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Source: *The Brown Journal of World Affairs*, Winter/Spring 1997, Vol. 4, No. 1  
(Winter/Spring 1997), pp. 299-318

Published by: Brown Journal of World Affairs

Stable URL: <https://www.jstor.org/stable/24590094>

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# The Great Transformation Revisited<sup>1</sup>

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*Our thesis is 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 of society; it would have physically destroyed man and transformed his surroundings into a wilderness.*

Karl Polanyi, *The Great Transformation*<sup>2</sup>

Somewhat more than fifty years have passed since Karl Polanyi, writing during one of the greatest conflagrations human civilization has known, penned those words. Polanyi's book has been regarded as one of the classics of modern political economy ever since. In *The Great Transformation*, Polanyi sought to explain why the twentieth century, not even half over, had already been torn by two great wars. Where most blamed Germany, Japan, and the Great Depression, Polanyi found an explanation in the dreams and failures of nineteenth century *laissez faire* capitalism and the market processes originally set in motion by Great Britain as far back as 1800. It would hardly seem likely that a fifty-year-old book critiquing events of 150 years earlier would have anything to say to us about the twenty-first century, yet many of the same phenomena examined by Polanyi are, once again, at work today. The thrust of this essay is that we have entered a period when the history of the Industrial Revolution and the events that followed merit close scrutiny for parallels with contemporary conditions. The implications for world politics of such a claim are, to say the least, not all pleasant.

The nineteenth century was a time of social and technological innovation and reorganization at a scale theretofore not experienced by anyone. The Great

Transformation led directly to the emergence of the modern nation-state as an active political and economic player in people's everyday lives as well as an aggressive agent in international relations. As the twentieth century comes to a close, we are living through a similar period of social and technological innovation and reorganization at the global level—a phenomenon many people call “globalization”—and we might expect that, as has happened in the past, unanticipated political consequences might follow. As I will suggest below, these consequences may be violent or peaceful, integrative or fragmenting, and bring prosperity to some but poverty to others. For the moment, the future remains cloudy. At some point during the coming century, however, new patterns of global politics will become clear. We may then be able to look back and say, with some degree of certainty, how events during the second half of the twentieth century led to the new patterns of the twenty-first.

I begin with a general discussion of industrial revolutions and their impacts within national societies and on relations between them. I then turn to an analysis of what I call the “Cold War Compromise.” In the aftermath of the two world wars, a concerted attempt was made to avoid reproducing those conditions that had led to the wars. The Compromise was the United States' attempt to steer the global political and economic system towards stability and prosperity by reproducing, as much as possible, domestic conditions abroad. As we shall see, the Compromise was largely a success, but has had quite unanticipated consequences. I then describe the origins of the Third Industrial Revolution—the Information Revolution—in the great applied science projects of World War II, and how the mobilization of knowledge in the pursuit of a better world has, paradoxically, served to undermine the very welfare state that gave birth to it. Next, I argue that, even as the contemporary nation-state is downsizing in the interest of reducing social costs, demands for a social safety net have not disappeared, and may be giving rise to a form of global governance that both incorporates and supersedes the state as we have known it for the past two centuries. Finally, I offer some ideas about the impacts of this Great Transformation on the state, national security, and world politics. My conclusions are not necessarily optimistic, progressivist, or teleological; not everyone will be better off as a result of the changes under way. But, if we are even vaguely aware of what is to come, perhaps we can do a better job during the next century than we have during the one that is almost over.

### **What Are Industrial Revolutions?**

The causes and consequences of the social, political, and economic changes and seemingly continuous disorder and violence—interstate and intrastate—that wracked Europe between 1750 and 1850 remain the subject of vociferous contention.<sup>3</sup> For some, it was the mechanization of industry—what we now call “industrialization”—that was central; for others, the transition from merchant capitalism to manufacturing and finance; for still others, it was the destruction of

the old post-Reformation hierarchical order by the Enlightenment and the French Revolution. Polanyi's argument was somewhat more subtle. He claimed that there was, in effect, a structural mismatch between the emerging system of capitalism, existing social values, and social relations of production. The enormous investments made in the new factory system by holders of capital required workers, and they were not forthcoming. The solution to this state of affairs was what we call today "liberalization": the introduction of a self-regulating market economy in which labor, land, and money became "fictitious commodities" to be bought and sold without any kind of obvious political manipulation (although, paradoxically, such liberalization required major intervention and regulation to be effective).<sup>4</sup> This would ensure that the three commodities be available at least cost to capital, maximizing returns on investment and generating the funds needed for further national economic expansion.<sup>5</sup>

At the beginning of the nineteenth century, however, society was not organized to facilitate the operation of such a market system; labor, land, and money were hedged about with all kinds of restrictions in terms of use and sale. Indeed, the social organization of people's lives was such that they had few incentives to leave the land or enter unregulated labor markets. The first stages of capitalist production had already been in existence for some time, especially in the production of woven goods, but these were mostly made through the cottage industry "putting out" system in weavers' homes. The marriage of water and steam power with industry, dating from the late eighteenth century, made it possible to run multiple looms at one time in one place, with laborers working for a daily wage under the direction of a few on-site managers. The problem was: how to get the weavers out of their homes and into the factories? The answer was, in effect, to destroy the social support systems that enabled them to stay at home.

This was the historical context in which the first stage of the Great Transformation was initiated. England, which had operated under principles of mercantilism for some 150 years, made the transition to a self-regulating market system, free trade, and the gold standard.<sup>6</sup> Lands held as commons or bound to particular uses by other rules were transformed into alienable private property (a process that had begun some 150 years earlier and, more recently, has been written into the Mexican constitution as well). The Poor Laws, which had functioned to depress wages and pauperize the common people, were repealed and replaced by the "workhouse" and competitive labor markets that threatened to undermine all residual social solidarity. Polanyi dated "industrial capitalism as a social system" from 1834, the date of the Poor Law Reform. As he put it, "[Now] man was detached from home and kind, torn from his roots and all meaningful environment." Karl Marx, speaking more poetically in 1856 on this same transformation, observed that "all that is solid melts into air."<sup>7</sup>

By mid-century, what had begun in England had been repeated throughout much of Western and Central Europe, with attendant consequences. Technological innovation in the wake of industrialization exposed the inefficiencies of

the old order and led to political legislation that would reorganize social relations. But such reorganization was not cost-free to ruling elites; it threatened the social stability that had been laboriously reestablished through repressive means and the balance of power after 1815. The Concert of Europe was able to keep interstate peace, more or less, but it was hard-pressed to address the domestic turmoil and disruption that followed domestic restructuring. The newly-emerging middle classes, heretofore largely excluded from political participation, saw their prospects under threat and began to agitate for political and economic reform that would give them both a say and a stake in the state. The Revolutions of 1848 were, in part, a result of this agitation. Nationalism and what later came to be called the welfare state, emerged from this crisis as deliberate political interventions designed to address domestic political instability. Together, the two could be seen as a form of Lockean “social contract”—nationalism representing the commitment of citizens to the well-being of the state, and welfarism the commitment of the state to the well-being of the citizen. To a considerable degree, such mutual obligations helped to temper the social disruption caused by the self-regulating market system.

But this contract also, according to Polanyi, set the scene for the outbreak of World War I. The problem was that nationalism set states against one another, as emerging doctrines of geopolitics combined with forms of Social Darwinism rooted in Charles Darwin’s ideas about natural selection, and extended from individual organisms as members of species to nations. As John Agnew and Stuart Corbridge have argued:

Naturalized geopolitics [from 1875 to 1945] had the following principal characteristics: a world divided into imperial and colonized peoples, states with ‘biological needs’ for territory/resources and outlets for enterprise, a ‘closed’ world in which one state’s political-economic success was at another’s expense..., and a world of fixed geographical attributes and environmental conditions that had predictable effects on a state’s global status.

According to German philosophers, states could be seen as “natural” organisms that passed through specific stages of life. Thus, younger, more energetic states would succeed older, geriatric ones on the world stage. States must, therefore, continually seek individual advantage in order not to succumb prematurely to this cycle of Nature. According to Simon Dalby,

[S]tates were conceptualized in terms of organic entities with quasi-biological functioning. This was tied into Darwinian ideas of struggle producing progress. Thus, expansion was likened to growth and territorial expansion was *ipso facto* a good thing.<sup>8</sup>

The point I wish to make here is not that the first Industrial Revolution led, ultimately, to the world wars of the twentieth century, although that is essentially Polanyi's argument. Rather, my argument is that modern capitalism was made feasible only through massive, pan-European social innovation and reorganization. When the first industrial entrepreneurs discovered that they could not entice labor out of their homes and into the factories for a full day's work, they found ways of forcefully changing the family and social structures that, in the towns and villages, provided some degree of social support even in the midst of privation. When, later in the nineteenth century, agitation by workers over low wages and undesirable working conditions led to the first unions that elites saw as a threat to state and economy, new regulations and incentives were put in place to once again force a restructuring of social units while buffering labor and society against some of the worst features of industrial capitalism. Even so, according to Polanyi, these were not enough, and states found it necessary to protect their citizens from the excesses of the system, transmitted through the ups and downs of the business cycle. Governments responded with growing degrees of protectionism, imperialism, and neo-mercantilism; competition and mutual suspicion led to arms races and mutual hostility; eventually, World War I broke out. Efforts to restore some semblance of an international market system in the 1920s resulted in a similar sequence of events in the 1930s, contributing to the outbreak of World War II in the 1940s.

### **The Cold War Compromise**

Polyani's book appeared in 1944, the year that Allied planners gathered at Bretton Woods, New Hampshire, to put together a plan for a post-war economic system.<sup>9</sup> They were aware of the problems he discussed, recognizing the inherent tension between states trying to reconcile their participation in an international economy with the need to maintain political satisfaction at home; this, after all, had been the dilemma faced by both Allied and Axis powers during the 1930s. Hence, the post-war system John Maynard Keynes, Harry Dexter White, and others designed was meant to allow countries to maintain full domestic employment and growth while simultaneously avoiding the consequences for domestic stability of trade imbalances and unregulated capital flows. This was to be accomplished through free and stable exchange rates maintained by borrowing from and lending to the International Monetary Fund (IMF), the provision of longer-term liquidity through reconstruction and development loans from the World Bank, free trade regulated by an International Trade Organization (ITO), and dollar-gold convertibility to provide an international medium of exchange.<sup>10</sup> The Bretton Woods arrangements failed almost from the start, as efforts to restore convertibility of the pound sterling collapsed because of insufficient liquidity and the international preference for dollars. Currency convertibility was, consequently, put off and not realized until the late 1950s. Both the IMF and World Bank were under-



capitalized. The ITO never came into existence, although the GATT provided something of a substitute.

The compromise of “embedded liberalism,” as John Ruggie has put it, nonetheless remained on the books. Embedded liberalism involved a commitment to the principles of nineteenth century economic liberalism, but a recognition that a rapid return to such a system might well recreate the conditions of the

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### **The development of the atomic bomb signalled the beginning of the end for Fordism.**

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1930s. Inasmuch as full-blown liberalization was politically impossible in 1944, the Western allies agreed to move in the direction of a fully liberal system over time. There would be

a gradual transition from a more protectionist and neo-mercantilist world to a more liberal one, in which “self-regulating markets” would be gradually established through negotiations among states.<sup>11</sup> This more-or-less implicit agreement was greased by the dollar transfers resulting from the Truman Doctrine, the Marshall Plan, the Korean War, and the Mutual Defense Act (later to become the U.S. Agency for International Development). Full convertibility of Western currencies arrived in 1958, and successive GATT rounds did serve to dismantle many of the protectionist barriers that had been put up in the aftermath of World War II.

Although it is generally argued that the purpose of the Cold War liberalization project was both defensive and economic (as the conventional and revisionist accounts would have it), this is not quite correct.<sup>12</sup> Rather, the intention was to reproduce domestic American society, as much as possible, the world over. The implicit reasoning of U.S. policymakers, although specious and faulty, was that stability and prosperity in the United States are made possible by capitalism, democracy, prosperity, freedom, and social integration. If such conditions could be replicated in other countries, everyone could become like the happy Americans. They would not threaten each other, they would not fight each other, and the world wars of the twentieth century would not exceed two.<sup>13</sup> Whether or not the U.S.S.R., the Warsaw Pact, and miscellaneous radical regimes in the developing world posed a mortal threat to this project is irrelevant here; the existence of the Soviet Bloc did, however, provide an external enemy that motivated fractious allies to compromise on liberalization, even when it was not to everyone’s taste or benefit.

This ambitious project of liberalization from above came to an end in the late 1960s. Throughout the 1940s and 1950s, the economy of the Free World ran largely on the dollars that the United States was able to spend or transfer to its allies, which helped to maintain high levels of international liquidity and growth. Already in the late 1950s, Robert Triffin warned that this state of affairs could not continue, because other countries would only want to hold a limited number of excess dollars, and they might demand more gold in exchange than the United

States had squirreled away in Fort Knox. The expenditures associated with the Vietnam War only hastened the day when dollar-gold convertibility would have to end. That day arrived in 1971.<sup>14</sup> Not altogether coincidentally, it was during this same period that President Nixon pronounced the Nixon Doctrine: countries would, in the future, be expected to provide for their own defense rather than relying on the United States. It was also during these years that the oil-producing countries finally began to demand higher prices for their product so that they could purchase the weapons and technology needed to implement this doctrine. Consequent oil embargoes, price hikes, gas lines, and inflation were all part and parcel.

But these events and consequences might not have been the most notable thing going on during the 1960s and 1970s. There was another, much more subtle, process underway whose significance had not really been noticed at the time, but that could be traced back to World War II: the beginning of the third industrial revolution, or what we today call the “Information Revolution.” Prior to 1945, the economic systems of the industrialized countries were organized around consumer-oriented mass production, or Fordism. Fordist production was especially widespread in the United States during the 1920s and 1930s, and emulated throughout the world, although it faltered during the Great Depression as the supply of goods and raw materials outstripped the ability of domestic and foreign consumers to buy them. The Allied victory in World War II, based on such mass production, only reinforced the virtues of this type of economy. Consequently, at the end of World War II, factories converted back to civilian production and, after a few ups and downs of the business cycle, Keynesian military spending ensured that consumers would be able to purchase the products turned out by the factories with the wages they earned making the goods.

The atomic bomb changed all that. Bernard Brodie became famous for observing that, with the advent of nuclear weapons, everything had changed and the only function of the military would now be to prevent future wars.<sup>15</sup> He did not, however, recognize that the development of the atomic bomb also signalled the beginning of the end for Fordism, marked by a subtle shift from production based on material capabilities to a system driven by intellectual ones. The advent of the Information Revolution coincided with the birth of the “Nuclear Revolution,” just as the first Industrial Revolution had its roots in steam technology developed decades before 1800 and just as it had coexisted for some time with the putting-out system. The change did not come suddenly. Indeed, the initial American approach to defense and deterrence was to mass-produce atomic and hydrogen bombs, as well as other military equipment, so as to replicate the winning strategy of World War II. Nonetheless, in the aftermath of the successes of the Manhattan Project and other state-funded wartime projects, a new model of scientific research *and* production emerged, based on what is often now called “human capital.”

Science became highly institutionalized; directed research and develop-



ment became essential to maintaining the technological and military edge over competitors; and educating the workforce into the intellectual tools of this new world became essential. Technological change and social innovation once again came into play in the service of the state. Education itself was transformed, as it became clear that traditional rote learning was appropriate to creating a “cannon-fodder” citizenry but could not provide the critically and scientifically trained cadres needed in this new era of U.S.-directed global management. The system of higher education was expanded many-fold. A college degree became a prerequisite to advancement and mobility out of the working class and into the middle class. And, because intellectual ability and competence were not distributed by class or race, it was also necessary to provide access to women as well as minorities.<sup>16</sup> Finally, just as had been the case in the early twentieth century, the behavior of the leading country was followed by others. Governments and elites sent their children to the United States to study, and established educational and scientific systems that would keep them in the competitive running, if not in the lead.<sup>17</sup>

### **The Revolution at Home**

Left to its own devices, the Information Revolution might have gone nowhere. Just as the steam engine would have remained a useful device with limited application without the impetus of markets and profits, the dynamic of capitalism, plus political and economic instability, were required to really get this latest industrial revolution off the ground. That these elements were necessary is best seen in the trajectory and fate of the Soviet Union, which was able to engineer the first steps and acquire advanced military means, but was unable to move on to the social innovation necessary to reorganize the productive process.<sup>18</sup> In the United States, the education of a mass cadre of citizens during the Cold War, and the erosion of the political legitimacy of the state and public protests during the 1960s were two key parts of this process; the erosion of American economic domination was the third.

The political upheavals of the 1960s had their origins in the extension of American national interest to all parts of the globe during the 1940s and 1950s, and the resultant growth in higher education. The expansion of interests meant that specialized knowledge about foreign societies, and their cultures, politics, and economics, were essential if the Free World was to be managed for the benefit of the United States. The result was a demand for specially trained individuals to staff embassies, the State Department, and other agencies—at home and abroad—who could deal with foreign affairs and comparative politics. And, as noted above, the emergence of a scientific problem-solving paradigm as the dominant model for managing the new global system generated a need for large numbers of individuals trained in a variety of scientific disciplines. Growing numbers of highly skilled individuals were thus trained and graduated, with the expectation that

they would participate in projects addressing social as well as scientific matters. This growth in educated cadres was not limited to the United States because the American university model was universalized. Foreigners were encouraged to come to the United States—their way and tuition were often paid by the U.S. government, as in the Atoms for Peace program—to acquire the skills and training necessary to rationalize their own societies and make them more like America. Other countries began to recognize the prestige and political benefits inherent in systems of higher education, as well as their need for trained individuals in order to compete in this new global system.

In many countries, including the United States, new graduates expected to find employment after college with their own national and state governments, state-owned and defense-related private industries, or higher education. For some decades, this was generally the case. At some point, however, the supply of competent individuals began to exceed the demand for their skills. Moreover, as the failure in Vietnam demonstrated during the 1960s and 1970s, even the government's mobilization of expertise in the pursuit of national security objectives might still lead to manifestly negative outcomes. The result of the Vietnam fiasco was a serious challenge to the legitimacy of Cold War politics and the breaking open of the culture of expertise, with all of its hegemonic restrictions on opposition to the "dominant paradigm." Competing centers of expertise, skills, and knowledge began to appear, epitomized in, for example, the proliferation of think tanks and non-governmental organizations of the right and left in the United States and abroad. These centers came to represent a system parallel to that of the state's analytical capabilities, providing "symbolic analysis," as Robert Reich puts it, to all levels of government and society.<sup>19</sup> Indeed, it is paradoxical that even as the Great Society was increasingly excoriated for its domestic policy failures, conservative and liberal think tanks were only too happy to rush in with new policy advice.

The economic turmoil of the 1970s, driven by the end of fixed currency exchange rates, oil price hikes, recession, and inflation, provided the impetus to innovation and reorganization in manufacturing—for example, in the shift from large, gas-guzzling cars to smaller, more fuel-efficient foreign ones—and the emergence of the "new international division of labor." Of greater importance in this transition were the growing social costs of the welfare state, which capital saw as a drag on profits; and the fact that America's allies had successfully followed, and sometimes surpassed, the leader in terms of technological and social innovation. This should not have come as a surprise, but it did. (Indeed, it is important to recognize that the post-war economic development of Japan and Germany represent major successes of U.S. foreign policy!) Reestablishing economic growth rates and profits thus required a reorganization of social relations and relations of production, although this was not so evident in the 1970s and 1980s. Nonetheless, one result of this turmoil was that growing numbers of women and minorities began to enter the workforce. They needed the money since their incomes

were subject to high rates of inflation during the 1970s and then came under pressure as the recession during 1981 and 1982 began to bite; they commanded lower wages relative to white men; and they turned out to be good marketing tools for corporations seeking new consumers. Alternative life-styles and new family structures became more acceptable, partly because of social innovation, partly for economic reasons. Middle class minorities acquired heretofore unheard-of purchasing power. Gays and lesbians came out in growing numbers in response to the process of social innovation and because they offered an attractive niche market for new products and services.

By the 1980s, this new transformation was in full swing. The conservatism of Ronald Reagan was often seen as a backlash against the cultural and social change fostered by the innovation process, but it is difficult to argue that the Reaganauts did anything to slow it down. Quite the contrary: Reagan's economic

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**Attack the legitimacy of your social system, and there is no end to the destruction that might follow.**

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policies had just the opposite effect on American society and the rest of the world. The recession during 1982 and 1983 had devastating effects on Rust Belt industries in the United States and abroad. Liberaliza-

tion, de-industrialization, privatization of the state, and the rise of finance capital actually worked to undermine families, as self-interest became the sure path to success, and parents and children became inculcated with a "what's in it for me?" sensibility. The road to profit was clearly marked, and it did not involve fostering any kind of sense of social or even familial solidarity. Spatial mobility was the key to upward mobility and, for some, the traditional nuclear family became an albatross. Adam Smith believed in the power of the "invisible hand," but he also expected that religious and social values would restrain people from uncontrollable self-interest—he never reckoned with mass secularization, rampant consumerism, and the social indifference it fostered.

It should come as no surprise then that Pat Buchanan declared a "culture war" from the podium of the 1992 Republican National Convention. Such a conflict had been brewing for years.<sup>20</sup> What was surprising (and continued to be so), perhaps, was that Buchanan and others blamed "liberals," rather than unregulated capitalism, for what they saw as posing a challenge to American society. To have done so, of course, would have been to reveal to the listening public that the new economic system is not—indeed, cannot—be fair to everyone. To have done so would have been to repeat the fatal mistake of Mikhail Gorbachev when he announced that the Communist Party of the Soviet Union was no longer the vanguard of truth: attack the legitimacy of your social system's ideology, and there is no end to the destruction that might follow.<sup>21</sup> It may happen, anyway, if the parallels between today and Polyani's Great Transformation are of any relevance. There are three notable similarities.

First, although it can hardly be said that there was a welfare state in England in 1800, forms of support for the poor did exist. These, as Polanyi and others pointed out, served to depress wages to the benefit of capital and also, it was argued, made it more attractive for people to go on relief than to work—where have we heard such arguments more recently? Second, the privatization of various forms of public property and commons was deemed necessary to foster wider markets and provide the labor pool necessary for industrialism to develop. There are not many peasants left in the United States, but the downsizing and the dismantling of the state and the drive to make corporations “meaner and leaner” has eliminated the social safety net and job security, both of which could be thought of as forms of property rights guaranteed to workers. The result has been to inject millions of college-educated but no-longer-appropriately-skilled mid-level managers and civil servants into what is already a highly competitive labor market in which most job creation is either in the lower-wage service sector or in areas for which they cannot qualify. Third, as people find it necessary to move to where the jobs are, families and such other social support systems as still exist in this country are being weakened. Those who cannot move are left behind or thrown out on the streets.

A more interesting parallel is the creation of new fictitious commodities similar to the labor, land, and money of the Great Transformation. The first is embodied in the concept of “human capital” (or “human resources”). During the first Industrial Revolution, people were forced to sell their physical strength, during the second, their manual skills. Now, the premium is placed on intellectual strengths and skills and an individual’s ability to process and package information in ways that can be commodified and sold for premium prices. Hence, the second fictitious commodity is information and its transformation from a commons into “intellectual property.” While information and knowledge have long been bought, sold, and stolen, this has usually occurred in concert with the production and consumption of material goods. Today, however, even raw data on individual habits and behavior can be turned into property and sold.<sup>22</sup> Finally, the third fictitious commodity is expansive consumer credit, or what we might call “post-money.” Whereas the monetization of the English economy was a necessary prerequisite to undermining the barter and exchange of goods; the creation of “post-money” eliminates the need for face-to-face transactions, inherent value in coinage, or the guarantee of legal tender of paper by governments. “Post-money” appears virtually *ex nihilo* as physical and intellectual properties are securitized, as stocks rise on the strength of no apparent material causes, and as individual credit lines are magically increased.

Of course, not everybody can participate in this new system of fictitious commodities because they cannot gain access to them for lack of the required qualifications. Stephen Gill has pointed out, moreover, that such access is a prerequisite for citizenship in contemporary liberal democracy:

[T]he substantive conception of citizenship involves not only a political-legal conception, but also an economic idea. Full citizenship requires not only a claim of political rights and obligations, but access to and participation in a system of production and consumption.<sup>23</sup>

This, he argues, acts to discipline and socialize consumers, beginning in adolescence. Failure to meet the terms of economic citizenship—a good credit record—means social marginalization, and the threat of such exclusion keeps consumers in line. The result, Gill says, is the replacement of “traditional forms of discipline associated with the family and the school” with market discipline. In this way, the workers of the world of the future are bound into the new global economy.

Whether this third Industrial Revolution is, as yet, at its peak is anybody's guess (Paul Krugman has suggested that it will take at least fifty years to mature fully).<sup>24</sup> Two things, however, are clear. The social innovation that has undermined the material basis of American society—and much of the rest of the world—cannot, for better or worse, be stopped. It is a global phenomenon that some societies are carrying out better than others, but to quit the race would be to return to some form of neo-mercantilism and severe economic contraction. This would play neither in Peoria nor on Wall Street. And, this Great Transformation is likely to be as severe as, if not worse than, the one that wracked Britain in the first part of the nineteenth century. Not everyone will suffer, of course; just as some did extremely well by the first Industrial Revolution, so will many benefit from this one. There will emerge a global class of the better-off (numbering perhaps 1 billion, if that much) and a global class of the poor (8 to 10 billion). If things work out, there might even be a global middle class that will provide its bourgeois support to this new global order.

### **The State is Dead! Long Live the State!**

Polanyi observed that the self-regulating market was an ideal that could not really exist, lest it destroy human civilization. The two world wars almost accomplished this task (and the third world war that never happened, but might yet, would surely do so). But therein lies also a central paradox: the liberal economy cannot exist without rules. Indeed, markets require rules in order to function. The economy of the nineteenth and early twentieth centuries was regulated, if only by the constraints of the gold standards and the resultant behavior of financiers in London and New York. Even today, with global liberalization well under way, markets are hardly self-regulating. While “deregulation” is the mantra repeated endlessly in virtually all national capitals and by all international capitalists, it is domestic deregulation that they desire, not the wholesale elimination of all rules. Deregulation at home creates lower-cost environments in which to produce, but deregulation everywhere creates uncertainty and economic instability. Hence, transnational regulation and global welfarism—the successors to Bretton Woods—



are becoming increasingly important in keeping the system together and working. The difficulty with the globalization of rules is determining what rules and whose rules. And who pays for them? Even more problematic to determine is who decides and how.

In the late nineteenth and early twentieth century, the first steps toward globalization were brought to a halt by national governments and elites who saw threats to their autonomy and prerogatives; the same pattern followed in the 1930s. Some economists decry the protectionist trends they see developing in trade relations among the industrialized economies, warning that we are going down the same path we have trodden before.<sup>25</sup> Perhaps they are correct, although it is interesting that those who threaten “trade wars” have, so far, backed down at the last minute. It is not beyond the realm of possibility that competitive geopolitical blocs might re-emerge in the future, as feared by some observers of the European Union, NAFTA, and the incipient Asian Co-Prosperty Sphere. There is, however, enough residual collective memory—and the World Trade Organization—to suggest that this outcome might be avoided, or even that contemporary international economic relations bear little if any resemblance to the 1930s.

Another alternative does present itself but, to explain that one, we need to look not at material factors or institutions, but to the progenitors of ideas. Michael Mann, an English sociologist (now at UCLA), has drawn on the writings of Antonio Gramsci, an Italian Communist imprisoned by Mussolini during the 1920s, to explain the emergence of national states in Europe and North America during the 1700s and 1800s, and the economic, political, and social revolutions and changes that took place throughout the “long” nineteenth century. Put briefly, Mann saw the rise of what Gramsci called “organic intellectuals” as central to the transition from royal to popular sovereignty, playing an essential role in the creation of the modern state. These organic intellectuals filled a discursive role in a gradual process of social change, by developing and articulating the ideas and practices that animated the political and social upheavals of those times. Mann observes that, while material interests and needs were always central to popular mobilization, emotional and ideational incentives were as important, if not more so. More than this, these ideas and arguments were framed in terms of “progress,” promising a better future through political, economic, and social reorganization. Nationalism, liberalism, socialism, and other “-isms” that reified the strong state were produced by these organic intellectuals. Without them communicating their arguments and putting them into practice, the nineteenth century might have been a much quieter time. As it was, the centralized nation-states that have dominated world politics for the past century were, for better or worse, legitimated by the ideas of these intellectuals, if not constructed by them.

Today, these same nation states are caught in a contradiction of their own making. On the one hand, they are decentralizing, deregulating, and liberalizing in order to provide more attractive economic environments for financial capital. On the other hand, as they do so, the safety net provided by the welfare state is



being dismantled. That safety net, it should be noted, includes not only assurance of health and safety, environmental protection, public education, and so on, but also standard sets of rules that “level the economic playing field” and ensure the sanctity of contracts, the latter two both desired by capital. As deregulated capitalism works its way on national economies, the playing field develops pits, holes, and undulations, and the distribution of wealth across countries, groups, and classes becomes less even; this, as might be expected, can pose political problems both domestically and internationally. In particular, groups of small-scale fixed capitalists and property owners in the United States chafe under the weight of environmental and other regulations, and politically they are quite potent in many other industrialized countries, too. But individual countries cannot move to re-regulate because there are strong interests who benefit from deregulation. To reimpose political management might also be to give up a competitive advantage to other countries’ firms.

The future does not, however, lie with petty capitalists—they are, generally speaking, of little interest to Wall Street and are rarely a locus of technological and organizational innovation. Profits are to be found in the high-tech and information industries, in transnational finance and investment, and in flexible production and accumulation. This means looking beyond national borders for opportunities in, as Ken Ohmae put it, “the borderless world.”<sup>26</sup> The problem is that the transaction costs associated with having to deal with 50 or 150-odd sets of national regulations can be quite high. These high tech, financial, and transnational sectors would, therefore, prefer to see the playing field made level *across* countries—preferably as inexpensively as possible, but level nonetheless—through single sets of rules that apply to all countries, as is supposed to be the case within the European Union.

Although it is often argued that there is no global government, and that such regulatory harmonization is not only difficult but also unfair, global rules have been and are being promulgated all the time.<sup>27</sup> The General Agreement on Tariffs and Trade, and its successor, the World Trade Organization, provide examples of regulatory harmonization of benefit to capital. The Montreal Protocol on Substances that Deplete the Ozone Layer is a regulatory system designed to harmonize rules governing ozone-damaging substances. The Comprehensive Nuclear Test Ban Treaty is intended to regulate the use of atomic bombs by all signatories. The human rights regime is meant to set a standard for the fair and just treatment of citizens by their states as well as their fellow citizens. International meetings such as the Conference on Population and Development in Cairo aim at the promulgation of a globally-shared set of norms and rules. And even international financial institutions, such as the World Bank, are becoming involved in the provision of health and welfare services, albeit as supplement to the large-scale projects they traditionally support.

Indeed, the raft of regimes and international institutions associated with the United Nations system constitutes something of an incipient global welfare

system (even though there are many holes in this “safety net”). As such, it serves two critical functions. First, it provides global norms and rules that are meant to apply everywhere (even though these standards are sometimes less rigorous than the citizens of particular countries would like, and enforcement remains problematic). Second, it allows national governments to tell their citizens that they have no control over the content of global regulatory systems, and that domestic politics must not be permitted to intrude into the functioning of these rules. There is political intervention into the market system here, but it takes place out of the reach of domestic interest groups, lobbyists, and logrolling. The absence of accountability on the part

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**The post-war project of economic globalization has shifted the discursive locus of sovereignty from the state to the individual.**

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of these global institutions is not so easily shrugged off, although questions are being raised about this matter. Nevertheless, we have here the beginnings of global governance (and taxation) without representation. Organic intellectuals are playing a central role in this process. They do this, in the examination of these phenomena and the articulation of their significance, by eschewing determinism and offering alternative conceptualizations of how things might be done, in the transfer of knowledge and practice via national and transnational coalitions, alliances, and communications, and by way of creation of the organizations and institutions that propagate these notions and carry them to various levels of government and governance. In this way, the architecture of future world politics is emerging in the interstices of the current world system, just as the state system and capitalism grew out of feudalism 300–400 years ago.

### **What Does This All Mean?**

What are the implications of these changes for state, society, citizen, and security? The post-war project of economic globalization has, perhaps unintentionally, shifted the discursive locus of sovereignty from the state to the individual. The state retains a dominant position in terms of military force, economic management, and so on; but for capitalism to grow successfully beyond the bounds of national markets and become truly global, social innovation must be allowed to take place across all kinds of borders. This can happen only if individuals (and the corporations and organizations they represent) are allowed untrammelled access to all parts of the world and can be assured that they will not be expelled, thrown into jail, or killed if they wander outside of their own countries. Not all governments follow this line, but this result is that global innovation is likely to bypass those that don't. Those places that, for one reason or another, find themselves excluded from this process of globalization are also strong candidates for recidi-

vism and reaction. The former Yugoslavia is a good example.<sup>28</sup>

Even countries in the thick of globalization, and reaping extensive benefits from it, are not very comfortable with its implications. The movement of peoples across borders in the interest of social innovation provides access not only to those seeking work, but some who might have other agendas. As we saw in the reactions to the Oklahoma City bombing in 1994 and the crash of TWA Flight 800 in July 1996, the initial impulse was to blame bombs and missiles in the hands of “foreign terrorists,” although subsequent evidence suggests this was not

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**The old threats were countries with bombs; the new threats are individuals with mail privileges.**

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the case. The United States government has, nevertheless, taken advantage of the fear generated by these and other incidents to engage not only in greater global

activity against real or purported terrorists but also to increase the surveillance of its residents—as seen, for example, in the recent anti-terrorism legislation passed by Congress and signed by the President. Not only will airline travellers and their baggage be subject to greater examination in terms of recent whereabouts and contents, their prior activities may be scrutinized in order to determine whether they fit potentially-dangerous “profiles.”<sup>29</sup> The old threats were countries with bombs; the new threats are individuals with mail privileges. The old threat to communications was the electromagnetic pulse from exo-atmospheric nuclear detonations; the new threat is computer hacking, whether by “rogue” states or bored college students. The old threat was communist subversion; the new threat is juvenile subversion attributable to the World Wide Web. The old threat was aggressive dictators; the new threat is abusive parents. As countries lose sovereign control over their borders and the possibility of managing the movement of people, goods, and ideas, they seem to be focusing more closely on the new subjects of transnational sovereignty, individuals, in the hope that keeping a watchful eye on such free subjects will serve also to discipline them. This is, most probably, a vain hope: people are very clever, and only the inept—who are not very dangerous—get caught.

In one sense, the realist mantra—“The world is a dangerous place”—is correct. Life is full of risks; it always ends in death. There is probably an asteroid somewhere out in space with Earth’s name written on it. We should ask, however, “dangerous for whom?” More dangerous, perhaps, for those who would manipulate people and politics, as we see in another literary classic, this time a fictional one. Toward the end of Eugene Burdick and Harvey Wheeler’s classic Cold War novel *Fail-Safe*, the President’s advisor on nuclear strategy, Harvard Professor Walter Grotteschele (a character modeled on Herman Kahn and Henry Kissinger), contemplates his future following the thermonuclear annihilation of Moscow and New York City and the consequent likelihood of an end to the arms race between the two superpowers:

Groteschele swung his attention to what his future work would be. If there were drastic cutbacks in military expenditures many businesses would be seriously affected; some of them would even be ruined. A man who understood government and big political movements could make a comfortable living advising the threatened industries. It was a sound idea, and Groteschele tucked it away in his mind with a sense of reassurance.

The world is a dangerous place for states and *their* security, it would seem; whether it is so dangerous for the rest of us requires a good deal more scrutiny than the matter has, so far, been given. But this suggests another happier possibility. In the last chapter of *The Great Transformation*, Polanyi pointed, once again, to the way in which the loosing of the self-regulating market on nineteenth century society in the interests of certain elites led to the inevitable destruction of that society:

Nineteenth century civilization... disintegrated as the result of... the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market.... [T]he elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society. External wars merely hastened its destruction.<sup>30</sup>

He nonetheless ended on an optimistic note, foreseeing after the war “economic collaboration of governments *and* the liberty to organize national life at will” (a formula that sounds much like embedded liberalism).<sup>31</sup> This would require freedom to be extended and maintained under unbreakable rules:

Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all. Freedom not as an appurtenance of privilege, tainted at the source, but as a prescriptive right extending far beyond the narrow confines of the political sphere into the intimate organization of society itself.<sup>32</sup>

How might this be accomplished under contemporary circumstances?

Recall the earlier discussion of the “organic intellectuals” of centuries past, and the role they played in the emergence of the modern democratic nation-state. As I suggested earlier, we see a transnational cadre of organic intellectuals filling a similar role in the development of systems of global governance that could come to supplement many of the functions formerly provided by the shrinking welfare state. These organic intellectuals are also playing what is, so far, a rudimentary representational role in this process. Indeed, just as modern democracies came into being in a symbiotic relationship with their domestic civil societies, so is this emergent system of global governance coming into being in concert with a “glo-

bal civil society.” Elsewhere, I and others have written about the form and function of this global civil society.<sup>33</sup> Here I want only to make clear that this is neither a teleological nor a progressivist argument. The emergence of global governance and a transnational welfare system could serve the interests of a narrow stratum of political and economic elites and prove profoundly conservative and reactionary. The result might be a repetition of previous catastrophes, as the pain of globalization bites deeply.<sup>34</sup> There are disquieting trends to which one can point—such as the globalization of surveillance through information technologies mentioned above and struggles to construct new, albeit bankrupt, states. Still, the future is not (yet) etched in stone.

In keeping with Polanyi’s hopes for the post-war period, however, we could also be witness to the democratization of societies and states through mechanisms of global governance and the emancipation of peoples and cultures as states lose their historical roles as defensive containers. The path to emancipation will require our active involvement at all levels of politics and government, an involvement that goes beyond parties, elections, and indirect representation. Each of us must become, quite literally, an activist who is simultaneously committed to a local politics that is consciously practiced within the framework of a democratic global system. Whether that activity involves health, human rights, housing, education, environment, transportation, energy, or any one of many social matters is of less import than is our engagement. Leaving these matters to the market means they will be done badly, if at all; to do them, and to do them well, requires the revival of activist politics, at all levels. Ultimately, it is up to us to see that we do not repeat the past about which Polanyi wrote so eloquently. ●

## Endnotes

1. This article is part of a work-in-progress, provisionally entitled: *Self, Society, State, System: Essays on Sovereignty & Security in the Coming Century*.
2. Boston: Beacon Press, reprinted 1957.
3. A good general discussion can be found in Michael Mann, *The Sources of Social Power—The rise of classes and nation-states, 1760-1914* (Cambridge: Cambridge University Press, 1993, vol. II).
4. This point is addressed in Stephen Gill, “The Global Panopticon? The Neoliberal State, Economic Life, and Democratic Surveillance,” *Alternatives* 2 (1995): 9.
5. For a contemporary exploration of this phenomenon, see John C. Edmunds, “Securities: The New World Wealth Machine,” *Foreign Policy* 104 (Fall 1996): 118-38.
6. For a discussion of mercantilism, see Robert Gilpin, “Economic Interdependence and National Security in Historical Perspective,” in: Klaus Knorr & Frank N. Trager (eds.), *Economic Issues and National Security* (Lawrence Kansas: Regents Press of Kansas, 1977) 19-66. For a discussion of liberalism, free trade and the gold standard, see Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).
7. Polanyi, *The Great Transformation*, 83.
8. “Speech at the Anniversary of the People’s Paper,” in: Robert C. Tucker (ed.), *The Marx-Engels Reader* 2nd ed. (New York: Norton, 1978) 577-78. The phrase also appears in Chapter 1 of *The Communist Manifesto*.
9. John Agnew & Stuart Corbridge, *Mastering Space—Hegemony, territory and international political economy* (London: Routledge, 1995) 57.
10. Simon Dalby, *Creating the Second Cold War—The Discourse of Politics* (London/New York: Pinter Guilford, 1990) 35.



11. See the discussion in Ethan Kapstein, "Workers and the World Economy," *Foreign Affairs* 75 no. 3 (May-June 1996)20.
12. For discussions of the Bretton Woods institutions and how they were meant to work, see the following essays by John G. Ruggie: "International regimes, transactions, and change: embedded liberalism in the postwar economic order," in Stephen D. Krasner (ed.), *International Regimes* (Ithaca: Cornell University Press, 1983) 195-232; "Embedded Liberalism Revisited: Institutions and Progress in International Economic Relations," in Emanuel Adler & Beverly Crawford (eds.), *Progress in International Relations* (New York: Columbia University Press, 1991) 201-234; "At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy," *Millennium* 24 no. 3 (Winter 1995):507-26.
13. Again, it is important to recognize that the "self-regulating market" is a fiction; it must be supported by implicit or explicit agreements regarding rules of operation.
14. A conventional security-based account can be found in John Lewis Gaddis, *Strategies of Containment* (Oxford: Oxford University Press, 1982). An economic account is Robert A. Pollard, *Economic Security and the Origins of the Cold War, 1945-1950* (New York: Columbia University Press, 1985). A revisionist economic account can be found in Thomas McCormick, *America's Half-Century* (Baltimore: Johns Hopkins University Press, 1996, 2nd ed.). A sophisticated and insightful analysis of the process discussed is: Stephen Gill, "Epistemology, Ontology and the 'Italian School'" in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993) 30-34.
15. In essence, this is the core of the so-called Washington consensus, the argument that democracies do not go to war with each other. For a critical assessment of this claim, see Edward Mansfield & Jack Snyder, "Democratization and War," *Foreign Affairs* 74 (May/June 1995): 79-97.
16. The dollar was exchangeable for gold at the rate of \$35/ounce. Americans could not hold gold bullion and only governments could officially request gold for their dollars. Fort Knox held about \$10 billion in gold, and there were many more dollars than this held by foreign governments.
17. See Joanne Gowa, *Closing the Gold Window* (Ithaca: Cornell University Press, 1983).
18. See Franz Schurmann, *The Logic of World Power* (New York: Pantheon, 1974); Franz Schurmann, *The Foreign Politics of Richard Nixon: The Grand Design* (Berkeley: Institute of International Studies, University of California, 1987).
19. Gene I. Rochlin, "Shotguns and sharpshooters: command, control, and the search for certainty in the U.S. weapons acquisition process" (Berkeley: Institute of Governmental Studies, University of California, 1985, Working paper 85-2). For a recent argument that the era of mass production warfare is over, see Eliot Cohen, "A Revolution in Warfare," *Foreign Affairs* 75 (March/April 1996): 37-55.
20. Lawrence Freedman, *The Evolution of Nuclear Strategy* (New York: St. Martin's, 1983)44.
21. This was not the only reason underlying the extension of civil rights to African-Americans and the implementation of affirmative action, of course. There was also a fear of urban revolt and a desire to show the world that the United States did not oppress its minorities.
22. According to Joseph Nye and William Owens, "American higher education draws some 450,000 foreign students each year." See: "America's Information Edge," *Foreign Affairs* 75(2) (March/April 1996) 29.
23. See Beverly Crawford, "Hawks, Doves, but no Owls: International Economic Interdependence and Construction of the New Security Dilemma," in: Ronnie D. Lipschutz (ed.), *On Security* (New York: Columbia University Press, 1995) 149-186.
24. This continues to be the case today, as evidenced by the high proportion of non-U.S. citizens receiving doctorates in scientific and engineering fields.
25. Robert Reich, *The Work of Nations* (New York: Vintage, 1992).
26. Among the many pieces written about the culture wars, see William S. Lind, "Defending Western Culture," *Foreign Policy* 84 (Fall 1991)40-50.
27. People might be offered *equal* opportunities to succeed, although even this is difficult to accomplish in practice. Even so, not everyone will seize those opportunities and succeed.
28. I have discussed this matter in greater detail in: "From Culture Wars to Shooting Wars: Globalization and Cultural Conflict in the United States," in: Beverly Crawford & Ronnie D. Lipschutz (eds.), *The Political Economy of Cultural Conflict*, forthcoming. An earlier version was published by the Center for German and European Studies at UC-Berkeley (Working Paper 6.14).
29. A fascinating essay on the commodification of consumer shopping habits can be found in Malcolm Gladwell, "The Science of Shopping," *The New Yorker* 72 no. 33 (Nov. 4, 1996) 66-75.
30. Gill, "The Global Panopticon?" 22.
31. Another interesting discussion of economic citizenship can be found in André C. Drainville, "Of Social Spaces, Citizenship, and the Nature of Power in the World Economy," *Alternatives* 20(1) (Jan.-Mar. 1995) 51-79.
32. Paul Krugman, "Europe Jobless, America Penniless?" *Foreign Policy* 95 (Summer 1994)28-29.
33. Fred Bergsten, "Globalizing Free Trade," *Foreign Affairs* 75(3) (May/June 1996)105-20.



34. This does not mean that small companies are not innovative; rather, that the owners of fixed property and small service-oriented businesses face high social costs relative to revenues and find it difficult to liquidate their assets and invest them elsewhere.
35. Kenichi Ohmae, *The Borderless World—Power and Strategy in the Interlinked Economy* (New York: HarperPerennial, 1990).
36. Jagdish Bhagwati, "Trade and the Environment: The False Conflict?" 159-90, in: Durwood Zaelke, Paul Orbuch & Robert F. Houseman (eds.), *Trade and the Environment—Law, Economics, and Policy* (Washington, D.C.: Island Press, 1993).
37. See, e.g., Ronnie Lipschutz & Beverly Crawford, "Economic Globalization and the 'New' Ethnic Strife: What is to be Done?" Institute on Global Conflict and Cooperation, University of California, San Diego, May 1996, Policy Paper No. 25.
38. What would you make of an unnamed 55-60 year old male who had made more than twenty-five trips to Damascus since 1992? I would call him the former Secretary of State.
39. Gill, "The Global Panopticon?"
40. Eugene Burdick and Harvey Wheeler, *Fail-Safe* (New York:Dell, 1962) 272.
41. *The Great Transformation*, 249.
42. *Ibid.* 254. Emphasis in original.
43. *Ibid.* 256.
44. Ronnie D. Lipschutz with Judith Mayer, *Global Civil Society and Global Environmental Governance: The Politics of Nature from Place to Planet* (Albany: SUNY Press, 1996).
45. Kapstein, "Workers and the World Economy."