# MACRO-CYCLES OF GLOBAL ECONOMIC GROWTH:
## THE DYNAMICS OF STATE AND MARKET DRIVEN STRATEGIES OF DEVELOPMENT[1]

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"Over and above cycles and intercycles, there is what the economist (…) call the secular tendency. But so far only a few economist have proved interested in it, and their deliberations on structural crises, based only on the recent past, as far back as 1929 or 1870 at the very most, (…) are more in the nature of sketches and hypotheses, they offer nonetheless a useful introduction to the history of the *longue durée*. They provide a first key"

FERNAND BRAUDEL. **ON HISTORY**, 1980 [1950]: 28-29

"Soon or late, it is ideas and not vested interests, which are dangerous for good or evil."

JOHN MAYNARD KEYNES. **GENERAL THEORY OF EMPLOYMENT, INTEREST, AND MONEY**, 1964 [1935]: 384

## ABSTRACT

This paper proposes a political economy analytical framework to study the standard periodization of capitalist development established by economic history, as long cycles of policy deployment, in which the market and the state alternate as the leading force driving world economic growth. For this purpose, the paper dwells on the economic and political history of capitalist development to support the thesis that major global economic crises trigger shifts in the development paradigm. In addition, the proposed analytical framework is compared with existing theories and explanations on capitalist cycles and economic crises.

## INTRODUCTION

Can we model changes in the global strategy of development? What lessons can we learn from previous global crises to account for the current -post-2008 meltdown- global financial situation? Is the current crisis triggering another state-centered strategy of growth, like the one that characterized global development between 1929 & 1979? Can we explain changes in the global strategy of development as rooted in major market and state failures?

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This paper approaches the above questions from the theory of long-term global development macro-cycles, which has its roots in the works of Nikolai Kondratiev and Joseph Schumpeter[2], that called them long-waves- and from the perspective of historical methodology in the thought of Fernand Braudel, who in the early 1900s introduced the concept of the *longue durée* to the social sciences.[3] Nevertheless, the theoretical and methodological approach, that I follow in this paper, differs significantly from those of Kondratiev and Schumpeter, and is based on the theory that political and economic global changes are product of major swings in the global strategy of growth, from market to state, and from state to market centered as leading forces of world development.

The focus of this paper is to test the theory against other explanations of long trends in development, as well as the existing theories and explanations on capitalist cycles and economic crises.[4] Section I presents the academic background and intellectual questions that motivated this investigation. Section II reviews the literature pertinent to the theories of macro-cycles used in the paper. In Section III, the theory of macro-cycles of global economic growth is presented, and shows the long term swings in the global strategy of growth, from market to state, and from state to market centered strategies of global development. Section IV links the analysis of current globalization processes with the major components of the theory, as well as future venues of research and the remaining questions.

## I

This research endeavor began in the 1990s when my study of political and economic transitions, in Latin America and Eastern Europe, brought to my attention the fact that both,

[2] Kondratiev, N.D. *Major Economic Cycles* in **Voprosy Conjunktury** 29(1925): 575-83; Schumpeter, J. **Business Cycles**, New York, 1939. See also Garvy, G. *Kodratieff's Theory of Long Cycles* in **The Review of Economics and Statistics,** MIT Vol. 25 No. 4(November 1943): 203-220; Ayres, R.U. 1989. **Technological Transformations and Long Waves,** Austria: International Institute for Applied Systems Analysis.

[3] Braudel, 1980; See also Piore, 2008; Fallas-Santana, 2009, 2006, 1999 & 1996; Cavarozzi, 1992; Gerschenkron, 1962; Krugman, 2009; Díaz Alejandro, 1970, 1984; Prebisch, 1950, 1959; Hirschman 1968; Stiglitz. & Serra, 2008; Stiglitz, 2002; Helwege, 1992; Dornbusch, 1992; Kaufman & Haggard, 1992; Stallings & Kaufman, 1989.

[4] Polanyi, 1944; Minsky, 2008 &1995; Ruggie, 1982; Bernanke 2000; North, 1981; Krugman, 2009; Galbraith, 2009; Kindleberger, 2005; Eichengreen, 1999

industrialized nations, as well as emerging developing countries had shared, since the 1930s, a pattern of growth and social welfare and development in which the state played a significant role. At the same time, the transitions to democracy and market economies in Latin America and Eastern Europe showed strong similarities.[5]

Authors like Marcello Cavarozzi, at the time at MIT, developed an explanatory theory of the institutional arrangements and organizational patterns that characterized the inwards-oriented strategy of growth in Latin America in both the political and economic realms. He called this initial theory the state-centered matrix (1992), referring exclusively to the specific strategy of growth of Latin America. In turn, authors like Bruszt and Stark, considered that the theories to explain the Latin American cases were equally useful to explain the Eastern European cases, and began to apply the state-centered matrix to countries like Poland and Hungary (2001 & 1990). At the core of the matrix was the idea that the state served as a mediator between the market and individual economic agents. Also at the time, analysts of trade liberalization and deregulation in Western Europe and the United States also pointed out, prior to the emergence and implementation of the Washington Consensus, the fact that both industrialized and developing countries were in a transition from a state based strategy of growth to one based and led by the market (Burgoon, 2001 & 1998; Locke, Kochan & Piore, 1997).

These facts and theoretical developments triggered my own analysis of general patterns of growth, and the development of a theoretical and methodological approach based on the idea that there are major swings in the global strategy of growth, from market to state, and from state to market-centered strategies of global development, and that the periods in between swings can be considered as policy macro-cycles, i.e., periods in which global, regional, and national development policies are defined accordingly to the dominant, either market or state led, paradigm of growth.

As we shall see in the upcoming sections of this paper, properly describing and

[5] Przeworki, A. *The "East" Becomes the "South": The Autumn of the People and the Future of Eastern Europe* in **PS: Political Science and Politics** Vol. 24, No. 1, March 1991.

understanding these cycles is of great importance not only for academic but also for international public policy purposes. In brief, the ultimate purpose of studying these Macro Cycles is to understand the behavioral nature of capitalism in market economies and how society interacts and responds to them through policy deployment and paradigm shifts.

## II

The core of the Macro-Cycles theory is that in the process of global capitalist development we can observe long periods of economic growth in which the market and the state tend to alternate as the leading forces driving that growth. In other words, that we can observe both, market-led, as well as state-led macro-cycles of global economic growth, and that these macro-cycles, in turn, are based on a policy paradigm containing a particular relation between the market and the state and its respective roles in the growth and stability of local and regional economies, as well as of the global economy as a whole.

More precisely, Macro-cycles of global economic growth are understood here as *long cycles of policy deployment, either led by the market or the state, that define the range of specific development policies that industrialized and developing countries adopt, as well as the necessary institutional arrangements to implement their respective strategies of growth according to the global policy trend*[6].

A first cornerstone theory directly related to this project is Polanyi's theory on the evolution of capitalism, and the emergence of the market and the national states in the XIX century. In his book "The Great Transformation", Polanyi deals from a completely different perspective with problems that were originally posed by Adam Smith, for example the risks that the division of labor posed on workers, and later by Marx as the commodification of human

[6] *"One if the main consequences of globalization for policymaking is that the number of instruments at the country level diminishes when the economy is integrated. When the domestic financial system integrates with the rest of the world, it is more difficult for countries to monitor transactions outside its borders" Schmukler, S.* in Frieden, Jeffry A., David A, Lake & Broz, J. Lawrence, 2010: 328-329. See also Stiglitz, 2002: 53-88.

labor.[7] Relevant to this work, is the dynamics between market and state that emerge from the attempt of market liberalism to disembed the economy from society. There are three sets of ideas that comprise Polanyi's argument. The first one is the idea that economies are embedded, that is, subordinated to the political and social constraints of the societies where they operate. Moreover, Polanyi insists in pointing out that prior to the nineteenth century and the expansion of market liberalism, economies were clearly embedded in the productive activities and the daily life of communities. The market expansion that occurred during the 1800s, that gave way to the first globalization, was made possible by the theoretical consideration that the economy could be considered as an autonomous interlocking system of markets that self-regulate and adjust the supply and demand through the price mechanism and, therefore, had to be left alone, independently of any political or social regulations. The emphasis in the latter assertions is in the theoretical character of this consideration, i.e., it has to be understood, according to Polanyi, inside the framework of liberal economic theory.

How to explain, then, the success of market expansion and trade liberalization during the nineteen century and the first quarter of the twentieth century?

The second set of Polanyi's ideas explains that in the policy implementation arena, market liberalism has been successful because it has artificially transformed, capital, labor, and nature into what he calls *fictitious commodities*. To the extent that money, labor and land were not produced to be sold in a market they are fictitious, which explains why the economy can only be partially disembedded from society.[8] The deployment of global market liberalism carried the intrinsic need of a state capable of managing the three *fictitious commodities* defined by Polanyi, a fact that links the state with the market and creates what he called the *double movement,* a dynamic tension between the market and the state. "Our thesis is-says Polanyi-, that the idea of a self-adjusting market implied a stark utopia, such an institution could not exist for any length of time without annihilating the human and natural substance

[7] Granovette, 1985: 482
[8] Polanyi, 1944: 71-80

of society; it would have physically destroyed man and transformed his surroundings into wilderness" (Polanyi, 1944: 3). Given this depiction of the consequences of a self-regulating market, the state became central to guarantee that society would bear the cost of a liberalized disembedded economy without triggering political unrest. The double movement comprises the expansion of the market, that Polanyi calls the laissez faire movement, and the protective countermovement that emerges to resist the disembedding of the economy.[9]S

For the purpose of the argument of this work, Polanyi's theory provides significant support to the thesis that *there is a dynamic link between the market and the state, and that the tensions between these two components define a double movement from market expansion to the state regulation and protection of economic actors.* In this sense, the state has two defined roles. In the first instance, the state is a guarantor of societal acceptance of the human and natural costs that the implementation of an interlocking system of markets implies. In the second instance, in face of the failure of markets to self-regulate, the state serves the role of regulator, and protector of economic agents, as well as of nature, from the consequences of disembedding the economy from its real social, political, and environmental contexts. For Polanyi, the transition from the theory of liberal economics to the implementation of its policy prescriptions is at the root of the unsustainability of modern market capitalism. To the extent that a self-regulating market system is, according to him, a *stark utopia*, attempts to disembed the economy bring significant threats to the sustainability of human life an its natural surroundings.

In addition to the double movement, Polanyi suggests that a substantive corpus of theoretical and ideological support must exist to guarantee the resilience of the dominant strategy of growth. Either there is theoretical and ideological support for the market as the leading agent of growth and, therefore, the state assumes its role of enforcer of market rules; or theoretical and ideological support for the state as agent of growth and as subordinator of the market and protector of economic actors. The resilience of the dominant strategy of growth refers to the

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[9] Block, 2001 in Polanyi 1944: xxviii

capacity of these ideas to continue to lead and define the global growth policy, despite the many business cycles, and frequent regional and global financial crises, that seem to characterize short-term capitalist development, and that are present in all macro-cycles as defined in this work (Krugman, 2009).

Another body of literature that complements the contribution of Polanyi to the understanding of long cycles of economic growth, and to explain what is it that causes swings from one macro-cycle to the other[10], are Hyman Minsky and Charles Kindleberger. These two authors are very relevant for this discussion because they share quite an interesting perspective on the structure and dynamics of economic crises, as well as a three-part taxonomy, elaborated by Minsky in the 1960s to classify types of finance: hedge finance, speculative finance, and Ponzi finance. The classification is based on the risk these finance organizations take based on the relations between the operating income and the debt service payments of individual borrowers. A hedge finance institution's operating income is more than enough to service both the interest and the scheduled reduction of its indebtedness. In the case of the speculative financial firm, its operative income is sufficient to pay the interest on its debt, but the firm will need to refinance its maturing loans with new loans. The operative income of a Ponzi firm will not be sufficient to pay the interests on its debt on the scheduled dates, and must either increase its indebtedness or sell some assets (Kindleberger, 2005: 24). These three types of financial institutions coexist at all times, both while the supply of credit is high, as well as when it dries out, meaning that at some point they all are at risk of becoming a Ponzi firm. Merging these ideas we get Minsky's Financial Instability Hypothesis:

*"Over a timespan without a financial panic and a deep depression, the financial structure changes so that financial layering increases and the proportion of what I called speculative and Ponzi financial postures increase. The above can be called the first postulate of the Financial Instability Hypothesis. The second postulate is that the increase in layering and the*

[10] Bernanke 2000; Eichengreen, 1999; Galbraith, 2009; Hemerijck, et. al. 2009; Kindleberger, 2005; Krugman, 2009; Minsky, 1995; North, 1981; Parker, 2002; Reinhart, & Rogoff, 2009; Stiglitz, 2010.

*shift in the structure of payment commitments progressively increase the vulnerability of the financial system to a debt deflation process, which can usher-in a deep depression business cycle. Thus the financial panics and deep depressions of history can be characterized as normal functioning events of a capitalist economy. However, as the institutional structure of a capitalist economy changes, because of both, legislation and endogenous reactions of economic units, the economy never replicates the past"* (Minsky, 1995: 92).

In brief, for Minsky, business cycles are intrinsic to capitalist economies and are generated by the dynamics of the market, as well as by the system of state interventions and regulations designed to keep the economy operating within reasonable bounds. It interesting to note that, almost 20 years after his death in 1996, Minsky has been in the news and discussed in Wall Street circles, and the 2008 global crisis has been defined as a Minsky Moment. Nevertheless, when Kindleberger published the fifth edition of his book in 2005, still had to account for the criticisms that have been directed at Minsky's model. Kindleberger cites three criticisms: (i) that each crisis is unique; (ii) that the type of model that Minsky developed was no longer relevant; and (iii) that assets-price bubbles are highly improbable (Kindleberger, 2005: 29-30). Although Kindleberger did a good job at the time refuting those claims, recent history and the evidence of the 2008 asset-price real estate bubble, all seem to give support to Minsky's model.

The starting point of Minsky's model is that the study of a crisis must start by focusing on the pro-cyclical changes in the supply of credit. While there is credit, all three types of finance firms work well and a degree of financial stability is achieved. Credit explains why a Ponzi firm could operate for such a long time without going under and being discovered. The pro-cyclical growth in the supply of credit in good times, and its decline in less buoyant economic times, lead to the fragility of financial arrangements and increases the likelihood of a financial crisis (Kindleberger, 2005: 21-24). It all begins with what Minsky calls a *displacement*, and outside shock to the macroeconomic system that generates profit opportunities that are anticipated by economic actors, firms and individuals, that begin borrowing money to take advantage of those investments and to capture increased returns. That process, in turn, accelerates the growth rate of the economy and creates an optimistic investment environment that positively feedbacks the economy, and supply of credit is strengthened by the optimism of the bankers and lenders. The rapid increases in profits and the arrival of new investors generates a "euphoria", no one wants to be left out from profiting from speculative buys, and this behavior leads to a *mania*, in Kindleberger terms, a bubble where prices move upward for a period of 15 to 40 months (2005: 25). Then, the market receives a signal that buyers are becoming cautious and less prone to buy, the prices of goods and securities begin to fall, and the lenders begin to gradually restrict credit. Suddenly, the rumor of a defaulting bank, or the discovery of a possible swindle, or the sharp decline in prices of a commodity or security, triggers *panic,* a situation of *"sauve qui peut",* in which literally all economic actors run for their assets before their financial institutions shut down, as the crisis sets-in.

The contribution of Minsky's model to this work is very significant, beginning with the fact that he posits the existence of long cycles of capitalist growth that are characterized for being intrinsically instable because they comprise a series short term crises-cycles that follow the displacement-credit supply increase-mania-panic-crisis model. "*The model is one* -says Minsky-, *that endogenously generate explosive expansions or contractions and constraints, which are determined by policy and institutional elements that were left out of the formal model"* (Minsky: 1995: 84). This introduces the idea that the rules of the market interact with the rules of the nations and societies, that the dynamics of market capitalism is bounded by the constraints and interventions embedded "*in legislated institutions and usages that reflect the interpretation of what went wrong with the economy that ruled when the legislation was enacted.* Minsky's hypothesis is that the more severe crises in history *"occur after a period of good economic performance, with only minor cycles disturbing a generally expanding economy"* (Minsky: 1995: 85). However, after a series expansions and contractions emerges "*a financial environment in which a serious debt deflation is possible.*" (Minsky: 1995: 85) The mechanism that explains the long-cycles in capitalist development centers, according to Minsky, "*around the need for firms to finance investment spending and positions in capital assets externally, and the cumulative changes in financial variables that result over the long swing expansions and contractions*" (Minsky: 1995: 83). Minsky closes his 1995 paper, in which he retested hypotheses originally presented in 1963, saying that the world had become universally capitalist, and that information technologies, and computational capacity, had made possible global financial integration as the defining characteristic of capitalist expansion at the end of the 20th century and early 21st. He finishes pointing out again the importance of the state and national institutions, "*the problem of finance that will emerge is whether the financial and fiscal control and support institutions of national governments can contain both the consequences of global financial fragility and an international debt deflation*" (Minsky: 1995: 93). Anew, Minsky reminds us of the importance of state institutions to balance global financial instability.

In line with Minsky's argument are the more recent respective contributions of Joseph E. Stiglitz and Paul Krugman, which also state the need to strengthen state institutions and their capacity to regulate financial markets, particularly after the repeal of the Glass-Steagall Act of 1933 in 1999, a policy decision by Congress that deregulated the banking and financial services industries (Stiglitz 2002, 2006, 2010; Krugman, 2009). On the one hand, Stiglitz has been, since the early 1990s, a strong voice warning against inequality and poverty as the main consequences of globalization in both industrialized rich nations, as well as poor and emerging middle-income countries. Stiglitz analysis of market failures as factors that trigger shifts in the main strategy of growth, and that might boost the participation of the state, are crucial for the purpose of this work. (Stiglitz, 2010: 238-248). On the other hand, Krugman has repeatedly observed the strong similarity between the conditions that led the world to the Grand Depression, and those that led to the Great Contraction of 2008, and to the current situation of global financial instability. Both of them, Stiglitz and Krugman, have stated that the problems the global economy is facing today are Keynesian in nature, therefore, that a Keynesian response to them is in order, anew hinting a need for redefined and stronger state role in the economy[11]

## III

Unlike Kondratiev and Schumpeter, that were dealing with production and business cycles respectively, and at least in the case of Kondratiev with repetitive cycles of production[12], the approach presented here deals with long cycles of policy that alternate between market-centered and state-centered periods of policy deployment. Following the standard periodization established by economic history, as well as experts in the subject (Frieden, 2006), I consider three periods of capitalist development for the study of global development:

- 1ST MARKET-CENTERED MACRO-CYCLE 1871-1929;
- 1ST STATE-CENTERED MACRO-CYCLE 1929-1979, &
- 2ND MARKET-CENTERED MACRO-CYCLE 1979-2015

It is important to stress that the dates chosen only reflect an instance of a transitional period, and therefore are flexible milestones of global political and economic events and policy decisions that drive the swing from market to state and vice versa during a particular historical moment. In this sense, the theory of macro-cycles of global economic growth dwells also on the literature on political and economic transitions, and considers major global economic crises as the events that trigger the transition from one policy macro-cycle to the next. Consequently, one first step is to document the above three periods of global economic growth, particularly the crises and transitions of 1929, 1979 and 2008, focusing specifically on global market failures and state failures, as the posited factors behind major economic crashes and swings in the strategy of growth (Kindleberger, 2005, Stiglitz, 2010).

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11 (…) John Maynard Keynes-the economist that made sense of the Great Depression-is now more relevant than ever. Keynes concluded his masterwork, **The General Theory of Employment, Interest and Money**, with a famous disquisition on the importance of economic ideas: *"Soon or late, it is ideas and not vested interests, which are dangerous for good or evil."* (Krugman 2009: 19)

12 *"Our analysis show that the existence of long swings could not be proved in the production series studied by Kondratiev; that data for all major capitalist countries and the two series with world-wide coverage pertain only to one cycle; neither the international character of the phenomenon not its recurrence at regular intervals can be ascertained from the material presented"* (Garvy, 1943: 219)

As a starting point of analysis, consider "Polanyi's double movement", which shows the interrelated character of the evolution of both, the global market economy and national states.[13] Not only the state and the global economy coevolved, as Polanyi shows in the analysis of the European cases in the nineteenth century and early twentieth, but also, during this same period, most countries around the world, and particularly in North and South America, emerged as independent states with banks and financial institution that allowed them to be part of the global economic market the industrial revolution had made possible.[14]

Summarizing, Polanyi contributes to the analysis of macro-cycles of development by providing us with an analytical tool for the study of the long-term dynamics between market and state, and a first approach to the construction of a theory of long-waves of development, whether led by the market or by the state depending on the degree of embeddedness the world economy has at some point in history. Tensions between the theorists of self-regulating markets, and the efforts of the people to resist the effects of market liberalization through the state reflect the levels of embeddedness of the economy. With these ideas Polanyi allow us to formulate a first hypothesis stating that *the theoretical framework, that inspires, defines, and sustains macro-cycles of global economic growth, is the explanatory variable that accounts for both, the resilience of the dominant strategy of growth during a long period, as well as the consistency of the particular set of global development policies that are derived from that vision of the economy.* I would argue that these tensions between the theorists of self-regulating markets, and the efforts of the people to resist the effects of market liberalization through the state, are present in the three periods proposed in this study. That these tensions reflect the levels of embeddedness the economy has at different points.

[13] *"Haute Finance, an institution sui generis, peculiar to the last third of the nineteenth century, functioned as the main link between the political and economic organizations of the world. It supplied the instruments for an international peace system which was worked with the help of the Powers, but which the Powers themselves could neither have established nor maintained."* (Polanyi, 1944: 10)

[14] *"The role of the state became to institute and safeguard the self-regulating market. To be sure, this shift occurred unequally throughout Western Europe, and at uneven tempos. And of course now here did it take hold so deeply and for so long a period as in Great Britain. Great Britain's supremacy in the world economy had much to do with the global expansion of this new economic order, and even more with its stability and longevity. But the authority relations that were instituted in the international regimes for money and trade reflected a new balance of state-society relations that expressed a collective reality"* (Ruggie, 1982: 386).

As a starting point of analysis, consider the adoption of the gold standard in 1871. This prompted a global sustained period of growth that lasted up until 1914, when the outbreak of World War I brought the abandonment of the standard.[15] The gold standard was quickly restored in 1925 shortly after the war due to the efforts of England to stabilize global trade, and again in Bretton Woods as the gold-dollar standard that, in turn, the US abandoned in 1971 due to the Nixon Shock, ending the Bretton Woods system of international financial exchange. After the mid-1970s and, at different paces until the late 1980s, countries around the world moved to float their respective currencies, giving way to the present system of financial exchange.

As these global economic policies were being implemented at an international scale, a global economic paradigm shift was simultaneously occurring. John Maynard Keynes' ideas which with great decisiveness focused on finding both a theoretical as well as an institutional foundation to world economic stability (Skidelsky, 2000) were shaping global economic and political institutions. His ideas influenced the way in which the world faced the consequences of the Great Depression, and his work, both theoretical and political, shaped the institutions that have been at the basis of world economic growth since the aftermath of WWII. Bretton Woods might have been abandoned in 1971, but the main Keynesian institutions that were at its basis from the beginning, the IMF, the World Bank and the GATT, later the WTO, continued serving their respective roles as lender of last resort, world development investor, and mediator of international trade. Although, as Stiglitz has noted, sometimes those who run those Bretton Woods institutions appear to have never heard of Keynes (Stiglitz, 2002).

It is interesting to note, however, that in the three cases in which a type of gold standard was established, i.e., 1870-1914, 1925-1933, and 1946-1971, there was an initial phase of growth, that later yielded a crisis. From Polanyi's perspective, one could argue that the dynamics of the gold standard between 1871 and 1971 reflect a century long process of search for the

[15] In Latin America the period between 1870 and 1914 is considered the golden age of economic growth. In 1895, for example, GDP per capita in Argentina was equal to that of Germany, the Netherlands, and Belgium, and was higher than that of Austria, Spain, Italy, Switzerland, Sweden, and Norway. (Waisman, 1987: 5-7).

particular blend of international financial exchange rules that would restore both political and military peace, as well as global financial stability. In this respect, Polanyi insists that the inter war period led to the Great Depression because it was a continuation of the same basic rules that had led to the collapse of the gold standard and WWI (Polanyi, 1944: 20-32). Authors like Eichengreen, Sachs, and Bernanke, think that the Great Depression was caused by a market failure, that is a poorly managed and technically flawed international monetary system, and that in the United States the effects of the Depression were prolonged by not abandoning the inter-war gold standard at an earlier stage (Bernanke, 2000: vii-viii). The inter war gold standard was, according to these authors, the communication channel that transferred the effects of monetary shocks to other countries around the world (Bernanke, 2000: 6). To a large extent, it was the gold-dollar standard that for a quarter of a century achieved the goal of world political and economic stability, and made possible one of the longest periods of global economic growth (1945-1970). That growth only began to slow down when the gold-dollar standard was again dropped by the US, a decision of the Nixon administration that, combined with the oil shocks of 1973 and 1979, ultimately led to the currency and debt crises of the early 1980s and the shifting in the global development strategy from state to market-centered[16].

By the mid-1990s, the new market-centered strategy of growth had been summarized in a set of ten global policies to stabilize economies around the world after the crises of the 1980s, particularly in Latin America and Eastern Europe, and to reform their respective economies to help them conform to a new normative framework based on trade liberalization. In turn, the Washington Consensus promised to bring back sustained economic growth, and social progress. There is no doubt that never in the history of market economics the conditions for the operation of a global free trade economy were better than in the past 20 years, and the standardizing of national economies achieved by the Washington Consensus, along with IT development, significantly contributed to create those conditions. The collapse of the state-centered strategy of growth in the 1980s and 1990s brought a new set of ideas to the global

[16] *"By the early 1970's, strains were developing in the post-war system. Between 1971 and 1975, the postwar international monetary system, which has been based on a gold-backed US dollar, fell apart and was replaced by a new, improvised pattern of floating exchange rates in which the dollar's role was still strong but no longer quite so central…"* (Frieden, 2010: 17)

policy discussion, proposing the liberalization of national trade barriers and other liberal reforms, and bringing a full-fledge liberal theoretical approach to growth and development.

Michael Piore offers a very important insight on this role of ideas in our contemporary world when, in referring to the Washington Consensus, he says that *"the reaction emerging today recalls the politics and policies of the Great Depression and the immediate postwar period, when the second half of Polanyi's double movement came into effect. But with one critical difference: While the theories that have guided deregulation and globalization in the closing decades of the 20th century are the direct descendants of the laissez faire ideas that guided globalization a century ago, the philosophies that informed the second half of the double movement—that is, the social legislation that grew out of the Great Depression—have in many ways been discredited. Today's reaction is therefore more instinctive and visceral than deliberate and considered, and the question is whether it will indeed be possible to reconcile these two movements in theory or through practical politics."* (2008: 2)

These turn of events and its implications so far thus allow us to formulate a second hypothesis, that the *theoretical foundations of each macro-cycle of development that define whether these are either market liberalism or state interventionism alternate from one cycle to another*. In other words, not only the leading political and economic institutions change from one cycle to another, but so does the leading economic development paradigm.

If the first macro-cycle in the nineteenth century was market-centered (1870-1929), around the world the second was clearly state-centered (1929-1979), and inspired in part by the newly developed ideas of Keynes. I would argue that Keynes's ideas strengthened the role of the state in the economy around the world beginning in the 1930s, in the aftermath of the Great Depression, and that this influence and his contribution to the post-WWII economic stability, transformed his thought into a leading theoretical force behind the state-centered macro-cycle of development. The *New* Deal, implemented by Roosevelt between 1933 and

1938 as a response to the consequences of the Great Depression, is the other historical policy reform that boosted the role of the state in the economy, and deployed an institutional safety-net to protect citizens that, in turn, served as a model of social policy reform in other regions of the world, particularly in Latin America. In the framework defined by John Ruggie as compromised embedded liberalism, the compromise lies precisely in the fact that state intervention is only acceptable when directed to reactivate the economy, create employment, and maintain macroeconomic stability. The capacity of the state, shown by the *New Deal*-to protect citizens from the consequences of economic contractions, through legislation reform and enactment, as well as the deployment of institutional social safety-nets- complemented in the mid-1930s the Keynesian influence on limited state intervention. The global accords of Bretton Woods institutionalized both state intervention trends and, for the next three decades the world saw unprecedented economic growth and political development in which the state had a crucial role.

Ideas do not support themselves without effectively improving the livelihoods of concrete human beings. It was the effectiveness of the market to achieve that goal during the nineteenth century that made the ideas of Adam Smith such a powerful theory and vision of the world.[17] The same can be said about Keynes and the role of the state in stabilizing the economy. It is important to stress the persuasiveness of ideas, and their capacity to move human actions in one direction or another. Human individuals shape these ideas into conceptions of the world, aspirations and desires, and build the trust on the effectiveness of these ideas to be translated into policies that change and improve their lives and environments, and most of all transform their aspirations into realities.[18] This forefront role of

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[17] Keynes exemplifies changes brought by market liberalism in the following description of Britain before 1914: *"The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world…"* (Keynes, 1920: 11)

[18] The late Polish philosopher, Adam Schaff (1913-2006), wrote in the 1980s one of the most comprehensive analysis on language and human action (**Gli stereotipi e l'agire umano**, Bari: Adriatica, 1987). Schaff distinguished between the concepts, categories that human beings use to describe and analyze the world and language itself, from stereotypes, whose content is charged with values, tenets and beliefs directed to depict the same reality from a restricted and not necessarily objective point of view, that either emphasizes the positive or the negative aspects of the stereotyped reality. The concept of political and economic liberalism, as defined by John Locke and Adam Smith, for example, is very different from the more stereotypical use in the American media where the category of "liberal" tends to be attached to policies that tend to favor state intervention on the economy as well as public spending, characteristics that, in turn, contradict the conceptual definition of liberalism as opposed to any state intervention of the economy.

human individuals is crucial to explain political and economic change and swings in the general strategy of growth from one macro-cycle to the next. In the same way that it is the passions of individuals that fuel the manias that create bubbles of growth, panics and crashes (Kindleberger, 2005), these same variables explain why the core ideas that at some point supported a market-centered strategy of growth, suddenly become discredited and are abandoned -for instance, for a new state-centered global approach to development.

In other words, capitalist development is flexible to adapt to crisis that often require changes in rules and procedures, but that do not change the theoretical and normative framework that supports the long trend in global development strategy. Talking about monetary regime changes, John Ruggie explained this distinction very precisely in 1982: *If and as the concentration of economic power erodes, and the "strength" of international regimes is sapped thereby, we maybe sure that the instruments of regimes also will have to change. However, as long as purpose is held constant, there is no reason to suppose that the normative framework of regimes must change as well. In other words, referring back to our analytical components of international regimes, rules and procedures (instruments) would change but principles and norms (normative frameworks) would not. Presumably, the new instruments that would emerge would be better adapted to the new power situation in the international economic order. But insofar as they continued to reflect the same sense of purpose, they would represent a case of norm-governed as opposed to norm-transforming change* (Ruggie, 1982: 384).[19] This global trend is translated into national policies that countries apply to adapt and maintain their presence in the world economy, and this adoption, in turn, creates a relatively homogeneous economic outlook in between countries around the world, and helps build a consensual set of political and economic rules and procedures for global economic transactions.[20]

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[19] *"These tensions are inherent in the aggressive push for hyper-globalization that replaced the Bretton Woods consensus and shattered Ruggies's "embedded liberalism compromise". Trade officials and technocrats become tone-deaf to other economic and social objectives when the pursuit of globalization develops a life of its own. (…) Under shallow integration, as in Bretton Woods, the trade regime requires relatively little of domestic Policy. Under deep integration, by contrast, the distinction between domestic Policy and trade Policy disappears; any discretionary use of domestic regulations can be construed as posing an impediment to-a transaction cost on-international trade. Global rules in effect become the domestic rules."* (Rodrik, 2011:83)

[20] I found very illustrative of this point Fred Block's analysis of the assertion of Thomas Friedman that embracing the global market economy requires that countries get fitted for a "Golden Straightjacket", meaning adjusting their economies to a prescribed set of global policy requirements (Block, 2001: xxxiii in Polanyi [1944]). Beyond the mechanistic approach behind

This conception of political and economic change can be summarized in the proposition that there is no absolute spirit, no invisible hand, and no laws of history. Political and economic changes are the result of human actions and decisions bounded by their own social constraints and contingencies and, consequently, that there is no deep-structure logic underlying political and economic change (Mangabeira-Unger, 1987: 87-120). It is the interests and the passions of human individuals that in the context of those constraints and contingencies trigger social change.

## IV

The first globalization was made possible by political and military stability in Europe between 1815 and the beginning of World War One in 1914. Peace made possible the development of private financial institutions, which served as guarantors of international financial and commercial transactions and, to fulfill this role, also as guarantors of peace.[21] It is during that period that the world moved from the mercantilist approach to international trade, to a system based on the gold standard, as an inclusive system of convertibility that allowed countries to directly participate on world markets. The new independent nations that emerged, in the first quarter of the nineteenth century, in Latin America, rapidly integrated to world markets of raw materials, staples and basic commodities. Between 1871 and 1914, the period in which the first gold standard was functional, Latin American countries became not only highly integrated, but also economic growth allowed modernization and the creation of liberal political institutions. The collapse of the first gold standard, the Great War, and the

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this conception that Block points out, the metaphor of the straightjacket -not necessarily golden-, is useful to understand the point I am trying to convey that macro-cycles of global economic growth, either market or state led, define the range of policies that countries can adopt. This policy prescription reflects a *dirigiste* approach to development, and as has been noted by Sabel (1993, 2002 & 2003) leaves out *learning* as a major dimension of development. Also in the same critical line Rodrik (2006) *"Sensible advice consists of a well-articulated mapping from observed conditions onto its policy implications. This simple but fundamental principle seems to have gotten lost in much of the thinking on economic reform in the developing world, which has often taken an a priori and mechanical form."*

[21] *"Trade had become linked with peace. In the past the organization of trade had been military and warlike; it was an adjunct of the pirate, the rover, the armed caravan, the hunter and trapper, the sword-bearing merchant, the armed burgesses of the towns, the adventurers and explorers, the planters and conquistadores, the man-hunters and slave-traders, the colonial armies of the chartered companies. Now all this was forgotten. Trade was now dependent upon an international monetary system which could not function in a general war. It demanded peace. (…) This was done by international finance, the very existence of which embodied the principle of the new dependence of trade upon peace."* (Polanyi, 1944: 16-17)

post-war economic distress that led to the 1929 Depression, as well as the contagion generated by the second gold standard (1933-1938), marks the end of the first globalization and the beginning of the transition to the state-led macro cycle that characterized policy deployment from the 1930s to the late 1970s.

The social development achieved through the liberal policies of the period from 1880 to 1930, brought to the Latin American political arena a mass of educated and organized citizens that demanded better working conditions, basic social services, and political representation. Consequently, most countries in Latin America entered a critical juncture in which the liberal hegemonic republic was no longer feasible, and new types of political institutions were necessary to aggregate the demands of an increasingly complex society and to implement public policies. Studies show that the political incorporation of this mass of citizens with full political rights was done in Latin America through political parties in some cases, and through the state in others (Collier & Collier, 1991). This process of political incorporation, in turn, led the development and implementation of social policies, and the creation of institutional safety-nets inspired by the *New Deal.*

The reconstruction of Europe after WW2, the implementation of the Marshall Plan, triggered a rapid process of economic growth, led by the state, that resulted in the widespread development of welfare institutions in Western European countries. Protectionist policies were also put in place by the US and Europe, and a regulatory system allowed each country to build its own public enterprises to deliver public utilities including telecommunications. Thirty years later, a sector that later, in the 1980s, the telecommunications sector was one of the first to be deregulated, and in some cases privatized in Western Europe.

In 1945, at the end of WW2 and for the first time in history, development became part of the economic debate. The Bretton Woods accords opened the policy space to the study and design of innovative strategies to bring economic growth and welfare to different parts of the world, including the most backward nations that emerged after the decolonization of the world in the two decades that followed the end of the war. In Latin America, this policy space sparked intellectual discussion and scholarly analyses in the region in which the common denominator was an increased participation of the state in fostering economic growth. Those discussions and policy proposals gave shape to the import substitution industrialization (ISI). The prescribed closing of the local markets to global imports, transformed the Latin America states into a *de facto* mediator between civil society and the market.

The social achievements, in countries like Argentina, Chile, Uruguay and Costa Rica, helped to build trust and political support for the state as a legitimate responsible actor in the creation of wealth and social welfare. The state-centered-matrix articulated politics with social and economic development, and the push to advance industrialization led in some nations, like Brazil, to democratic breakdown, and ultimately to an authoritarian regime designed precisely to achieve the goals of that developmental project. There was, nonetheless, a national policy implementation space, that in democratic countries allowed the training by public universities of a healthy educated work force, comprised of professionals that found work in the modern sectors of the state, e.g., public owned utility companies, hospitals and clinics, schools and universities, as well and the new private import substitution industries. For thirty years, under the framework of Bretton Woods, the state-centered-matrix yielded unprecedented economic growth in both industrialized and developing nations around the world. By the early 1970s, however, the gold dollar standard was abandoned by the US during the Nixon administration, the oil shocks of 1973 and 1979 led to the currency and debt crises of the early 1980s, and the global development strategy shifted the from state to market-centered. The early 1980s were marked by the conservative administrations of Thatcher in the UK, and Reagan's in the US, that brought to the political arena a renewed set of market-oriented ideas and policies to support a sustained process of deregulation of state enterprises, and downsizing of welfare institutions. The collapse of the state-centered-matrix in Latin America, as well as that of the Eastern European economies in the early 1990s, initiated the double transition to democracy and market economics that characterized the first part of that decade, and by the end of the twentieth century the world was in full globalization mode.

It is interesting to note that by the end of WW1, Keynes assessed not only the positive aspects that the first globalization had brought to Europe, but also what he considered its most negative consequence: inequality. *"I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre war order of Society, and of progress as we then understood it (…)* (Keynes, 1920: 24-25). Today, the common denominator among globalization experts is that the main consequence of the current market-centered macro-cycle is, precisely, an increase in poverty and inequality in both industrialized and developing nations (Piketty, 2014; Rodrik, 2007: 181-183). The failure of globalization to bring prosperity and equality to the global citizen, as well as sovereignty for states to define their own specific integration policies in the framework of democratic institutions, as well as the proposals to redefine a new Bretton Woods compromise seem to indicate that capitalist development is anew shifting towards more state-centered approach to globalization.[22]

Summarizing, this paper posited that the long cycles of capitalist development that we observe in economic history can be explained as macro-cycles of policy deployment, either led by the market or the state, that define the specific development policies that industrialized and developing countries adopt, as well as the necessary institutional arrangements to implement their respective strategies of growth according to the global policy trend.

Capitalist development is flexible to adapt to crises that often require changes in rules and procedures, *but that do not change the theoretical and normative framework that supports the long trend in global development strategy.* This global trend is translated into national policies that countries apply to adapt and maintain their presence in the world economy, and this adoption, in turn, creates a relatively homogeneous economic outlook in between countries around the world, and helps build a consensual set of political and economic rules and procedures for global economic transactions. The theoretical framework, that inspires,

[22] *The only alternative we have left, therefore is the Bretton Woods compromise, named after the golden era of 1950-1973 in which the world economy achieved unprecedented economic growth under a shallow model of integration. (…) Our main challenge at the moment is to re-create this compromise, by designing a global architecture that is sensitive to the needs of countries-rich and poor alike-for policy space. This requires us to move away from market-opening mindset, and to recognize that what nations need to do in order to maintain social peace and spur economic development in our second-best global economy often conflicts with the free movement of goods, services, and capital. The only way to save globalization is not to push it too hard* (Rodrik in Frieden, Lake and Broz, 2010: 565).

defines, and sustains macro-cycles of global economic growth, is the explanatory variable that accounts for both, the resilience of the dominant strategy of growth during a long period, as well as the consistency of the particular set of global development policies that are derived from that vision of the economy. When this theoretical framework begins to lose intellectual and political support, shifts from one macro-cycle to the next begin.

Consequently, the role of the actions and decisions of human individuals is crucial to explain political and economic change and swings in the general strategy of growth from one macro-cycle to the next. In the same way that it is the passions of individuals that fuel the manias that create bubbles of growth, panics and crashes, these same variables explain why the core ideas that at some point supported a market-centered strategy of growth, suddenly become discredited and are abandoned.

The financial crisis that the world has endured since the beginning of the great contraction in 2008, suggests that a change in the normative framework of the long trend global development strategy might be currently taking place. Nevertheless, the global political and financial uncertainty, that currently permeates nations around the world, opens a significant space for global institutional and governance innovation.

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