



Valdai Papers

#24 | July 2015

Geopolitical Economy: the Discipline of Multipolarity

Radhika Desai

With growth in China and other emerging economies spreading productive and political power far beyond its original strongholds in the west and Japan, the idea that the world is fast becoming multipolar, if it isn't already, should be uncontroversial. But it isn't. The two disciplines that study world affairs in the western world, international relations (IR), which focuses only on politics and international political economy (IPE), which was founded in the 1970s with the explicit purpose of taking account of economics, failed to anticipate or explain multipolarity. And once compelled to confront it in the aftermath of the 2008 crisis, which, by miring the west in stagnation while the emerging economies continued their fast growth, accelerated the advance of multipolarity, they have responded largely with denial and hostility, rather than equanimity and inquiry. Insisting on the reality and/or desirability of US and western supremacy against mounting evidence, they cannot discern the progressive potential of multipolarity. No surer sign of the obsolescence of these disciplines can be had.

This paper argues for a new academic discipline, geopolitical economy, which is better able to understand the multipolar world, reconstruct its historical evolution and assess its progressive potential. The following sections make the case for it and outline its key elements: the centrality of states' economic roles in the modern world or what I call 'the materiality of nations', the dialectic of uneven and combined development (UCD) between them, how it has led to multipolarity and what potential for progressive change it contains.

The Case for Geopolitical Economy

In *The Discipline of Western Supremacy*¹, Kees van der Pijl argues that IR has long been complicit with the institutions and practices of western and US supremacy. Its 'idealist' and 'realist' approaches have articulated and administered a liberal world governance model rooted in Anglo-American 'Lockean' thinking. Deploying the term 'discipline' in its double meaning – that of an academic field of study and of a set of policies, practices, discourses and institutions for enforcing a certain order – van der Pijl shows that IR has been the discipline of western supremacy in both senses.

My own *Geopolitical Economy: After US Hegemony, Globalization and Empire*² argued that IPE's principal approaches, US hegemony and globalization, rest on a cosmopolitan conception of the world economy, as a harmonious unit. Rooted in nineteenth century Free Trade ideas, these conceptions see the world economy as governed either by markets, as Free Trade and globalization, or by a dominant state, as in US hegemony. In the first, no state matters, in the second, only one does. The world's division into a multitude of nation-states is contingent and inconsequential, at best representing cultural heterogeneity.

These ideas served an ideological purpose when a single power could dominate the world, as the UK did in the nineteenth century, or could attempt to, as the US unsuccessfully did in the twentieth. Treating the world economy as an extension of the dominant power's economy, such conceptions wrote out of their script the single most important process which generates multipolarity: that of

¹ London: Pluto, 2014.

² London: Pluto, 2013.

economically interventionist states hoarding industrial growth to avoid or reverse the fate of becoming agricultural or otherwise subordinate appendages to industrial capitalist countries and to challenge their dominance instead.

These critiques show that IR and IPE share a common intellectual conceit: the self-regulating market. It is the *conditio sine qua non* of capitalism. It falsely separates politics from economics as the sphere of the capitalists' freedom by obscuring capitalism's injustice and anarchy. Acknowledging them would mean accepting that social forces, pre-eminently the state, must intervene to correct them, and restrict the freedoms of capitalists. Marx derided this idea as 'vulgar economics'. While this idea has never stopped capitalist states from rescuing capitalists from the very real crises of capitalism, as we saw most recently in 2008, it has more than earned its keep as a weapon against working people's demands for state action in their favour.

The self-regulating market is no nineteenth century antiquity. We know it as neoclassical economics. It emerged in the 1870s to displace classical political economy after, and precisely because, Marx and Engels resolved its outstanding questions in a communist direction, making it useless for legitimising capitalist society. Neoclassical economics reached back over Marx and Engels to seize on two 'Ricardian fictions': Say's Law, which denied gluts and capitalist crises, and the theory of comparative advantage, which portrayed free trade as mutually beneficial for all nations even though powerful capitalist countries externalised their gluts by dumping goods on societies powerless to resist through it.

Neoclassical economics is the origin of the social scientific division of labour which organises western intellectual life today. When Max Weber justified the separation of disciplines, by claiming that the separation of modern life into autonomous spheres with their own logics required it, the autonomy of the economy was foremost in his mind. Though neoclassical economics, the ideology of the self-regulating market infects all the other social science disciplines, such as IR or IPE. Even left-wing and critical scholarship is not left untouched. ⁴

How the ideology of the self-regulating market distorts our understanding of international affairs is only spottily appreciated. While neoliberal policies are justly criticised for undermining the economic development of transition and developing economies, with one scholar even arguing that they amount to 'kicking away the ladder'⁵ of economic protection and planning which had allowed the west to develop. Yet, such criticisms do not provide a comprehensive understanding of the real dynamics of international relations in the capitalist era.

This is what geopolitical economy offers. It seeks to recuperate classical political economy, up to and including Marx and Engels, and to mobilize later critics of neoclassical economics including John Maynard Keynes, Michael Kalecki, Karl Polanyi and the contemporary theorists of 'developmental states'. By linking these currents of thought, geopolitical economy squeezes out neoclassical

³ Ibid, p. 34.

⁴ Radhika Desai, 'The Value of History and the History of Value' in Turan Subasat (ed) *The Great Meltdown of 2008: Systemic, Conjunctural or Policy-created?*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing

⁵ Chang, Ha-Joon, *Kicking Away the Ladder: Development strategy in historical perspective*. London: Anthem, 2002.

economics, with its Ricardian fictions of the self-regulating market and overcomes its false separation of economics and politics. It also avoids the tendency in the modern social sciences to imagine there is a separate domain of 'the international' with its autonomous dynamics and sees international relations as rooted in the social compulsions and motivations arising from their internal structure and dynamics which states bring to their interaction with others.

To this original conception proposed in *Geopolitical Economy*, Van der Pijl's trenchant argument that IR is the discipline of western supremacy inspires me to a new element: that geopolitical economy is the discipline of multipolarity, the discipline best suited to understanding the decline of western and US supremacy and the rise of multipolarity and to informing institutions and practices that might exploit multipolarity's potential for a more equal and just world.

The Materiality of Capitalist Nations

Capitalism suffers from many types of crises⁶ though its most acute analysts focus particularly on its tendency towards surfeits of commodities and capital. Marx and Keynes criticised Say's Law that there were no gluts⁷ while the Hungarian economist, Janos Kornai, contrasted capitalism as a demand-constrained system with socialism as a supply-constrained one. In Marx the idea of surfeits of capital takes the form of the Tendency of the Rate of Profit to Fall and in Keynes, that of the declining marginal efficiency of capital.⁸

Since capitalism is more than a just a system of exploitation and anarchy but also serves as the productive structure of societies where it is established, capitalist states are inevitably involved in trying to resolve its problems and, in doing so, they modify capitalism considerably. Karl Polanyi made this point in a distinctive fashion: in capitalism, labour, land, and money are treated as commodities even though they are not produced for sale. This treatment disrupts societies so much that that societies and states must respond with social protection through a panoply of labour, environmental and social regulations.⁹ Thus capitalism is always a system in which markets are combined with regulations that modify them.

In managing capitalism's contradictions and legitimacy deficits, states act internationally and/or domestically, depending on the relative costs which the social and international balance of forces impose.

Domestically states may regulate relations between capitalists to save them from the potentially ruinous competition. They may regulate relations between capitalist and other classes – for example

⁶ A table in my 'The Value of History and the History of Value' systematises the variety of capitalist crises.

⁷ Claudio Sardoní, 'Keynes and Marx', in G. C. Harcourt and P. Riach (eds), A 'Second Edition' of *The General Theory*. London: Routledge, 1997.

⁸ Alan Freeman, 'Going for the Juglar: Keynes, Schumpeter and the Theoretical Crisis of Economics'. Presented to the Congress of the Arts and Humanities annual conference, Ottawa 3 June 2015.

⁹ Karl Polanyi, *The Great Transformation*. Boston, Mass.: Beacon Press, 1985.

by providing peasants with support prices, or workers with wage or employment regulation – so that that quantitatively and qualitatively adequate supplies of raw materials and labour may remain available. State actions reflect the balance of social forces: while they may help capitalists fight declining profits by restricting workers' wages they have also historically been forced by working class struggles to democratize and to construct welfare states.

Internationally, as the primarily Marxist classical theories of imperialism pointed out, the systematic tendency towards overproduction and surplus capital, led to formal and informal imperialism.¹⁰ Weak-state or stateless territories that could be formally colonized cheaply by powerful capitalist states served as outlets for surplus commodities and capital and many informal colonies did the same. Such subjection could flood that society with the surplus goods and capital of the mother country. While they could appear momentarily beneficial, these goods typically destroyed native productive capacities and ultimately, the colony's capacity to consume the every goods with which it was being flooded. For its part, incoming investment put control of native productive apparatuses in the hands of foreign capitalists and powers.

While many societies could not resist being colonised, others could and did as, eventually, did the colonies. It is thanks to this dialectic of international domination and resistance that, contrary to the image of a unified and harmonious world capitalism, the dynamic of capitalist international relations has exhibited a turbulent state-centric logic from its beginnings, the logic of UCD.

Uneven and Combined Development

Though Trotsky outlined idea of UCD most fully in his History of the Russian Revolution¹¹, its roots lay in Marx and Engels, classical political economy, and in the common intellectual framework with which the Russian Revolutionaries understood why the world's first communist revolution took place in a backward country.¹² The Russian émigré intellectual, Alexander Gerschenkron¹³, who taught Soviet economic history at Harvard, carried a version of UCD into the upper reaches of post-war US academic life.

According to UCD, capitalist development is inherently uneven, concentrated in particular countries and regions. Just as capitalism creates class inequality within societies, it creates inequality between them and so, like class struggle in domestic politics, there is also struggle between nations. Unlike the trite formulations of 'realist' IR about eternal inter-state struggles, in UCD, international struggle is specifically capitalist. The more advanced capitalist nations seek to maintain and extend unevenness

¹⁰ I have argued (Desai, 2013) that, along with the idea of UCD, these were the first theories of international relations. The key works are Marxist works are Nikolai Bukharin, *Imperialism and World Economy*. London: Bookmarks 1917/2003; Rudolf Hilferding, Rudolf, *Finance Capital: A study of the latest phase of capitalist development*. London: Routledge & Kegan Paul, 1910/1981; Vladimir Lenin, *Imperialism, the Highest Stage of Capitalism: A popular outline*. Moscow: Progress, 1916/197 and Rosa Luxemburg, Rosa. *The Accumulation of Capital*. London: Routledge., 1913/2003. John Hobson, *Imperialism: A study*. Ann Arbor, Mich.: University of Michigan Press, 1902/1965 was the key non-Marxist work.

¹¹ London: Gollancz, 1934.

¹² These roots are traced in Desai 2013.

¹³ Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A book of essays*. Cambridge, Mass.: Harvard University Press, 1962.

and thus their capacity to externalise the consequences of capitalism's contradictions. This is, in effect, imperialism. However, combined development ensures that it is not a constant and unchanging structure.

For other nations do not suffer dominance gladly. Those who can seek to challenge it through combined or contender development, hothousing industrial development by protecting and planning their economies. This can take capitalist forms, as in the industrialization of the US, Germany and Japan in the late nineteenth century, or non-capitalist forms as in the USSR and China. While combined development does not always succeed, no catch-up development has been possible without it, whether in the west or elsewhere.¹⁴

While dominant states seek complementarity between their economies and those they dominate, for example by consigning them to be markets for industrial products and suppliers of cheap raw materials or labour, contender nations seek similarity, in terms of levels of industrial and technological development.

Like class struggle, UCD also results in greater state regulation. Maintaining and extending unevenness involves extensive state actions as well as engaging in combined development. Both efforts also modify the operation of capitalism. The chief difference is that the former typically involves extending capitalist freedoms domestically and internationally while the latter involves restricting them and controlling and directing the economy in capitalist combined development and eliminating them altogether in communism. No wonder capitalists are usually uneasy about combined development: most of them are made by it but could also be unmade by it since, as Fred Block pointed out, it was 'altogether possible that national capitalism [i.e. combined development] would serve simply as a stopping point on the road to some type of socialism'.¹⁵

Of course, combined development is also resisted by dominant countries. The First World War was famously fought between 'status quo' and contender nations. The Cold War was more than a contest between capitalism and communism: it was waged against combined development generally, whether capitalist or communist. The latter was, however, the strongest form combined development and even today, the combined development of Communist Party-ruled China is the strongest of the challenges the established capitalist powers face, while the still strong military power of Russia that confronts them is the legacy of Soviet days. Free market rhetoric notwithstanding, state direction has historically proved better able to produce growth than market coordination.¹⁶

Multipolarity is the outcome of the fact that, in the unfolding of the dialectic between uneven and combined development, the latter has prevailed over the former. Combined development has spread productive capacity more widely around the world in successive waves: the contender

¹⁴ On the developed world, see Chang, *op. cit.* and on the developing world, Alice Amsden, *Escape from Empire: The developing world's journey through heaven and hell*. Cambridge, Mass: MIT Press, 2007.

¹⁵ Fred Block, *The Origins of International Economic Disorder: A study of United States international monetary policy from World War II to the Present*. Berkeley, Calif.: University of California Press, 1977, p. 9.

¹⁶ That this is today widely if unconsciously acknowledged became apparent in conversation with a small businessman with typically neoliberal views complaining about the Chinese challenge: they had an 'unfair advantage', he said, that of planning!

industrialization of the US, Germany and Japan around 1870; the industrialization of the USSR in the 1930s along with the modicum of industrialization in colonial countries that became possible because the Great Depression broke trading links between the west and its colonies; the state-led post-war recoveries of Western Europe and Japan; the first wave of Newly Industrializing Countries (South Korea and Taiwan) in the 1970s followed by others; and, by the twenty-first century, the BRIC and other emerging economies. Since each wave left a more numerous group of successful developers competing with each other for markets and investment outlets, it gave less developed countries more choices and make further combined development easier.

UCD understands class and international struggles in the same frame, and we see that they can often reinforce one another. Here is an important example. Working classes of imperial countries may have benefitted from imperialism because the capitalists invested profits made all over the world disproportionately in the home country, expanding employment. However, they benefitted even more from decolonization and the pursuit of combined development by newly independent countries in the post-war period. As imperial countries lost colonial markets and came to rely more on domestic markets and higher working class consumption, working class demands for higher wages were more successful. Working class consumption as a proportion of total national income underwent a one-time step increase after the Second World War and has stayed more or less steady since. Meanwhile, even moderately successful attempts at combined development managed to post growth rates in per capita incomes which were multiples of the near stagnation under colonialism.¹⁷ It was this more domestically-driven growth in capitalist countries, developed and developing, that laid the basis for the legendary growth of the post-war period we know as the 'golden age'.

US Hegemony?

UCD upends many myths about the capitalist world order generated after the golden age ended in the neoliberal resurgence of free market ideas. Chief among them is that the US succeeded the UK as the 'hegemonic power' of the world economy. Uneven development may have permitted the UK to dominate the world economy for a time¹⁸ but, not only did the contender industrialization, of the US, Germany and Japan end that dominance by the 1870s, the plurality of these contenders also made the world multipolar: inevitable UK dominance had become unrepeatable. US's strenuous attempts to emulate such dominance, to which scholars of hegemony¹⁹ gave the dignity of a theory, though scaled down to making the dollar the world's currency given the impossibility of acquiring a formal empire, would fail, leaving only a trail of destruction.

The world that entered the Thirty Years' Crisis of 1914 to 1945²⁰ may have become multipolar, but it had remained imperial. That crisis of UCD changed the structure and dynamics of national and the world economies and the world that emerged from that crucible would be an international one,

¹⁷ Radhika Desai, 'Look Back in Hope? Reassessing Regulation Theory'. Kees Van der Pijl (ed) *The International Political Economy of Production*. Cheltenham, Edward Elgar, 2015.

¹⁸ Though whether this dominance could be called a 'hegemony' is doubtful: See James Parisot, 'Expanding Geopolitical Economy: A Critique of the Theory of Successive Hegemonies' in Radhika Desai (ed), *Theoretical Engagements in Geopolitical Economy*, London: Emerald, 2015.

¹⁹ Charles Kindleberger was the key founder. See Chapter 5 of *Geopolitical Economy*.

²⁰ The concept is Arno Mayer's. See his *The Persistence of the Old Regime*, New York: Pantheon, 1981.

composed not of empires but national economies. The historical scales were tipped more steeply towards combined development and away from maintaining unevenness, on which US hopes depended, than ever before.

Internationally, just when capitalist countries were mired in the Great Depression, the USSR industrialised and ensured the allied victory. Communism in Eastern Europe and China put even more territories and populations beyond the reach of capitalism and the enlarged communist bloc supported decolonization and widened the possibilities for combined development. Though it was a lot harder for economies set back by colonialism than it had been for other countries, combined development in the developing world was significant and would form the basis of the faster growth of the 1980s, 1990s and 2000s.²¹ The threat of communism also forced the US to permit combined development in Western Europe and Japan and, in the decades to follow, in Newly Industrialising Countries (NICs) such as South Korea and Taiwan which were on the frontline against communism.

Domestically, economies became national and state-directed as never before. The new centrality of domestic working class demand was critical, breaking a major link of dominance and subordination internationally as well as domestically and laying the basis of the golden age. The pursuit of growth, essential to maintaining the relative size of the national economy as a matter of international prestige (and, it should not be forgotten, voting power in key international institutions like the International Monetary Fund and the World Bank) or to maintaining and expanding opportunities for national capitalist classes, required expanding domestic demand above all. Along with planning for recovery and development, macro-economic management to keep up employment and demand levels or to expand welfare state and public services were matched by jealous protection of domestic producers and markets. US efforts to maintain 'openness' in other economies for its exports were bogged down in muscular trade negotiations while its efforts to set an example in openness only left its economy open to increasing import penetration and loss of competitiveness. International trade recovered from its inter-war collapse but grew less than GDP, indicating the centrality of domestic demand.

Newly independent developing countries grew fairly robustly and became more assertive on the international stage with demands for a New International Economic Order (NIEO) geared to making their combined development easier. This growth began to narrow the per capita income gap between the developing and developed world. Ironically, perhaps, this narrowing was slowed precisely because the expansion of working class demand powered such high growth in the latter countries that western Europe and Japan accounted for the bulk of the growth of the age. Combined development, precisely by modifying capitalism to make it serve broader sections of society, made the golden age of growth possible.

This world of national economies scuttled US hopes for the dollar. Though, despite golden age growth halving the US's relative weight in the world economy, the US remained the biggest, it was one among national economies. Sterling career as the world's money had been an imperial artefact: Britain's colonies provided the financial surpluses which Britain exported to provide world liquidity. Without colonies, the US could not export capital on the necessary scale, not when investment was needed to prevent its relative size from declining faster, and the power of the organised working class made employment levels politically sensitive.

²¹ I argue this in the case of India in . and Martin Hart Landesberg in the case of China...

Keynes had foreseen the new circumstances and proposed international monetary arrangements designed to permit national economies to pursue prosperity collectively at the Bretton Woods conference in 1944: the Bancor, a multilaterally created world currency for official settlement of trade imbalances, an international clearing union designed to minimise even these by penalising trade and financial surpluses as well as deficits and capital controls prevent speculative international capital flows. US power could defeat these proposals but could not to ensure the dollar's success. What appears as continuous post-war dollar dominance was, in fact, a series of repeated attempts and failures.

Unable to export capital on the requisite scale – Marshall Aid to Western Europe was too small and there were dollar shortages during the 1950s – the US resorted to providing international liquidity by running current account deficits. This expedient was, however, subject to the Triffin Dilemma: the deficits put downward pressure on the dollar, reducing its acceptability as world money. With convertibility of other currencies in 1958, the dollar shortage turned into a dollar glut. Gold flowed out of the US: neither the gold pool of 1961 nor the series of other expedients could help and in 1971, the dollar's gold link was broken.

The Long Downturn and its Financializations

If combined development powered the golden age, it also ended it around 1970. This is the chief implication of Robert Brenner's magisterial account of the 'Long Boom', as he terms the golden age, and the Long Downturn.²² The Long Downturn, which plagues the advanced industrial world to this day, was caused by declining profit rates in manufacturing thanks to the overproduction and overcapacity in relation to the existing levels of demand that resulted when Western Europe and Japan recovered. And the Long Downturn has persisted, he argues, because while continuing combined development adds more producers, now including China, neither firms nor governments will permit a 'slaughter of capital values' – a devaluation of sunk capital in value if not physical terms – on a scale that would be necessary to restart robust manufacturing investment. They would be perverse to do so: they would lose while their competitors would gain.

Expanding world demand by increasing working class and third world productivity and consumption was one way out, recommended by the Brandt Commission. However, it would have involved empowering these constituencies at the expense of western capitalist classes. They preferred the neoliberal alternative of attempting to improve profitability by attacking the incomes of these constituencies. More than three decades after New Right governments began implementing it in the 1980s, it would appear that this approach not only failed to revive profitability²³, it exacerbated the underlying problem by restricting the growth of demand. The twenty-first century finds the west saddled with enervated and financialized capitalisms with Japan in long term stagnation and the 2008 and 2010 crises afflicting the US and Europe respectively.

²² Robert Brenner, *The Economics of Global Turbulence: The advanced capitalist economies from long boom to long downturn, 1945–2005*. London: Verso, 2006 and 'What is good for Goldman Sachs is good for America: the origins of the current crisis', 2009. www.sscnet.ucla.edu/issr/cstch/papers/BrennerCrisisTodayOctober2009.pdf (accessed September 21, 2012).

²³ Alan Freeman, 'The Profit Rate in the Presence of Financial Markets', *Australian Journal of Political Economy*, no. 71, pp. 167–192.

Compared to the Long Boom, growth in the Long Downturn was not only lower, it was also zero-sum and financialized. In the Long Boom practically all countries grew together, now, with the assault on western working classes and stagnant domestic markets, one part of the advanced industrial world could grow only at the expense of the others. The developing world suffered two 'lost decades' in the 1980s and 1990s under IMF and World Bank Structural Adjustment Programmes while transitions economies were set back by 'shock therapy' in the 1990s. Finally, in the Long Downturn growth became financialized, reliant on the blowing up of asset bubbles which burst increasingly destructively and culminated in the 2008 and 2010 crises. In this story, the US's continuing attempts to secure a world role for the dollar has played a critical part.

All slowing capitalist economies are prone to financialization as profits are invested not productively but speculatively. However, it would have remained national but for the series of dollar-denominated financializations, essentially international asset price bubbles, on which the dollar's world role came to depend after 1971 and the changes – such as US pressure on all countries to lift their capital controls – they made necessary. They increased speculative demand for the dollar, offsetting the downward pressure US deficits put on it.

The trail of destruction these financializations have left as financial crises left robust economies prostrate around the world have not only increased the criticism of the dollar's world role²⁴, it has prompted private and public holders to move out of the dollar. The US's closest allies, the Europeans, were in the forefront of easing the dollar out of their mutual transactions with the launch of the 'Snake' in the early 1970s and culminating in the Euro in the 2000s. Its current problems notwithstanding, the euro blazed the trail for newer arrangements being made in the twenty-first century by countries in the latest wave of contender development, particularly China and the BRICs, ranging from relatively small bilateral arrangements to trade in one another's national currencies to the mammoth Asian Infrastructure Development Bank.

These initiatives are designed to provide long-term investment capital and do not require potentially dangerous capital account liberalization in contrast to the Western short term capital which requires capital account liberalization, is never invested productively, inflates dangerous asset bubbles and requires the expensive insurance of reserve accumulation. Today, as multipolarity makes more contender development possible and enables more and more countries to refuse the dollar system, the dollar's world role is so widely recognised as being near its end that even the United Kingdom, which has been the critical support for the dollar system, has realised that if tis financial centre, the City of London, is to continue to be a major centre of world finance, it must join China and the new pattern of finance that it represents.

The Progressive Potential of the Multipolar Moment

The twenty-first century contrast between the growth in China and other emerging economies and stagnation in the advanced industrial world is incidental, but deeply rooted in UCD. While all-too-

²⁴ Among the most prominent came from the Governor of the People's Bank of China: Xiaochuan Zhou, 'Reform the international monetary system'. Beijing: People's Bank of China. 2009.

many developing and transition countries were unable to resist the neoliberal assault during the Long Downturn, a new cohort of emerging economies were able to engage in successful combined development either because they remained largely outside western dictation, such as China, or were able to retain a certain autonomy from the international neoliberal agenda, such as India, or regain it after experiencing the disasters of neoliberalism, such as Russia and Latin America in the 2000s. Growth in the emerging economies is spreading material welfare more widely than hitherto and remains robust, for the most part, because these economies are considerably less financialized and more focused on productive growth. The challenge of these countries to the west is apparent in the major forums of international economic governance: in demands for reform of the IMF and the World Bank, deadlocks at the WTO and at Climate Summits and in the construction of the parallel financial institutions already mentioned. It is also apparent in rising military tensions, particularly over the Middle East, Ukraine and in the South China Sea.

The essence of these confrontations is that western and especially US governments and capitalist classes are unwilling to accept continuing combined development of the emerging economies and the modifications of the system of international economic governance that it is making possible and necessary because they threaten to restrict their opportunities for largely speculative and rentier profit-making just when they are most desperate to expand them. On the other, they are even less able to prevent it.

While these confrontations have cost all-too-many lives and livelihoods, their underlying logic points in much more promising directions. It would seem that accelerating combined development has created a world in which growth, even where it is to take capitalist forms, can only occur through more socially controlled and national, and therefore, potentially at least, more democratic and popular forms of combined development that require regulating the activities of capitalists further. This may be no bad thing for working people in the west, for developing and transition countries generally and even for the working people in them.

The financialized capitalisms of the west and Japan are no longer capable of yielding acceptably broad productive growth. At the moment, the grip of financialized capitalist classes over state policy is keeping western government policy confined to a monetary policy whose sole purpose is to provide liquidity for the very financial institutions that caused the crisis so that they can continue the only form of profit-making they are capable of now, speculation, while the productive economy and employment levels languish and poverty and inequality climb skyward. This unacceptable policy is publicly justified by garrulous talk about how monetary policy is geared to changes in levels of economic activity and how growth is only around the next monetary policy corner. This talk serves to keep at bay the only alternative which can re-start broad-based productive growth, a massive programme of government spending and investment, simply because it would amount to government intervention of such a massive scale as to displace capitalists from the driving seat of the economy. This realization is unlikely to remain confined to ruling circles: the pressure of circumstance is bound to bring it to the streets of Athens and Madrid as much as in the neglected post-industrial rustbelts of US cities. Many intellectuals and organization are already calling for such investment in green, creative and cultural sectors.

In the emerging economies, continued growth is going to have to be involve expanding their own working class demand as western markets dry up and other markets are, naturally, more protected.

The Chinese leadership seems to have read the writing on the wall most clearly: they have engaged in a series of initiatives to expand domestic demand, beginning with the post 2008 investment boom, continuing in recent wage rises and expansions of domestic demand and culminating recently in ambitious plans to develop its hitherto neglected west as part of its New Silk Road and Belt initiatives. Not only has Chinese success made the Chinese example very influential in emerging economy capitals, the force of circumstances is also pointing these elites in a similar direction. This can only benefit working people in the developing and transition countries, the majority of humanity, giving their struggles for material and cultural betterment greater chance of success.

About author:

Radhika Desai, Professor at the Department of Political Studies and Director, Geopolitical Economy Research Group, University of Manitoba, Winnipeg, Canada.