. Anansi, 1992. Concord, Ont. : p. 103

affection, respect and protection have no place in formal economics. Economic decisions have to be made. But the value system must be one that accords with the realities of real people living in real societies, and a 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.