A New Paradigm Rises from the Ruins of War: Keynesianism, Bretton Woods & the Golden Age of Capitalism
I keep six honest serving men
They taught me all I know;
Their names are WHAT,
and WHY, and WHEN,
And HOW, and WHERE,
And WHO.

-- Rudyard Kipling
Review Questions: ‘Regimes’ of Globalization

- **WHAT** is the paradigm on which the regime is based?
  - What changed from the previous paradigm?

- **WHY** does it make sense to some, and not to others?
  - What are its dominant discourses? Implied norms, values, internal logic?
  - Who are its major theorists, proponents, dissenters?

- **WHEN** in history does the regime emerge?
  - What crisis/rupture/series of historical events prompted a paradigm shift?

- **WHO** is the power behind the regime? Who benefits?
  - What state has hegemony? What are its ‘repertoires’?
  - How did it become dominant? What factors aided its rise to power?

- **WHERE** are its circuits of trade – people, commodities, capital?
  - What is its geography? Where are its nodes and flows? (commodity chain)
  - What are the major institutions/agents that shape the global economy?

- **HOW** does it encounter (or generate) instability and crisis?
  - What counter-movements rise up in response to its effects?
  - What alternative paradigms & power struggles emerge at the point of rupture?
FILM:

“The Untold Story of the United States”
Showtime TV series (2013)  |  directed by Oliver Stone

Selections:

Prologue A (6:16-51:55)
Rise of the US Empire; Industrial War in Imperial Europe; Communism & Russian Revolution

Prologue B (9:32-26:21)
The Great Depression & the New Deal; Fascism; economic causes of WWII
Interwar Period: Two World Wars, One Titanic Rupture in the Global System

闩 WWI as crisis point of European imperialist regime
闩 Inter-imperialist rivalries → Oil War
闩 Gold Standard & non-viability of fixed currency standard
闩 Treaty of Versailles: punitive war debts, economic catastrophe for Germany

闩 Woodrow Wilson & rise of a new USA-centric paradigm
闩 Emergence of United States as major financial player (debtor → creditor nation)
闩 Military Interventionism: ‘Making the world safe for democracy’
闩 The ‘Peace’: League of Nations & idea of global governance system

闩 1929 Stock market crash; Great Depression of 1930s
闩 General strikes; Dust Bowl; Growing revolutionary Communist & Fascist movements
闩 Roosevelt & The New Deal: State must step in to save capitalism

闩 ‘The center cannot hold’: countermovements, polarization of society
闩 Workers’ movement: Russian Revolution & Rise of Communism
闩 Militant nationalism: Hitler, Mussolini & Rise of Fascism

闩 WWII: Devastating global ‘shakeout’; climax of crisis period
闩 Smashed Europe’s productive capacity, its state & economic institutions
闩 US war manufacturing boom + lack of destruction: emerges as hegemon
KEEP CALM AND TAKE A BREAK
Aftermath of WWII

- Complete economic & geopolitical reconfiguration
- Unprecedented scale of destruction
  - Up to 50 million lives lost / Most major cities destroyed
  - Military capacity / end of colonial project / atom bomb
  - Anxieties re nationalism & protectionism
- USA in hegemonic position re world capitalism
  - Beginnings of Cold War geopolitics;
    - Mission to contain Communism
  - Only country with more productive capacity at end of war
    - Fordism / Large industries / Automobiles / Food & Agriculture
    - Most technologically advanced (mechanics – atom bomb)
- Urgent need for new frameworks to rebuild the global economy
Debating the Causes of Crisis & War: “How the *hell* did we get here??”

Economic/Social theory post WWII: literally a matter of life and death
A New Paradigm Emerges From the Rubble: Keynesian Macroeconomics

John Maynard Keynes (1883-1946)

- British economic theorist, public intellectual
  - Upper middle-class background: Eton, Cambridge
  - Part of vibrant intellectual/artistic circles (well-rounded)

WWI: Worked in UK Treasury Dept.

- Delegation negotiating Treaty of Versailles (1919)
- Argued passionately against Allies’ punitive & unrealistic enforcement of German war debt
- Quit in disgust at political posturing of Allies in talks (sound familiar?)
- Wrote *The Economic Consequences of the Peace* (1919)
  - Warned of dangers of plunging Germany into poverty
  - Rise of Nazis only seemed to reinforce this point
The Economic Consequences of the Peace: Its relevance for today – LITERALLY!

TODAY: Spanish Prime Minister Mariano Rajoy gets a present from MP Alberto Garzón: Keynes’ Economic Consequences of the Peace (!!)

Dedication reads:
“With the hope that reason will assert itself in the face of market fundamentalism, and give way to a world based on social justice as soon as possible.”

Like Keynes: took a ‘macro’ (systemic) approach to global economy
- Also very concerned with question of the rise of fascism in Germany
- Envisioned expansive state role in ‘re-embedding’ market in society
  - International economic order: Shaped by democratic governance institutions

Gold Standard: International single-currency zone (Europe 1870!)
- Different currencies set to fixed value (gold) as universal equivalent
  - Allowed trade across systems of value; integrated free-trade zone (EZ?)
  - ‘Puts theory of self-regulating markets into practice’
- In Practice: suffered devastating consequences
  - When a nation’s internal price structure fails to keep track w/international mkt, the only way to adjust accordingly is through deflation
  - Lowers the cost of all commodities (including wages); hits farmers esp. hard
  - Long cycles of unemployment → underconsumption/underinvestment, crises
  - In an international currency zone, internal shocks → global crises (contagion)

Pressures of Gold Standard → Protectionism at home, imperialism abroad
- ‘Stalemate’ of global vulnerability, protectionist barriers
- Choice between monetary system & lives of citizens; spurs counter-movements
State Mediation vs. ‘Free Markets’: The Keynesian Paradigm

- Rivalry w/ free-market dogma of Austrian School
  - Von Mises, Hayek, Friedman (later: neoliberalism)
  - Retained commitment to capitalism; wanted to ‘save’ it

- Nature of Capitalism & causes of crisis
  - Hayek: General Equilibrium is natural state of the market
    - Crises are random shocks; will eventually self-correct
  - Keynes: Economy tends toward stagnation/crisis
    - Needs state intervention (General Theory of Employment, Interest, and Money, 1936)

- Macroeconomics (Keynes) vs. Microeconomics (Hayek)
  - System of ‘global economy’ (K) vs. aggregate actions/’rational choices’ (H)
  - State Policy: Deficit spending (K) vs. Austerity (H) in downturns
  - Stimulus: Boost aggregate demand by creating jobs, income (public projects)
    - ‘Multiplier effect’ (spending creates more production, jobs, economic growth)
  - Protections in stock market: block over-speculation (K) vs ‘self-correction’ (H)
    - Example: Glass-Steagall Act (repealed in 1999)
The Postwar Regime (1945-1973): Bretton Woods & Global Institutions

Bretton Woods Conference (1944)
- Created continent-wide economic governance framework
  - Precursor to Eurozone
  - Facilitated FDI & other capital flows for transnational corporations

New Institutions – Global Financing & Development
- IMF (International Monetary Fund)
- World Bank (Lender for national infrastructure projects)
- GATT (General Agreement on Trade and Tariffs)

United States as hegemonic power
- US Dollar as global reserve currency
  - Pegged to gold, oil (‘petrodollars’)
- Huge consumer market for global products
- Largest military power in the world; the new ‘hidden fist’
  - Maybe not as ‘hidden’ - in context of Cold War and Third World
The Postwar Regime: International Investment & Stimulus

Keynesian Paradigm: Macroeconomics
- Systemic view of economics + politics; state intervention in economy
  - Deficit spending during downturns/crises to stimulate growth, demand
  - Welfare state policies to alleviate poverty, raise effective demand & consumption

Debt Relief to Germany (!!)
- London Conference of 1953: Wrote down ½ of German war debt

Economic Stimulus as solution to crisis: Marshall Plan
- Massive rebuilding project for Europe – Infrastructure, housing, transportation
- Venture capital – investing in industrial capacity for Germany, Japan
  - Provided jobs & markets (for US firms);
  - Political alliances – Cold War, project of deterrence against Communism
- ‘Informal bargain’ between USA & rebuilding economies (Brenner)
  - US could run large deficits (based on $ reserve status) to fund military bases,
  - Rebuilding countries: can use protectionist policies to cultivate domestic markets
  - Also sets up pattern of ‘uneven development’ (setup for 1970s crisis)
The “Golden Age of Capitalism” (1945-1973)

- Benefits of the Postwar Regime for First World workers
  - Unprecedented wealth, standard of living
    - US: GI Bill + buildout of suburbia = ‘Consumer Republic’
      - Market for construction, housing, automobiles
  - The Welfare State & Social Contract
    - Put money (demand) in hands of workers, they will spend it
- Explosion of Manufacturing = Good jobs w/ good wages
  - Strong public sector, civil service jobs w/ benefits
  - ‘Bargain with Labor’ – pegged union wages to econ growth
    - In return for strike restrictions (Taft-Hartley Act)
- Paved the way for cultural transformations of the 1970s
  - Free higher education (at the time)
  - Explosion of art, music, literature; Sexual Revolution
    - Later: Civil Rights struggles, anti-Vietnam, etc.