Good evening and thank you very much Andreas: it’s a great pleasure and honor for me to be here. Thank you very much, the city of Vienna. Thank you all colleagues. Special word of thanks to Kari Polanyi Levitt, who’s signed copy of The Great Transformation. It’s one of my treasures in my office. Ever since I read The Great Transformation as a college student my thinking on questions of economics and international economy has been shaped by the key ideas in that book, and I think it wouldn’t be an exaggeration to say that I spent all my career essentially engaged in an act of intellectual arbitrage which is to try to explain Polanyi to economists in terms that they could understand. To be here in a company of scholars who actually know Karl Polanyi well, who appreciate his wisdom and who’ve read him and thought about him much more thoroughly than I have and to be invited to give this lecture in his name, is not just an amazing honor, it’s also a very daunting task for me.

I will begin with a quote from a journal article that Polanyi wrote in 1945 that I had actually not read before I began to think about this lecture. It’s written right at the end of the Second World War and it’s quite relevant to the theme. My subtitle is “The wrong turn of the world economy”. And this is at another point in 1945 when the post-war economy, the global economy, was yet to be constructed. It was at a point of another turn for the world economy and in this piece Karl Polanyi describes his hopes for how that post-war world economy could have been constructed in a way that it would actually take the right turn. And he talks about how three competing forms of universalist societies - liberal capitalism, world revolutionary socialism and racial domination - all have simultaneously collapsed in the aftermath of the Second World War. And he describes his hope about how we could have a world economy that is based on very different principles what he called an age of new forms of socialism, of capitalism, of planned and semi-planned economies, each of them by their very nature regional. In other words: a world in which there would be multiple ways of organizing the economy and society, in existing simultaneously on a global landscape. If Polanyi was still with us and would look back at the first few decades after 1945: I’m not sure what he would see would be consistent with what he would have expected. But I do think that there is a sense in which the order that was created in the immediate decades after the Second World War, was
an order that in some sense was much more compatible with Polanyi's principles. And in fact to some extent even though we didn't get this set of regional economies in quite the way that he described, we did get a world economy which was much more permissive of institutional divergence, institutional diversity, and institutional experimentation. And in my terms the wrong turn that we took, took place in the 1990s, when we moved from that Bretton Woods understanding of the world economy to an understanding that I've called hyperglobalist. And I used the term hyperglobalization precisely to distinguish what happened in the 1990s and beyond from the type of globalization that we had in the three decades or so after the Second World War.

But I'm running ahead of my story and I need to step back and explain terms and make a little bit clearer, what my argument is going to be. It's going to be a deeply Polanyi-esque argument. It's fundamentally about how markets and in particular global markets are embedded. In the national setting we have national markets that require a wide range of institutions - regulatory, stabilizing, legitimizing institutions - to make the outcomes of markets compatible with legitimacy and with public expectations. And in turn, in well-ordered societies, in well-functioning societies the design that those institutions take, whether its regulatory, whether its labor market institutions, whether it's the ordering of finance, whether it's social insurance mechanisms and the welfare state, the parameters of those institutions, the designs, are the product of democratic deliberation and accountability. That's the full embeddedness of market in societies that function well. But what exactly is the global equivalent of that? Global markets too require rules. So one of my arguments is going to be that the mistake passed after 1990 wasn't so much that the world economy became disembedded, but that it became disembedded by a highly partial and highly skewed set of rules that benefited certain segments of society and not so much the other. Because in this understanding of embeddedness markets always require rules. The question is who writes the rules, where do they come from and how inclusive they are. But the central problem - the central problem from Polanyi's perspective of the challenge of globalization - is how exactly do they get embedded, who writes those rules.

We have had three different models of globalization. Of course Polanyi was very much concerned with the gold standard and his analysis of how the gold standard ripped societies apart and put in place this double movement, ultimately resulting in a reaction to globalization, was succeeded by two different forms of globalization as already mentioned. The Bretton Woods regime, that lasted let's say between 1944 through the 1980s, and a post 1990 turn towards what I'm calling hyperglobalization. These different globalizations were different globalizations and this little chart here highlights some of the ways in which these
globalizations were different. Post 1990 globalization in particular did not aspire to have free labor mobility in the same way that the classical gold standard aspired. But there is a sense in which the post-1990 globalization returned back to the spirit of the gold standard and that's where in fact the source of its fragility is. And that is that just like the gold standard under the post 1990 model of hyperglobalization, national economies were to be in the service of a global economy. Increasingly after the 1990s the good rules of behavior subjected domestic economic and social arrangements to the requirements of international competitiveness. The concrete form in which one could see this was that the Right and the Left agreed on the terms of the debate. They disagreed on specific policies that countries should pursue. The Right wanted less regulation and lower taxes, the Left wanted more investment in human capital and more investment in general social and physical infrastructure. But they both claimed that this had to be done for the benefit of international competitiveness. So everything domestically became to be seen from the perspective of what it did to country's international competitiveness. And conversely domestic regulatory arrangements became open to challenge to the extent that they could be treated as non-trade barriers, as barriers to the free flow of goods capital and services. So I think Polanyi's framework helps us understand these different phases. I think the rise of contemporary populism is clearly another instance of this double movement. That the emphasis on self-regulating markets and the unmooring of markets from the political governance mechanisms that ultimately lend them legitimacy is a political reaction, and as Karl Polanyi said, this could also be a reactionary reaction. That is that it doesn't necessarily target directly the causes, the economic anxieties, the economic insecurities that that kind of globalization unleashes. It could take a reactionary form that's nativist exclusionary. And I think in this way the gold standard and the post-1990 hyperglobalization are quite similar. I sometimes remind my audiences by going back to the very first self-conscious populist movement in history which was the People's Party in late 19th century United States. The People's Party in the late 19th century was of course opposed directly to the globalization of that era. It wasn't workers then, it was farmers. But the farmers felt that they were being crushed on the one hand by declining prices of their commodities that they produce, on the other hand by high nominal interest rates which gold scarcity at the time had required, and they found fault they targeted. And they took as their target the financial and corporate establishment in northeastern United States as the upholders of the gold standard. Because the gold standard prevented monetization of silver, the expansion of the monetary base which would have prevented deflation and would have provided relief for these farmers. And of course the famous creed that William Jennings Bryan, the populist candidate for president, uttered in 1896, directly targeted the gold standard: "You shall not
crucify mankind upon a cross of gold”. That is that when the requirements of the global economy come in conflict with the requirements of domestic society, you have to stick with society. That it would take another 40 years really with FDR and the New Deal and the United States getting out of the gold standard in 1933 for that promised to be delivered. I think the Bretton Woods regime was in some ways a partial solution to Polanyi’s double movement dilemma and one of the arguments I want to make and lay out a little bit more clearly is this claim: that there was a solution, there was a form of globalization that actually handled this dilemma and that also provides us with a way of thinking about the future. That if post-1990 globalization was flawed because it went back to the spirit of the gold standard and created exactly the kinds of tensions that Polanyi wrote about, then the way forward for a smart globalization, for a sensible globalization is to go back to the spirits of the Bretton Woods regime. Not the specific policies but the spirit which once again makes the world economy a means to an end rather than the end itself.

I will tell the story through the prism of this trilemma which I call the political trilemma of the world economy. It’s a construct that I like to claim is directly a consequence of Polanyi’s thinking. What the trilemma says is that of these three ideal types hyperglobalization on the one hand, which is sort of an extreme form of globalization where markets are complete integrated across national jurisdictions that borders do not place any transactions costs on the free flow of goods and capital, hyperglobalization, national sovereignty and mass politics or democratic politics, of those three things you could have at most two out of those three and depending which two we go for we have a different type of globalization, a different relationship, between the economics politics and democracy. So let me quickly run through these different globalizations and how they reflected different choices made on this trilemma. The gold standard model was one that was based on combining hyperglobalization with national sovereignty. Well you needed national sovereignty because somebody had to enforce property rights, had to enforce contracts and had to enforce debt repayment and of course that was done by the National sovereigns at the center. So you need a national sovereignty. But national sovereignty was focused exclusively on maintaining the rules of the gold standard that is fixed parity to gold, free flow of capital, and debt repayment under any and all circumstances. Any other task that the domestic economy might have required, including in the case of the late 19th century United States’ or for that matter post-depression era Britain, for such as monetary expansion or fiscal policy inflation, those were outside the rules. So this is a model of running the economy that purposefully and explicitly narrows the space in which domestic economic management can be conducted. An economic management is essentially
limited to upholding what the world economy requires and that's why the gold standard regime, which Tom Friedman called, in a felicitous turn of phrase, “the golden straitjacket” for reasons I've already identified, the gold-standard regime essentially is incompatible on a sustainable basis with mass politics or democracy because when society demands something else it becomes impossible to sustain the gold standard. That's ultimately why Great Britain in 1931 would get out of the gold standard, because facing a very similar dilemma Great Britain eventually in 1931 goes the domestic monetary reflation route, gets off gold. FDR does that in 1933 and so forth. Again Tom Friedman uses this nice analogy here when he talks about when you put on the golden straitjacket, he says, your economy expands but your politics shrinks. So essentially it becomes a choice between Coke and Pepsi neo-politics, no local flavor is allowed. And that's an indirect immediate implication of this kind of the globalization regime.

Now when we come to the post-war period, the Bretton Woods regime, we have the very important figure of Keynes playing a critical role in the construction of the global economic regime after 1944 in the famous Bretton Woods meeting. And I'm not sure if Keynes ever cited Polanyi. Somebody here might know this. But I think in many ways his arguments were very Polanyian. Because one of the key lessons he had drawn from the inter-war experience was that the kind of gold standard understanding, where domestic economic management would always be tied to the helm of the world economy, that no longer was possible in a modern economy where labor markets had become institutionalized, workers had become organized into labor unions, and we had a mass franchise. In other words all the elements of a democracy where policymaking had to be responsible to large segments of the working class, and so therefore he explicitly said that the only economic system, that's actually compatible with our new forms of organization in our societies, is one where we explicitly keep hyperglobalization at bay. We combine national sovereignty with enough policy space domestically for national governments to run their economies. And of course what Keynes was particularly thinking of, were policies that we call Keynesian policies today. There is counter cyclical monetary and fiscal policies to ensure you have full employment. And he said, you cannot have the kind of 19th century type hyperglobalization in particular. You have to have capital controls on the free flow of movement, the free flow of capital across national boundaries. Because if you have this capital - especially of the short term - comes flushing around different nations then you couldn't maintain autonomy in terms of managing your own monetary and fiscal policies. Monetary and fiscal policies would be overwhelmed by the whims and fancies of speculative investors. And you have to maintain the system of capital controls on an ongoing permanent basis. Not just transitory but ongoing permanent basis, to create space for national economic
management. The post-war system of the Bretton Woods Arrangements dealt specifically with International monetary and financial arrangements. But a very similar set of understandings permeated the way that the trade regime developed in the post-war period as well under the ages of the GATT - the general agreement on trade and tariffs. And what I mean by that is that the GATT model of trade liberalization was a very thin model that didn't really require much of countries. You would reduce or eliminate quantitative restrictions at the border. You would reduce in a negotiated manner tariffs at the border. But you are pretty free to do whatever you want behind the border. In terms of your domestic investment policies, your domestic industrial policies, your domestic regulatory policies. They were in touch by the GATT regime. Developing countries in particular had even greater autonomy. And even under that limited model of liberalization, if domestic economic social arrangements came under threat, due to a sudden unexpected increase in trade flows, as happened in the 1970s when developing countries started to export labor-intensive garments to advanced countries on a large scale, countries were essentially allowed to carve out special protective regimes, what's called the multi-fiber arrangement, to protect those social arrangements. So this was an explicitly incomplete model of globalization. It was globalization because if you look at volumes of trade and long term investment in the period between 1945 and let's say 1990, relative to world GDP the increase in this volumes of international trade and investment were actually faster than what we've had since 1990. So this was rapid globalization. After the 1990s what I've called the “wrong turn” takes place, which entails abandoning this traditional model of limited trade liberalization at the border, limited financial globalization to a kind of hyper globalization model. The institutional embodiments of the hyperglobalization model are first the World Trade Organization which comes into force in 1995 and it reaches into a much broader set of domestic regulations than the GATT ever did. It covers investment rules, it covers intellectual property rights, it covers subsidies, it covers sanitary and phyto-sanitary regulations, and provides much less room for countries to provide for those special protective regimes when social contracts come under threat. In the sphere of finance the embodiment is a very decided move towards open capital accounts, so that capital account convertibility or free flow of finance across borders becomes the expectation and the norm, rather than the exception. And not coincidentally the set of interests that determine these rules become much more: The multinational corporations, big banks, big pharmaceutical companies, those who are the direct beneficiaries of these new rules. Now I don't want to overemphasize the rules and the constraints that were embodied in the World Trade Organization or for that matter in the IMF's or the OECD's post-1990 adoption of financial globalization, because I would say that at least half of the transition to hyperglobalization was the change in the frame of mind. That it was a
cognitive transition, that it was a change in what governments thought they should be doing, what was norms of good policy. Because, remember, in the gold standard there were no formal external constraints there was no international organization to maintain the rules of the gold standard. The system worked because those rules were internalized in the behavior of the policy elites and the politicians and to some extent this was also true after 1990. So Bill Clinton would say during the 1990s that economic globalization is the economic equivalent of a force of nature. It’s sort of wind and water. You can’t argue with it, it’s here. Or Tony Blair would say that you know debating globalization is like arguing whether fall follows summer. So these were like physical analogies which suggest that there’s these rules that you cannot simply evade.

In principle there was a third model that the trilemma suggests and that would be actually to give up on the nation-state altogether. One could imagine a world in which you have world markets that are embedded in accountability mechanisms that are extra national, that are transnational. So that would be like creating a new United States of Europe, United States of America, on a global scale. In some ways this is perhaps an option that still is on the table for the European Union, in particular the euro zone. Because where the trilemma, in some sense is the most alive and we live through on a daily basis, is in the context of the euro zone. And the euro zone version of the trilemma is that you cannot have European single market and common money, national sovereignty and mass politics, all at the same time. So if you want to maintain democracy in Europe, we do have to have much greater political integration, create European political community, embed European economic arrangements and institutions in a truly transnational European community, or have to live with a kind of world in which we are gradually loosening the economic integration. So either more political integration or less economic integration. And if that choice isn’t made, I think we are left with that golden straitjacket within the continent, within the confines of the European Union.

So that’s the political trilemma. I want to be clear here about the sense in which the trilemma points to a tension between globalization and democracy. I don’t want to argue - and that’s not the argument - I don’t want to argue that the reason that globalization and democracy might be in tension is that global rules constrain domestic policy space. Because that on its own is not what undermines democracy. In the political science there’s a notion of democratic delegation which is that the parliament or the executive might delegate certain powers to an autonomous independent body in order to make democracies actually function better. So there’s nothing inherently wrong with executives or legislators deciding to narrow the scope
of their decision-making. And for that reason some people have argued that delegation to international agreements or to financial markets abroad might first serve the same function of improving functioning of domestic democracies by, for example by limiting the power of domestic special interests or enhancing the quality of democratic deliberation domestically. In fact in the Bretton Woods era, the way that the GATT regime worked, you could have argued that in fact the principles of non-discrimination and transparency multilateralism embedded in that GATT regime was a safeguard against very special interests or rent-seeking bodies or very protectionist groups within the advanced countries. But the problem of course is just because international rules have the potential, if well designed, to enhance the functioning of democratic deliberation doesn't mean that it does so. And I'd like to distinguish in particular between global rules that are designed to address genuine problems of democratic politics, for example circumstances when it makes sense for a democratic executive or legislature to bind its hands to solve what in economics we call the timing consistency problem, that you know what you should do in the long run but in the short run you're always tempted to do the wrong thing. And therefore it might be good to tie yourself to an international obligation or international agreement that prevents you from hurting yourself. Now the issue there is the nation as a whole benefits from that kind of tying yourself to the mast, but I think what we've gotten under post-1990 globalization is largely a sort of global rules that strengthen the bargaining leverage of particular special interests. Big banks, big corporations, big pharmaceutical companies, over the rest of society in a way where global finance and global trade has been used to go around and weaken prevailing social contracts, in a way that global competition could undermine domestic labor standards or environmental rules. The way that the financial markets could be used to limit the space for fiscal policy. The way that international competition for capital could be used to make an argument for lower capital taxation, which would redistribute income to wealthy groups. A couple of years ago a former finance minister from the Eurozone told me in connection to the trilemma, that he says the reason, that the populists are winning in Europe today is that they are the only ones telling the truth about to trilemma in the sense that they are explicit that there is this trade off, they are very explicit also about which of those three nodes they're willing to give up. Which is the hyper globalist node which in the European context is European integration. And that centrist political groups, whether of the center right or the center left, have instead preferred to maintain that you could eat your cake and have it too. That is that - you know - that you could do all these wonderful things. You could - you know - have a healthy democracy and you could have the single market and all the benefits of economic integration, but in fact you weren't giving up on national sovereignty. Now these populists have responded to the trilemma in a
particular way for the right-wing nativist agenda, but I think the history of US populism, and again going back to the 1930s and FDR's New Deal, is to suggest that there's also a progressive alternative to that trilemma. One also - I believe - Polanyi would have preferred: a set of policies that redesign capitalism and the institutions under geared markets in a way that is more inclusive and I think that's sort of the alternative that we're still waiting to develop.

I think when we discuss sort of populism there are these two contending schools of thought that on the one hand people emphasize some of the economic explanations that I've emphasized here: that globalization, the various austerity shocks that have followed the global financial crisis, the consequences for income distribution, employment, wages, economic anxieties and insecurities. But there's also a second school of thought which places much more emphasis on cultural explanations that there is this undercurrent of nativism, anti-immigrant sentiment, racism especially in the United States. The populist reaction we're observing today as well as the conservative backlash against social liberalism, are simply expressions of that. The kind of emphasis that I've placed here on the economic explanations is not the right way to think about populism. I'd like to suggest that it can't possibly be the whole story. It can't be culture or cultural explanations because it begs the question of why now. If US American society is racist, this is a very long history and we have a very peculiar feature of - you know - Trump arising relatively recently. The way to make sense, I think, of these two different kinds of explanations is in some ways to combine them, is to think like an economist. To think that there is a demand side and a supply side. What I mean by the demand side is: where does the popular demand for populism come from? And I think there it is primarily the changes in the underlying economic conditions. Because the changes in income distribution, wealth distribution and economic insecurity that developed after the 1990s with this move towards hyperglobalization was greatly aggravated by the global financial crisis and the austerity policies. That created in all societies, in the United States and Western Europe alike, for a significant amount of discontent and latent demands for new types of policies and a decline in the legitimacy of established politicians and established political movements. But these demands don't come fully formed with programs attached to them. They are incoherent, they reflect unease and you know there's concern and desire for change. What provides programmatic content to these latent demands for change is at the supply side. That is political leaders, political parties, political movements, who come up with narratives, come up with stories about who is to blame, who the other is, how to fix it and what explains exactly all these shocks that you're experiencing. And there we can crudely distinguish between these right-wing versus left-wing narratives. The right-wing narrative, which Europe has experienced
predominantly until very recently, is largely nativist and ethno nationalists. But there's the left-wing narrative, which I've referred to in passing as the late 19th century’s experience in the US or the New Deal of FDR in the 1930s, is one that focuses directly on the centers of economic power, directly on those groups that have written the rules. So in some sense it targets much more directly the sources of the problem.

So let me just talk a little bit, to close, about the types of remedies this approach would take. And I'll say a little bit about globalization and a little bit about the domestic agenda. We can discuss more if there is time later. On the globalization side I think what we need is a thinner model of globalization that as I indicated goes back to the spirit of the GATT Bretton Woods regime which I would argue is or would be also a more sustainable globalization. So the key idea here would be to create a set of traffic rules that allow countries to design their own institutions and to have those institutions not be threatened by international competition or global capital flows or tax competition and so forth. In the specific context of the US-China conflict today, which is probably the most acute conflict in the world economy today, what this approach would imply is that the US and China decide to live and let live. They implement the economic equivalent of peaceful coexistence through which the United States and Soviet Union managed to avoid nuclear war. It wasn't pretty but we didn't get nuclear war. Similarly I think in the economic domain we need a regime where the United States gives up on this claim that it can fundamentally alter China's system of industrial subsidies, its own ways of managing the economy. That it has to understand that China is entitled to its own economic system. By the same token China would have to understand that countries in the West are entitled to their own social safeguards, to their social standards, to their labor market institutions, and to the integrity and security of their technological systems. That China cannot simply assume that it will have free and unconditional and unhindered access to the West and the United States under any and all conditions. I think we do have a significant need for much stronger global governance. But not necessarily in those areas that I've been most concerned with: international trade, international money, international finance. Where we need much more global governance are in areas where there are true global Commons problems or through beggar-thy-neighbor problems. That of course would be fundamentally climate change. It’s the area where this is particularly true.

I think, as much as I've spent most of my time talking about globalization, the fact is that because much of these global rules aren't imposed through external agencies but they are cognitive constraints, they're a frame of mind, that we need similarly a kind of a different
approach in the way that governments and policymakers are willing to run their own domestic economies. And the broad charge here I would say is the charge of reintegrating domestic economies. What I mean by that? Well one of the effects of hyper globalization has been to drive domestic economies and societies apart. Between those who have the connections, the assets and the networks to prosper in a world market and those who don't. So a big charge here domestically is to close that gap. In order to close that gap we cannot rely on the old remedies of either investing more in education, there's pre-production policies, or redistributing more after the fact or post production policies. We will need much more what I call productivist policies that directly target how financial systems work, how production works, how corporations deal with their local communities and with their suppliers, with their workers. A new set of industrial policies except that it wouldn't be limited to industry. It would encompass services as well. That creates frameworks where agencies of the government interact with private sector firms to expand the winner's circle, to ensure the dissemination and transmission of new technologies and good management practices throughout the rest of the economy. That means that business elites will have to internalize a new set of responsibilities from an exclusive focus on globalism to a much greater degree of emphasis on social solidarity. That doesn't mean we don’t have to give up on cosmopolitanism necessarily, but let’s call it “rooted cosmopolitanism”. And political elites in turn have to get out of this hyper globalist mindset and engage in governance practices that provide domestic stakeholders that prioritize domestic stakeholders over footloose companies, financial institutions and professionals.

So let me conclude: I think what hyperglobalization after 1990s has done is that it has produced international economic integration but that international economic integration has come at the cost of domestic disintegration and that would not be a surprise to anyone who is familiar with Polanyi’s work. Reversing that long term is going to require a reintegration of domestic economy and society and a re-ordering of the priorities between the domestic and the international. I think - and this is more really a warning for my economist colleagues - which is that reordering contemporaneously at the time is likely to look a lot like economic populism. It’ll go outside our established conventions of what's good economic policy. Very few economists back in 1931 approved what FDR was doing. Yet of course those policies have become conventional and orthodox since then. I think certain goals of economic populism may in fact be required to forestall what I consider to be a much more damaging kind of populism, which is political populism, which is illiberal democracy practices, that undermines the independence of the media, the independence of the judiciary, and constrains the rights of
minorities. The paradox here is that to avoid that we might need to adopt policies that are going to look unconventionally heterodox in the economics domain that many people will label as populist.

Thank you very much for listening and thank you again for this great honor that you've bestowed on me to give this lecture in honor of Karl Polanyi.

Opening of the Vienna part of the International Karl Polanyi Conference 2019 "Karl Polanyi for the 21st century", hosted at Radiokulturhaus Vienna, on May 3rd, 2019