




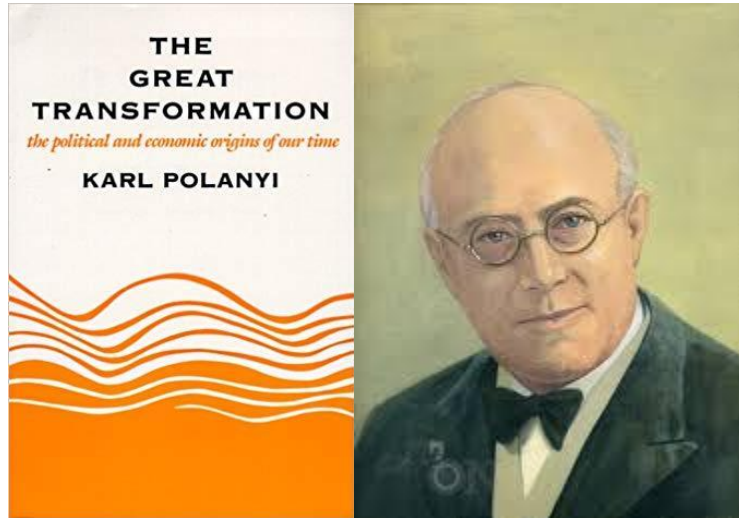
The Great Depression and Bretton Woods: Economic Lessons and Solutions



Overview

- Polanyi's analysis economic history and political economy
 - Western Economy Timeline
 - Key Concepts
- 

The Great Transformation: The Political and Economic Origins of Our Time by Karl Polanyi



- First published in 1944 towards the end of WWII
- Analysis of eighteenth, nineteenth and early twentieth century economic history and political economy
- Thesis asserts that the concept of the self-regulating market is a utopian dream

Collapse of 19th Century Institutions

- Begins book by asserting that “nineteenth century civilization has collapsed” (p.3)
- Nineteenth century was upheld by four primary institutions, 100 years peace between the Great Powers
- Gold standard cause of the collapse

Balance-of-powers



The Liberal State



The Gold Standard

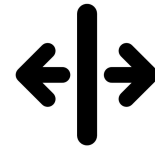


Self-Regulating Market



Origins of the Crisis

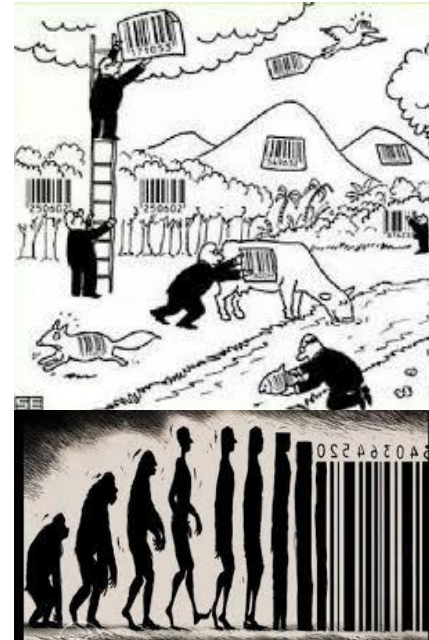
- Origins of the crisis from Industrial Revolution in England
- Emergence of the self-regulating market institutionally separated society into economic and political spheres



Consequences of the Self-Regulating Market



- Commodification of labour, land and money
- No matter the social and environmental cost, economic liberalism became the priority
- Paradoxically government often became an administrative organ for economic liberalism





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The Counter-Movement of the 1870s & 80s



Attempted to remediate through regulation:

- poor health and labour standards,
- strengthen workers rights and
- put in place economic tariffs

Precarious World System & the Beginning of the Collapse

- upheld by Balance-of-Powers and
- International finance (Trade)
- However, end of the 19th and beginning of the 20th century saw the Great Powers unify into to antagonistic forces
- Brought an end to the Balance-of-Powers and 19th century international economic organization and led to WWI



L'Equilibre Européen.

Post-WWI and the Deepening of the Global Crisis



- Same “political and economic impediments to peace” were continued after the Great War
- Disarming of Germany (post-war Treaties)
- The monetary policies (gold standard)

Total Collapse of the 1930s, the Rise of Fascism and WWII

- National Institutions crumbled
 - many liberal states were replaced by totalitarian dictatorships
 - free markets were replaced with other economic models
- Caused by the economic liberalism of the self-regulating market
- Rise of Fascism and onset of WWII



“With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise—which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies... Yet the victory of fascism was made practically unavoidable by the liberals’ obstruction of any reform involving planning, regulation or control.”

-Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (p.257)

Polanyi's Suggestions

- Decommodification of labour, land and money
- Polanyi advocates for the “economic collaboration of governments and the liberty to organize national life at will.” (p.254)
- Governments should engage in redistributive measures which can be achieved without sacrificing individual rights

Timeline of the Depression

1919: Treaty of Versailles

1921-1923: Inflation in Europe

1920s: Era of Gold

1928: Credit drought and Wall Street Crash

1930-1938: Depths of the depression

1938-1939: Recovery on the Road to War



Timeline: Bretton Woods to Today

1944: Bretton Woods, New Hampshire- The Birthplace of the modern international order

1944-1971: Bretton Woods Monetary Order

1980s-2000s: Capital/Economic Liberalization in US and Europe

2000s: Great Days for the World Economy

2008: Financial Crash

2010s: Declining US?

Key Concepts

- Gold Standard System
- (Lack of) International Cooperation
- Changing Global Order
- Political results of the Depression
- Bretton Woods Institutions and Monetary Order
- Economic Liberalization and Deregulation
- Ideas in Economics

Gold Standard

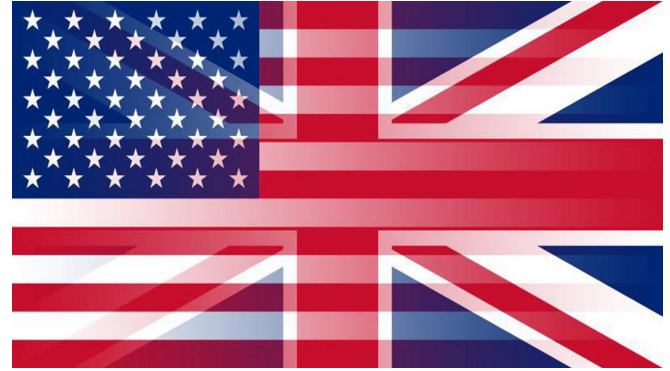
- Gold Backed currencies the norm until now
- Gold provided distinct advantages in exchange stability
- Also a point of pride for nations
- Had significant drawbacks during the Depression
- Politicians poorly understood the gold system
- Discouraged international financial cooperation



International Cooperation

- International cooperation vital but nonexistent 1923-1938
- Could have solved many problems of the depression
- US could have made big difference but was reluctant to get involved in international economy
- Bretton Woods looked to make International cooperation the norm

Changing Global Order



- Europe was hit hard by the First World War
- UK lost hegemony and US became unwilling hegemon
- US did not want to help → No one else could
- Only after WW2 did US accept the costs and responsibilities of hegemony

Political Outcomes

- Society was hit hard by depression
- Unemployment and poor safety net led many into destitution
- In Italy, Spain, Germany, Poland, and France, politics shifted right, sometimes to fascism



Bretton Woods Institutions and Monetary Order

- Meeting in 1944
- US went back to gold, with allies pegging their currency to USD
- Led to IMF, World Bank, GATT→ WTO
- US in best position to provide an international currency
 - Strength in:
 - Military
 - Economy
 - Politics

Economic Liberalization and Deregulation

- Post-Bretton Woods = rulemaking and cooperation
- In 1980s, Reagan and Thatcher embodied trade liberalization and deregulation
- ~~Big Government~~
- Lessons of the past forgotten
- Led to the bubble in late 1990s and eventual 2008 crisis
- Deregulation + Increasingly Complex Economics= Recipe for Disaster

Power of Ideas in Economics

- Financial systems are built on human understanding and acceptance
- Money is only given value because we commonly accept it
- Crises like the Great Depression and 2008 happened because of fearful beliefs
- Gold Standard = Misery
- Bretton Woods rules and institutions for increased stability
- Stability+Certainty= Good Business

Questions of the week

1. Why did the global order collapse in the 1930s?
2. Bretton Wood Order in 1944-1945: why was it done in that way?