

# SO-CALLED 'DEVELOPMENT' & THE BRETTON WOODS SYSTEM

**Political Economy in the New Millennium**

University of Wollongong

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# WHEN LAST WE MET...THE GREAT TRANSFORMATION

- Polanyi's thesis of the double movement and the self-regulating market.
- Something additionally special about England: other than Jevons (1865), no political economist appears to be aware that growth is tied to the new energy surplus found in coal, and later oil and natural gas!
  - The British start exploiting coal for very particular reasons.
- Hayek's defence of the free market: 'we never had free markets', we ought to try the experiment for real!
- Polanyi's retort: this is fantasy land and would demolish society and the natural world.
- Freedom in a complex society.



# AGENDA

- What is Development?
- Rostow's Stages of Growth
- The Bretton Woods System



White (Left) and Keynes  
(Right) in Bretton Woods  
(1944).



## DEVELOPMENT: EXCEPTIONAL PERIOD

- “The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces **than have all preceding generations together.** Subjection of Nature’s forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground – what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?”

- Marx and Engels

- *Communist Manifesto* 1848



# OVER-PRODUCTION AND DEMAND



- It is enough to mention the commercial crises that, by their periodical return, put the existence of the entire bourgeois society on its trial, each time more threateningly. In these crises, a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises, *there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity -- the epidemic of over-production.*



# RISK ON DEVELOPMENT

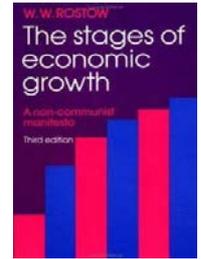


- “Development consists of a set of practices, sometimes appearing to conflict with one another, which require – for the reproduction of society – the general transformation and destruction of the natural environment and of social relations. Its aim is to increase the production of commodities (goods and services) geared, by way of exchange to effective demand.”
- Development and Truman’s inaugural address
  - Development is placed on the agenda to defeat communist ideas because communist ideas generally breed in an environment of hopelessness and poverty – so the argument went at the time.
  - Modernization theory starts to develop.



# ROSTOW'S STAGES OF GROWTH:

HE'S TRYING TO EXPLAIN HOW SOCIETIES DEVELOP



- Traditional Society
  - Subsistence agriculture, H&G, limited technology, stability over change, little to no economic mobility.
- Pre-conditions for take-off
  - External demand for goods, more productivity, more investment, spread of technology, changes in social structure, individual mobility, national identity.
- Take-off
  - Manufacturing begins and more industry is created (so not just exporting raw materials), goods made for export AND domestic consumption.
- Drive for Maturity
  - Diversification of industry, manufacturing of capital goods and consumer durables, transport and social infrastructure (schools, hospitals etc).
- Age of Mass Consumption
  - Norm of consumption, people have disposable income, the industrial base dominates the economy.



ONCE AGAIN, ENERGY IS MISSING  
FROM THE STORY! IF ONLY ROSTOW'S ACCOUNT  
WERE THAT EASY!  
IT ALSO SIDE-STEPS THE CRUCIAL QUESTION OF  
POWER: WHO CONTROLS FOSSIL FUELS NEEDED  
FOR 'DEVELOPMENT'?



# LEAST DEVELOPED COUNTRIES

LOW ENERGY CONSUMPTION = LOW INCOME PER CAPITA

Country	Energy use per capita (Kg of oil equivalent) 2007	GNI per capita (US \$)
Angola	606	\$2,590
Eritrea	151	\$270
Sudan	363	\$910
Cambodia	358	\$560
Nepal	338	\$350
Finland*	7,021	\$43,980
Australia*	5,366	\$40,270

# THE BRETTON WOODS SYSTEM

- **Bretton Woods Conference (1944)**
  - Actually called the UN Monetary and Financial Conference
  - Context: World War II is winding down
  - 44 Allied nations, 730 delegates but Keynes (UK) and White (US) are the main actors.
- General task is to forge an open global economy through institutions and regulations.
- Three key institutions are born:
  - The International Bank for Reconstruction and Development (IBRD) or what we today call informally the World Bank.
  - The International Monetary Fund (IMF).
  - The General Agreement on Tariffs and Trade (GATT) – later, in 1995, The World Trade Organization.
  - **I'll go over their roles in lecture**



# SOME THINGS TO TAKE AWAY

- The idea of development can be traced to Anglo-Saxon notions of ‘improvement’
  - *Sustained* improvement/economic growth is only possible with surplus energy.
- What we could call the ‘development project’ becomes connected to the defeat of communism as an alternative project.
- Ostensibly the main goals were: 1) development of large-scale infrastructure projects, 2) a system of fixed exchange rates to facilitate trade, 3) the reduction of trade barriers over time.

