

Political Economy Tutorial 4: The rise and fall of hegemonic orders



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Agenda

1.) Check-In & Recap

2.) The rise and fall of British hegemony (group work)

Break

3.) The *interregnum*: 1920 - 1945

4.) The rise of American Hegemony and the end of Bretton Woods (1945 - 1971)

Check-In



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Where we are

- Prerequisites and Classical PE (**Tutorial 1**)
- Marxist, neoclassical and institutionalist PE (**Tutorial 2**)
- (I)PE: The long run and international affairs (**Tutorial 3**)
- 20th century and Globalization (**Tutorial 4**)
- The Great Recession and Crisis of World Order (**Tutorial 5**)
- Weaponized Interdependence and the Ecological Crisis (**Tutorial 6**)

Essay questions

- Questions of general relevance - please ask **now**
- **Office hour** (spreekuur) **today** from **13-14** (Office: **REC-B9.00**)
 - Specific questions (technical or substantial)
 - Literature advice or else

What we are *not* doing today

- Schwartz Chapters 11 - 13
- Easier to understand than other chapters
- If you have questions: E-Mail or next week during tutorial

Recap

- (European) states evolved out of a mixture of internal and external struggles for power
 - **Mercantilism** evolved as the prime strategy for state-building
- **NCE** and **WST** are **unit-level** and **system-level** explanations. Most empirical accounts are rather intermediate - State agency in capitalist world-structure.
- **Ricardian** and **Kaldorian** strategies are ideal-typical, but powerful explanations for economic growth and catch-up
- Economic and hegemonic **cycles** are induced and brought to an end by **leading sectors**
- Hegemonic power stems also from **first-mover advantage** and industrial spread later on

The Rise and Fall of British Hegemony - prelude (Ch. 6)

- Industrial revolution starts in Britain
 - Expansion of von Thünen circles around North-Western Europe
- Ricardian strategies evolve - 2 Dynamics:
 - States transform their economies every ~50 years to adapt to changing agricultural demand from the core (UK)
 - Violence becomes more prevalent (creating supply zones by forcing people to work on unpopulated land)

The Rise and Fall of British Hegemony - prelude (Ch. 6)

- British demand for **agricultural raw materials** creates “gigantic Thünen town” in Europe (Schwartz, p. 110)
- This means: constant re-arrangement of production in agricultural zones (i.e.: **Ireland**)
 - Ricardian strategies require (heavy) **state** involvement and direction
 - Also: violence and slave labour (pp. 114)

The Rise and Fall of British Hegemony - prelude (Ch. 6)

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. [...] Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. [...] All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind. The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere. (Communist Manifesto, p. 16)

The Rise and Fall of British Hegemony - prelude (Ch. 7)

- Structure of **globalized lending** was core to first global Depression (1890s)
 - British money went global to **finance** production
 - Ricardian focus on similar goods lead to **overproduction** (=lower prices)
 - Simply: everybody underestimated **volume of output**
 - money lent for production of this output could not be **repaid**
 - Reason: **time lag** between lending, producing and selling
 - consequence: **Default** or **Depression** (p. 144)

The Rise and Fall of British Hegemony

- Group work:
 - Groups of three
 - Answer the question on the placemat
 - Go in rounds until everyone has commented on everyone
- Classroom discussion

The interregnum: 1920 - 1945

“The crisis consists precisely in the fact that **the old is dying and the new cannot be born**; in this interregnum a great variety of **morbid symptoms** appear.”

Gramsci, *Prison Notebooks* (1971, 275-276)



The interregnum: 1920 - 1945

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What are the “morbid symptoms” of the 1920s/30s?

The interregnum: 1920 - 1945

- Interregnum was shaped by global imbalances:
 - Pre-war **exchange rates** did not match actual situation
 - US as large global net **creditor**, others net **debtors**
 - Circles of **competitive devaluations** to increase competitiveness
 - **Bloc-building** in international trade

→ consequence: **Global contraction** after the crisis of 1929

The interregnum: 1920 - 1945

Only way to solve imbalances: US needs to step up
as “global minotaur” (Varoufakis)

→ was impossible after 1929!
(but after WWII)

The interregnum: 1920 - 1945



The interregnum: 1920 - 1945

- In sum:
British decline, WWI and American (internal and external) unwillingness to step in resulted in a closed and contracted world economy in the 1930s
- Tariffs, protectionism, cutting of international ties: the end of the long 19th century
- End of “Pax Britannica”

The rise of American Hegemony and the end of Br. Woods

New Deal part of the American success story



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More relevant long-term:

- 1.) New **leading sector** (Petroleum & Cars, Taylorism & Fordism)
- 2.) Overcoming **domestic** fractionalization
- 3.) Building of international **institutions**



The rise of American Hegemony and the end of Br. Woods

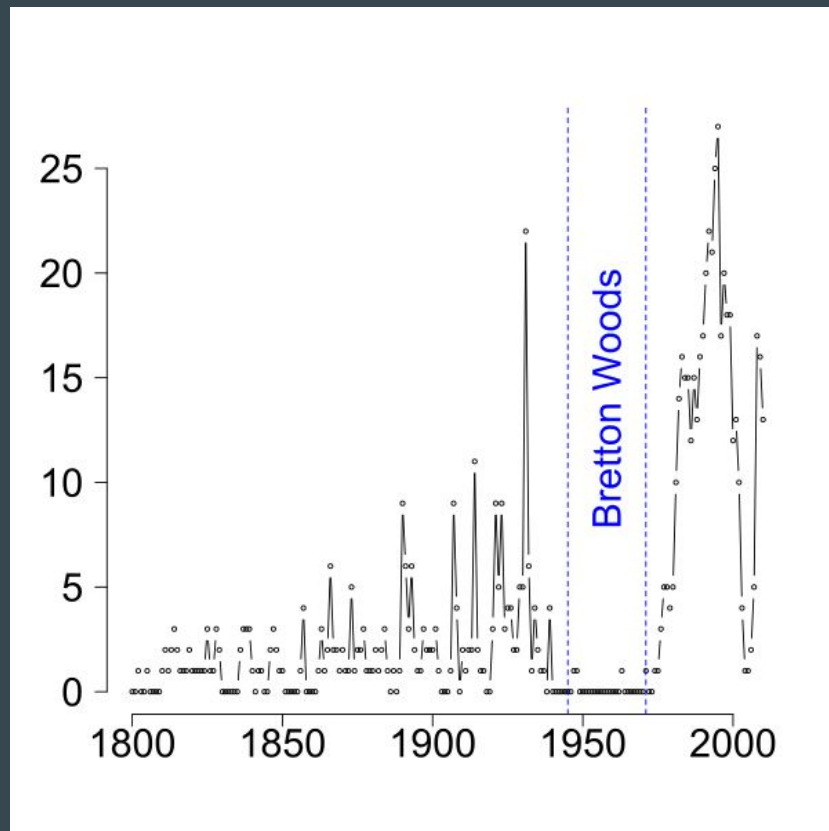
US economic power, domestic elite consensus and lessons learned from the interregnum were projected outside: The **Bretton Woods** framework

The rise of American Hegemony and the end of Br. Woods

US economic power, domestic elite consensus and lessons learned from the interregnum were projected outside: The **Bretton Woods** framework

- International **institutions**: IMF, World Bank
- **Dollar, Dollar, Dollar**:
 - Fixed exchange rate system
 - Liberalized trade regime
 - Capital Controls

The rise of American Hegemony and the end of Br. Woods



The rise of American Hegemony and the end of Br. Woods

International regimes, transactions, and change: embedded liberalism in the postwar economic order

John Gerard Ruggie

A philosopher is someone who goes into a dark room at night,
to look for a black cat that isn't there. A theologian does the same thing,
but comes out claiming he found the cat.

Nick Philips, "The Case of the Naked Quark,"
TWA Ambassador Magazine, October 1980.

One of our major purposes in this volume is to establish whether we, as students of international regimes, most resemble the philosopher, the theologian or, as most of us would like to believe, the social scientist—suspecting from the beginning that there is a black cat in there somewhere, and emerging from the room with scratches on the forearm as vindication. This article consists of another set of scratches, together with what I hope will be persuasive reasoning and demonstration that a black cat put them there.

My focus is on how the regimes for money and trade have reflected and affected the evolution of the international economic order since World War II. Let me state my basic approach to this issue at the outset, for, as Krasner shows in the Introduction, a good deal of the disagreement and confusion

I have benefited from the comments and suggestions of a large number of friends, colleagues, and fellow travelers, and am particularly indebted to the detailed written remarks of Catherine Gwin, Ernst Haas, Robert Keohane, Stephen Krashinsky, and Susan Strange, as well as to Albert Fishlow's constructive criticism at the Palm Springs conference. Research for this article was made possible by financial support from the Rockefeller Foundation and the Ira D. Wallach Chair of World Order Studies at Columbia University.

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The rise of American Hegemony and the end of Br. Woods

Nixon's cancellation of Bretton Woods: <https://www.youtube.com/watch?v=iRzr10U6K1o>

- What is the crisis-diagnosis? Who is to blame?
 - What are the announced measures?
 - What do you think about the explanation/example Nixon gives?
 - What is the message to the international audience?
-
- What do you think of Nixon's statement overall? Does it match with the Schwartz explanation for the end of Bretton Woods?

The rise of American Hegemony and the end of Br. Woods

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 - US first lends money and sells goods to devastated major economies

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 - “perpetual trade deficit” (Schwartz, p. 207)

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- After ~ 1960: Germany & Japan catch up: US imports industrial goods
 - US becomes large importer & debtor
 - “perpetual trade deficit” (Schwartz, p. 207)
- What killed Bretton Woods?
 - Capital “leaked” out of the US (Euromarkets) & US depreciated the Dollar (against the rules)

The rise of American Hegemony and the end of Br. Woods

Takeaways

- British end was **multidimensional**: eroding from bottom (industrial decline) and top (financial decline)
- The interregnum led to a **contraction** of global trade, lending etc.: rise of protectionism and isolationism
- US power after WWII: stepping in as **global minotaur** (leading sector, domestic unity, international organizations)
- Bretton Woods & “**embedded liberalism**” worked until US could no longer credibly run the show alone
- **After** Bretton Woods: floating exchange rates, no linkage between Dollar and Gold, end of Capital Controls

Sources (all pictures CC license)

Image Wave Emoji: https://upload.wikimedia.org/wikipedia/commons/thumb/4/48/Emojiione_1F44B.svg/2000px-Emojiione_1F44B.svg.png

Communist Manifesto: <https://www.marxists.org/archive/marx/works/download/pdf/Manifesto.pdf>

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