OVERCOMING POLITICAL ISOLATION: THE RELEVANCE OF KEYNESIAN FUNDAMENTALS FOR MORAL ECONOMY APPROACHES IN AN INCREASINGLY MULTIPOLAR INTERNATIONAL SYSTEM

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Abstract

The actual drive to globalization will not result in a worldwide extension of "textbook type" capitalism but in the generalization of rent dominated systems which will disempower labour and limit also the civilizational impact capitalism has had on today's developed economies.[1] *Post-Keynesians are certainly not surprised, as they have argued that the equilibria required for wage increases and profit based on investment spending are not automatically produced by market oriented decisions. From the Keynesian observation of the possibility of unemployment equilibria, post-Keynesians formulated recommendations on the use of fiscal and financial policies for improving levels of economic activity, ultimately employment levels. This debate led to the initiation of the problem of long-term insufficient effective demand in case of absence of empowerment of labour. Ultimately, unemployment was diagnosed as the result of social power relations not providing the necessary counterweight of labour against the cost-reducing strategies of business. For preserving capitalism, labour has to be capable of negotiating the conditions of its employment derived from its scarcity. The interrelationship between democracy and capitalism is characterized by the dynamic equilibria between capital and labour. The analysis of that interaction of major competing political camps in capitalist democratic societies is closely connected to the analysis of the "Third Estate", the transition to capitalism and the bourgeois revolutions.*

The focus of this contribution lies on the contention that at the global level, for a variety of reasons explored in this paper, such dynamic equilibria are difficult to realize, and therefore a debate on the possibilities of advancing

[1] Hartmut Elsenhans, *Globalization between a Convoy Model and an Underconsumptionist Threat* (Münster: LIT Verlag, 2006), 246-51.

the realization of such equilibria is extremely urgent.

Key words: Globalization, capitalism, Keynesian strategy, Islamic economy, moral economy

The fundamental difference between 19th and 21st century Globalization: the absence of a globalization of labour

There is a widely shared consensus that the journalistic presentation of globalization as entirely new is greatly exaggerated. It does not take into account the much earlier high levels of exports in domestic production, and capital exports in accumulation, as well as transnational market interdependencies with the convergences of price and interest rates among the members of the capitalist world, especially in the late 19th century until World War I.[2]

The laudable effort to demystify the much fashionable apocalyptical scenarios have rendered unobserved an important and highly relevant difference. At the end of the 19th century only economies with high employment relevant branches of production with high global income elasticity of demand were competitive, where labour had a defining influence in the conflict over distribution of income between business/profit and wages/consumption demand. The United States were still far away and did not participate in the resulting process of labour demand coordination for a fair share in the gains from increasing productivity. The international secretariats of trade unions were documenting improvements in most of the competing economies. This provided national unions with the necessary information to counter the argument of businesses that satisfying the demands of labour would endanger international competitiveness of the respective economy.

International labour standards were made imperative by concerted union agitation.[3] The ruling establishments found it inevitable to coordinate labour standards. Hence, even a reactionary like Kaiser William II convened

[2] Paul Bairoch, "Globalization, Myths and Realities: One Century of External Trade and Foreign Investment", in Robert Boyer, Daniel Drache (eds.), *States Against Markets: The Limits of Globalization* (London: Routledge, 1996), 173-192.

[3] Michael Huberman, "Working Hours of the World Unite? New International Evidence of Worktime, 1870-1913", in *Journal of Economic History* 64, no.4 (December 2004): 965.

an international conference on miners.[4] The argument that higher wages and social benefits were excluded for want of competitiveness is reported by Marx already in the 1860s.[5] Moreover, Count von Bismarck used the same argument in the 1870s.[6] It appears as if big businesses have not largely changed the contents of their propaganda in the last 150 years.

International labour had been drawing on its successes of the late 19th century, when the role of the international secretariats of the unions and the political clout of the German social democracy broke down because of the European Civil War. The Socialists of that time had failed to prevent it despite their professed internationalist orientations which they continued to believe in and practically discuss until the last weeks of 1914. Coordination went in the late 19th century so far as to press governments to apply the principle of making dependent the access to one's own market on the partner's contractual obligation to respect agreed upon labour standards.[7]

Today, there is nothing comparable among major industrial exporters. There is obviously no coordination between representative organizations of labour in the South and trade unions in the West. There is also little coordination between labour in the North American industrialized countries and labour in the European Union. Moreover, even within the European Union coordination on convergence of wages and social benefits between national level union decision-makers is limited to some insubstantial exchange of information in seminars normally staffed by second level advisory personnel.

The essence of European Union labour policy consists in promoting skill formation and using differences in pay for promoting catching-up of productivity and employment in less performing regions of the European

[4] Sachin Chaturvedi, "India, the European Union and Geographical Indicators (GI): Convergence of Interests and Challenges Ahead" in *India, the European Union, and the WTO*, Seminar Proceedings (New Delhi: Ms., October 2002), 1.

[5] Karl Marx, *Das Kapital: Kritik der Politischen Ökonomie (1): Der Produktionsprozeß des Kapitals[1867]* (Berlin: Dietz, 1973), 700.

[6] Michael Huberman and Christopher Meissner, "Riding the Wave of Trade: The Rise of Labor Regulations in the Golden Age of Globalisation", *Journal of Economic History* 70, no.3 (September 2010): 665.

[7] Ibid, 679; see also Guy Caire, "Globalization et relations professionnelles", in *Tiers Monde* 39, no.156 (October/December 1998): 740.

Union. It can be stated as the *international pattern of convergence*, in opposition to a *national path of convergence* where labour costs are leveled region-wise through migration.[8] In the case of European Union, the disruptive consequences of mass migration stand in the way of the national pattern of convergence while substituting it for costly policies of regional promotion by government-sponsored programmes. In the actual crisis of the Brexit the rejection of the immigration of workers from one of the oldest allies of Britain (Poland) has been a major argument. The rise of new populist movements in Europe show the low degree of cosmopolitan orientation in post-nationalist societies.[9]

There is, however, no political effort neither at the level of European integration nor among different developed capitalist countries, and certainly not between West and South, to deal with this rejection of migration through coordination between labour organizations for closing the gaps in working conditions.

The challenge of the globalization of rent in a social heterogeneous world

There are patterns of globalization. The late 19th century it can be seen as a *globalization of profit*. All participating economies were capitalist and, at least in regular phases of boom in the business cycle, tended to high levels of employment with scarcity of labour. The usual mechanisms of empowerment of labour functioned, individually on labour markets where there was scarcity of labour power, and collectively in the form of the existence of organised labour, which businesses had to accept for political reasons. In each of the participating national economies, scarcity of labour led to adjustments of relative prices. As a result, in all branches of production there was a relatively uniform productivity in monetary terms of value added and costs of inputs, despite very different trajectories of the increase in physical productivity. Specialization occurs following comparative advantage. In case of backward economies, branches of production with higher productivity differences after price adjustment are abandoned. Whereas, in the case of more advanced economies, low competitiveness at higher wage rates precipitates at the same result.

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[8] Hartmut Elsenhans, "Migration or Diffusion: Nation-building in the European Union?", *Pakistan Horizon* 69, no.1 (January 2016): 45.

[9] Florian Hartleb, "Rechter Populismus in der EU: Keine einheitliche Bewegung trotz wachsender Euroskepsis", in *Integration* 34, no.4 (November 2011): 342.

Productivity differences as measured in prices are, hence, relatively similar between economies in the different branches of production.

Invention in a leading economy leads to export surpluses. In case of scarcity of labour, it leads to a general rise of the price level (imported inflation or exchange rate appreciation) through which the more advanced economy loses its competitiveness in relation to the backward economy in all those branches where neither economy had enjoyed innovation. The more backward economy will be able to maintain employment and export earnings through relatively backward branches. If this allows the maintenance of high levels of employment, the mechanisms of formation of average labour incomes following average productivity development will be maintained. The more backward economy will only suffer from lower wage increases than the more advanced economy. The author calls this a convoy model of globalization,[10] where the introduction of totally new technology families will allow the more backward economy, despite a lower productivity than the more advanced economy in these new branches, to overtake leading economy: the productivity advance of the leading economy is still higher in already established high technologies because of its higher gains from learning-by-doing than in the totally new technology families where neither the more advanced nor the more backward economy have enjoyed learning-by-doing. An example is the overtaking of Britain by Germany in the last quarter of the long 19th century.[11]

When economies can achieve competitiveness without achieving high levels of employment, they remove the mechanisms required for achieving the essential equilibria for a well-functioning capitalist world economy. Despite productivity increases through delocalization of branches of production from the more advanced economies to less advanced economies, these more backward economies will not necessarily enjoy rising average real incomes. In some branches, which benefit from the

[10] Hartmut Elsenhans, *Das Internationale System zwischen Zivilgesellschaft und Rente* (Münster: Lit, 2001), 62-73.

[11] Stephen N. Broadberry, *The Productivity Race: British Manufacturing in International Perspective, 1850-1990* (Cambridge: Cambridge University Press, 1997), 265; Dietmar Harhoff, "Innovation, Entrepreneurship and Demography", in *Perspektiven der Wirtschaftspolitik* 9, (2008): 51; See also Wolfgang Krause and Douglas J. Puffert, "Chemicals, Strategy and Tariffs: Tariff Policy and the Soda Industry in Imperial Germany", *European Review of Economic History* 4, no.3 (December 2000): 285-303.

technical advances, real wages may increase, but not even necessarily in line with the increasing physical productivity in the respective branch. Without high employment during growth, branches, where technical innovation did not take place, will not enjoy real wages increases. There will be in principle no mechanism of general wage increases before full employment is reached. Until then, the result of delocalization will only be the hollowing out of employment in the more advanced economies. Job losses in the more advanced economy will occur more rapidly than full employment in the less advanced economy.

In benign globalization, all participating economies contribute to the achievement of high levels of employment. During the process, they establish the neoclassical mechanism of wage increases - the wage drift following scarcity of labour in the wake of productivity increases. Whereas, in the actual pattern of globalization, this mechanism is so severely blocked that it does not really affect the social power relations between business and labour.

The difference between 19^{th} and 20^{th} century globalizations can be summarized as follows: 19^{th} century globalization touched only societies where the basic capitalist mechanism of rising mass incomes as the basis of capitalist growth had been established mainly by internal economic and social developments; 21^{st} century globalization draws underdeveloped economies into the international division of labour in manufactured products. These underdeveloped economies are characterized by massive surpluses of labour, an euphemistic expression for the existence of large tracts of population which cannot even produce as much as they need for their bare bone existence at the prevailing access to technologies and productive land.

21^{st} century globalization is often characterized as the world-wide expansion of capital, but despite its tremendous achievements, the migration of capital and the integration of the "periphery" into the international division of labour have, however, only partially created in some countries (Taiwan, South Korea) labour market conditions, which allow labour to play its political and economic role in capitalism i.e. redistributing income from business/capital to labour and mass consumption.

Managing capitalism at the global level signifies an attempt to find a substitute for the weakness of labour. In some essential geographical areas labour is available, which by virtue of its skills, is productive and competitive without being able to impose wages comparable to the real wages in the advanced countries. Weakened labour is even unable to impose international labour costs which would correspond to its real incomes in local purchasing power.

The failure of the Westernized ruling classes (state-classes) in the South in creating the conditions for a self-sustaining capitalist growth

Never has the South been culturally as close to the West than in the immediate aftermath of World War II.[12] The Second World War propelled the national liberation movements to the surface of world history. Though militarily the European colonial powers had collapsed, they left their ideological footprint in their colonies in the shape of westernized political forces that took control after their departure. The often imposed adhesion of all Western powers to the condemnation of racism deepened the bourgeois democratic character of the political systems (even if racism continued to exist in those Western democracies). Wars against colonial emancipation were no longer waged with racial claims, not even with the supposed cultural superiority of the West,[13] but with the anti-communist doctrine of counterinsurgency. This doctrine considered Western and Southern publics to be as equally exposed to those totalitarian threats.

There were differences between the West and South with respect to the interpretation of the mechanisms of economic growth and the mechanisms of translating the interests of the large masses into political activity. However, not one of the regimes, which emerged after colonialism in the South, dared to abstain from adhering to the goal of economic and social development of the large masses and the satisfaction of the political and economic rights of their majorities in the population.

With respect to the mechanisms of managing the economies, there was widespread conviction, not only in the South but also in the West, that pure market coordination of decisions did not necessarily lead to economic growth and that the promising path of economic development had to

[12] Aijiz Ahmad, "Islam, Islamisms and the West", in *Socialist Register* 44 (2008): 33.

[13] Hartmut Elsenhans, *La Guerre d'Algérie 1954-1962: La Transition d'une France à une Autre; Le passage de la IV à la Ve République* (Paris: Publisud, 2000), 385-89.

combine planning and market instruments. Due to the existence of a large "surplus" population,[14] internal markets were not expanding sufficiently rapidly to attract dynamic increases in privately invested capital. The absorption of the existing surplus required the state taking the role of investing locally available surplus.[15] The author has extensively analysed the mechanisms of the transformation of the political leadership of the national liberation movements which achieved political independence only to become rent-based state classes,[16] which centralized rents appropriated locally and from abroad (especially differential rents from raw material exports, e.g. oil price crisis of 1970s).

There have been important links between national liberation movements with certain Western schools of economics. There have also been shared views in the overall world outlook between social movements, from which the state classes emerged (i.e. secular nationalism as against cultural nationalism), and Western traditions grounded in Enlightenment and secularism. Finally, the script, retreating European colonial powers followed in handing over power to nationalist movements, deliberately marginalized cultural nationalists. The failure of the state-led import-substituting model of development appeared in many countries of the South as a failure on the part of the most Westernized elements of the national liberation movements.

European social democracies failed in theoretical innovation, when after World War I they became capable of decisively influencing government economic policies. They indulged in pragmatic activity and kept ideologically to a relatively crude view of capitalism along Marxist lines. They had no prescription for how to overcome underdeveloped economies by launching demand and supply, that would have allowed limiting state-centrism of those economies. The colonial development programmes

[14] William Lewis, "Economic Development with Unlimited Supply of Labour", in *Manchester School of Economic and Social Studies* 22, no.2 (May 1954): 139-191.

[15] P.N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South Eastern Europe", *Economic Journal* 53, nos. 210/211 (June-September 1943): 202-11; Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (New York: Oxford University Press, 1953), 149-51; See also Albert O. Hirschman, *The Strategy of Economic Development* (Connecticut: Yale University Press, 1958).

[16] Hartmut Elsenhans, *State, Class and Development* (New Delhi: Radiant Publishers, 1996), 173-254.

engineered during the World Economic Depression of the 1930s[17] consisted primarily in programmes of government spending (with the exception of the French development plan for Algeria starting in 1959, Elsenhans.[18]

Theoretical views derived from the successful industrialization of the Soviet Union occupied the void.

Keynesian ideas were not really present even if some early development theorists professed Keynesian leanings.[19] The early concentration of Keynesian theoretical insights on the question how to use monetary and fiscal policy for launching demand and re-establishing the basic mechanisms described by neoclassical authors on markets being capable of producing wealth. How to overcome structural unemployment, as it was defined in early development thinking, was not an important topic of Keynesian theory building. Often it was argued that Keynesian principles were inapplicable given the structural deficits and blockages of underdeveloped and “deformed” economies.[20] In such economies the injection of money into the economy was considered to create inflation but not additional production because of the economies’ structural rigidities. State planning was considered the privileged instrument for providing from the supply side those productive assets, which in case of successful structural transformation, could later on allow in expanding consumption.

In order to prioritize investment/capital accumulation, development was seen in terms of increasing productive capacity. Similarly, increasing consumption was a burden for available investable resources so it had to be curtailed. The absence of market control would make the state co-

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[17] William Easterly, *The Tyranny of Experts: Economists, Dictators and the Forgotten Rights of the Poor* (New York: Basic Books, 2013), 81; See also Douglas Dosser, "The Formulation of Development Plans in the British Colonies" in *Economic Journal* 69, no.274 (June 1959): 264.

[18] Hartmut Elsenhans, *Echec de la Colonisation Française: La France en Guerre en Algérie* (Alger: Casbah, 2015), 202.

[19] Gunnar Myrdal, *Economic Theory and Underdeveloped Regions* (London: Gerald Duckworth, 1957); See also Richard R. Nelson, "A Theory of Low-Level Equilibirum Trap in Underdeveloped Economies" in *American Economic Review* 46, no.5 (December 1956): 894-908.

[20] Joan Violet Robinson, *Aspects of Development and Underdevelopment* (Cambridge: Cambridge University Press, 1979), 32; See also C.T. Kurien, "Keynesian Economies and Underdeveloped Economies, An Epitaph", *Indian Economic Journal* 14, no.1 (July-September 1966): 51.

ordinated investment subject to inefficiencies. The threat that this would create social and political structures, which would block any shift to more market competition for the privileged, was not taken seriously.

Long before it became vogue to find the explanation of each and every failure in the attitudes and the values of the ruling elements of society, it was assumed that improving morals of the decision-makers would overcome stagnation. The South saw an enormous investment in the possibilities of value enhancements.[21] There was very rarely an enquiry on how capitalist investment benefited from economies of scale or on its spending on vast markets which allowed competition among the suppliers of goods and hence efficiency control.[22]

Due to its inefficiencies, the emerged industrial complex was unable to generate the funds necessary for continued accumulation. The state classes had, first, to resort to higher rents from raw material exports (oil price crisis, New International Economic Order) or in case of lack of such raw material exports to increasing transfers from the private economy. They increasingly appeared as rapacious tax collectors to the local property owning classes including small entrepreneurs. The relative success in democratizing education, including secondary education, had created a new salary-dependent middle class that increasingly felt shut out from employment because employment opportunities did not expand as voluminously as expected. It was mainly due to the slow rate of growth in the "modern" sector of the economy. The increasing mass of marginalized people, shed from agriculture and had migrated to the cities faced sluggish non-agricultural growth. They were a political mass of disappointed people available for any saviour who could present a reasonable perspective for its integration into the economy and society.[23]

Facing these new competitors and rivals, the state classes normally did not

[21] Gerald E. Caiden, "Development Administration and Administrative Reform", *International Social Science Journal* 21, no.9 (1969): 10, see also Paul Collins and Mohan Kaul, "Governments in Transition", *Public Administration and Development* 15, no.3 (August 1995): 199-206.

[22] W. Paul Strassmann, "Economic Growth and Income Distribution", *Quarterly Journal of Economics* 70, no.3 (August 1956): 425-440.

[23] Hartmut Elsenhans, "The Rise of New Cultural Identitarian Movements in Africa and Asia in the Emerging Multipolar System", in *Comparative Studies of South Asia, Africa and the Middle East* 32, no.3 (Winter 2012): 648.

turn to the political left, or to an alliance with the Soviet bloc. The Soviet bloc of the 1980s had serious balance of payment problems with the West. It could not provide any additional financial resources to these countries, as the Afro-marxist countries soon realized.[24] They turned to the West and re-structured their economies under the guidance of World Bank. They introduced some limited market oriented internal reforms, where local public monopolies, at least partially, were turned into private ones. The previously state-based state classes were transformed into increasingly private sector oligarchies.[25]

Non-governmental organizations constituted the bridge-head between the West and the South,[26] which by their own composition had privileged contacts with activists from other southern societies. These activists improved their standing in relation to the NGOs by adopting the values of 1776 and 1789.[27]

They were and are still able to create for their Western partners the image of their own legitimacy and representativeness. The illusionary character of this relationship between the West and the secular forces of the South was exposed in the wake of the Arab Spring and the rise of Islamist political movements in its aftermath.[28]

Western organizations never approached mass movements outside the

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[24] Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2007), 3676; See also Marc Michel, *Décolonisations et Émergence du Tiers Monde* (Paris: Hachette, 1993), 251.

[25] Joe Foweraker and Roman Krznaric, "The Uneven Performance of Third Wave Democracies: Electoral Politics and the Imperfect Rule of Law in Latin America", *Latin American Politics and Society* 44, no.3 (Autumn 2002): 39; and Heidrun Zinecker, "Regime-Hybridity in Developing Countries: Achievements and Limitations of New Research on Transitions", in *International Studies Review* 11, no.2 (June 2009): 304-310.

[26] Sultan Barakat and Zilha Kapisazovik, "Being Lokalci: Evaluating the Impact of International Aid Agencies on Local Human Resources: The Case of Post-War Sarajevo, Bosnia and Herzegovina", *European Journal of Development Research* 15, no.1 (June 2003): 59; Olivier Roy, "The Predicament of 'Civil Society' in Central Asia and the 'Greater Middle East'", *International Affairs* 81, no.5 (October 2005): 1009.

[27] René Lemarchand, "Uncivil States and Civil Societies: How Illusion Became Reality", *Journal of Modern African Studies* 30, no.2 (1992): 177-191.

[28] Hartmut Elsenhans, "Économie politique des nouveaux mouvements identitaires et culturels", *NAQD - Revue d'Études et de Critique Sociale* 32 (October-November 2015), 195-206.

control of the secular state classes. Such contacts had existed during the hot phase of decolonization, even if at that time the western social democratic organizations were often reluctant to support the more radical versions of southern anti-colonialism.[29]

Western social democracy took its distance from the movements of the state classes when they shifted from political decolonization to economic decolonization, especially in the form of the demand for a new international economic order. The chance of influencing the state-based, rent-financed models of development through concessions in the realm of raw material price formation in exchange for agreements on orientation of the development strategies was never seriously tried.[30]

On the other hand, the subsequent rise of cultural nationalists did not lead to an alternative chain of international contacts as the new cultural identitarian political movements stressed dissociation from the West in order to maintain their identity, whereas Western organizations located in the religious field did not perceive their similarities with cultural identitarian organizations. There was never a dialogue between the Christian Democrats from the West and Islamists from the South.

Despite all the talk about globalization, it is wise to assume that disassociation and separation prevails between the organizationally constituted world of mass politics in the West and the South. In comparison to the period immediately after Second World War, the conditions for the globalization of labour and its organizations as a counterweight against the globalization of business have not improved in our times. Moreover, the cultural transfer so much hailed by the cultural turn historians provoked enhanced dissociation of the masses in the South from cosmopolitan values, which were defended by the organizations of the working classes of capitalism.

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[29] Jean - Pierre Biondi, *Les Anticolonialistes 1881 - 1962* (Paris: Laffont, 1992), 211; Talbot C. Imlay, "International Socialism and Decolonization during the 1950s: Competing Rights and the Postcolonial Order", in *American Historical Review* 118, no.4 (2013): 105-132; and Achille Mbembe, "La France n'est plus notre soleil", in *Le Monde* (October 2011): 20.

[30] Robert W. Cox, "Ideologies and the New International Economic Order: Reflections on some Recent Literature", *International Organization* 33, no.2 (Spring 1979): 280; See also Mario Levi, "Colloque franco-allemand sur l'énergie, Rouen", in *Politique Étrangère* 38, no.3 (Autumn 1973): 356.

The rise of the new cultural identitarian movements and a world-wide Keynesian strategy in the South

The main victims of the broken promises turned away from the state classes when the failure of state-based rent financed strategies manifested in the form of financial crisis. The presence of these victim classes explain the new cultural identitarian movements and the global geography of the rising political forces.[31]

There are some regions, especially in East Asia, where the establishment of the conditions of capitalist development along with the empowerment of labour has reasonably succeeded.[32] These are the areas where for a variety of reasons radical agrarian reforms changed the agrarian property structures. They were done so quite independently from the political orientation of the ruling classes i.e. communists in People's Republic of China, pro-Western forces in Taiwan and South Korea. Due to the political economy of agrarian reforms, there is a sort of minimum income for households, a safety net of sorts. Industrial growth could be partially based on expanding internal markets as rising industrial employment created growing markets for family farms. Wherever this has led to the successful transition to capitalism, there are no new cultural identitarian political movements, even if there may be some religious awakening.

Where the impact of the state-based import substituting model was very low, there have not been processes of cultural differentiation. Here, the rising salaried middle classes could ally with traditional property owning middle classes. The efforts of transforming university graduates in owners of small craft enterprises like bakeries, as done in some sub-Saharan countries, were not successful at all. The salaried middle classes continued to depend on foreign assistance or rents appropriated in raw material production and, depending on the origin of the rents, indulged in a pro-Western (in case of foreign assistance) or statist discourse (in case of raw material rents in new raw materials exports) in the newly industrializing

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[31] Hartmut Elsenhans, "Middle Classes and New Cultural-Identitarian Political Movements: Perspectives", in Hartmut Elsenhans, Rachid Ouaissa, Sebastian Schwecke and Mary Ann Tétreault (eds.), *The Transformation of Politised Religion: Zealots turned into Leaders* (Aldershot: Ashgate, 2015), 120-135.

[32] Hartmut Elsenhans, "Rivalry, Failure of the Secular Nationalists, Geography, History: Embedding the Rising New Cultural-Identitarian Movements in Africa and Asia in the Emerging Multipolar System", in Elsenhans, Ouaissa, Ibid, 215-21.

countries, especially some of the BRICS (China, India). The empirical elements for the equation “globalization equals westernization” can be found in the adoption of bourgeois revolution by state classes.

In the rest of the global South, new populist movements rose to political influence. Each of them was using locally appropriate ideologies in order to create large class alliances. In Latin America references were made to being indigenous mobilizing mass support by relying on the indigenous population or mildly Social Democratic ideologies as has been the case in Brazil. A strictly anti-western reference would not have worked in Latin America as the continent for centuries belonged to Western civilization.

In the Islamic world, most of the South and Southeast Asian middle classes found their identity, at least, partly in inherited religion. Religion has been traditionally the main determinant of their cultural identity. For long, these cultural identitarian currents have been focusing on cultural subjects like the commandments of religion or the reconstruction of an ancient temple. When they were presented the opportunity of mobilizing a larger section of the societies - as in the recent past because of the disappointment first of private small-scale capitalists, then the rising salaried middle class, and then labour being in increasingly precarious employment situations together with a floating mass of marginalized people - these movements had to develop their own programmes for the whole gamut of policy fields where they had to be present in order to catch votes.[33] The advance of these movements in public opinion required softening of the identitarian issues and developing policies for the material interests of their followers. This ultimately meant economic policies. These movements shifted from identitarian extremism to economic policy-oriented moderation. They also changed their social support base from ideological militants to various segments of the middle classes.[34]

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[33] Sebastian Schwecke, "The Trivialisation of Hindu Nationalism and the Reconfiguration of the Indian Bourgeoisie", in Hartmut Elsenhans, Rachid Ouaissa, Sebastian Schwecke and Mary Ann Tétreault (eds.), *The Transformation of Politised Religion: Zealots Turned into Leaders* (Aldershot: Ashgate, 2015), 46.

[34] Farhad Khosrokhavar, "Le paradoxe Iranien", in *Le Monde* (July 1, 2005): 14; See also Bruce K. Rutherford, "What do Egypt's Islamists Want? Moderate Islam and the Rise of Islamic Constitutionalism", in *Middle East Journal* 60, no.4 (Autumn 2006): 726; and Hossein S. Seifzadeh, "The Landscape of Factional Politics and its Future in Iran", *Middle East Journal* 57, no.1 (Winter 2003): 67.

The movements' most visible supporters and the need to distinguish themselves from the existing state classes, in a more or less advanced state of decay, explain their economic preferences. They include reduction of state intervention and a stronger role of a market. The market, however, should be tamed by imposing principles of moral economy.[35] The Axial Period (6^{th} c. B.C. to 7^{th} A.D.) during which the great world religions had been formulated or revealed were characterized by intensified conflict between an ever expanding political class around absolute kings and the so-called direct producers, mostly peasants, who produced the surplus for the material support for these regimes.

At the theoretical level, the line of defense for these rural communities[36] has been the invention of ritual equality of all human being. All human beings being equal in their relation to God who then had to be one to the difference of the world of gods in Greek or Hindu mythology where the more powerful on earth had alliances with the more powerful among the gods.[37] At the level of today's life, there were two lines of defense, the inviolable character of property (for Christians: the story of David and the vineyard) and the obligation of the powerful to respect the inviolable character of marriage (for Christians the story of David and Bathsheba). Consequently, in economic and social policy, the new cultural identitarian political movements have opted for a mildly free market model and opposed, at least in principle, the massive extension of state responsibility in the economy realized under the rule of the previous state classes.

All this is not formulated in a particularly extended way in the contributions

[35] Abdelkrim Dahmen, "How to Build a Viable Economic Policy on Islamic Foundations: The Case of the MSP Party in Algeria", in Rachid Ouaissa, Sebastian Schwecke (eds.), *The New Cultural-Identitarian Political Movements* (2015), 176-181; See also Mario Rutten, *Rural Capitalists in Asia: A Comparative Analysis on India, Indonesia and Malaysia* (London: Routledge Curzon, 2003), 79.

[36] I. M. Diakonoff, "The Rural Community in the Ancient Near East", *Journal of the Economic and Social History of the Orient* 18, no.2 (1975): 126; and Mario Liverani, "Communautés de village et palais royal dans la Syrie du IIe millénaire", *Journal of the Economic and Social History of the Orient* 18, no.2 (1975): 150.

[37] Karl Jaspers, "Die Achsenzeit in der Weltgeschichte", in *Monat* 1, no.6 (June 1948): 3-9; and Shmuel Noah Eisenstadt, "The Axial Age: The Emergence of Transcendental Visions and the Rise of the Clerics", in *Archives Européennes de Sociologie* 23, no.2 (1982): 294-313.

of economists of Islamic orientation.[38] Even major texts do not present an elaborate theoretical model.[39] One of the major points to be clearly visible is the interdiction of interest. Other prescriptions are formulated as instructions to morally limit the possibilities of enriching oneself. This can be shown in the responsibility of the employer to leave a fair share to his servants, the landlord to keep his demand for rent within limits, or the obligation to pay taxes for the upkeep of the poor. The number of examples can be multiplied and doctors of Islamic law contribute in their research by analysing in a case law manner how conflicts have to be resolved.[40] Many Western commentators have more or less contemptuously argued that this is not economics.[*]

Economists of Islamic orientation will reject this reproach by referring to their own basic argument which consists in rejecting the idea of a self-coordinating economy.[41] The decisive distinction between Islamic and

[38] Hartmut Elsenhans, "Globalisation and New Religious Political Movements", *Journal of Social Studies*, 143 (July-September 2014): 1-21; Muhammad Akram Khan, *What is Wrong with Islamic Economics? Analysing the Present State and Future Agenda* (Cheltenham: Edward Elgar, 2013), 8-26; See also Timur Kuran, *Islam and Mammon: The Economic Predicaments of Islamism* (New Jersy: Princeton University Press, 2004), 11.

[39] Asad Zaman, *Islamic Economics: A Survey of the Literature,* Working Paper No. 22 (Birmingham: Religions and Development Research Programme, University of Birmingham, 2008).

[40] M. Umer Chapra, *The Future of Economics: An Islamic Perspective* (Nairobi: Islamic Foundation, 2000); Muhammad Nejatullah Siddiqi, *Banking without Interest* (Nairobi: Islamic Foundation, 1983); Ray Takeyh and Nikolas K. Gvosdev, *The Receding Shadow of the Prophet: The Rise and Fall of Radical Political Islam* (Westport, Connecticut: Praeger, 2004); and Ahmad Aziz, "Mawdudi and Orthodox Fundamentalism in Pakistan", *Middle East Journal* 21, no.3 (Summer 1967): 379.

[*] "Grounded in medieval Islamic thought, it is known as 'Islamic economics.' Notwithstanding the claims of its promoters, the significance of this literature does not lie in its substance. It does not describe the advantages of Islamic economic principles in a manner that would make sense to a well-trained economist. Nor has it produced solutions that more than a small minority of Muslims take seriously. The significance of this literature lies chiefly in the support it gives to the quest for a distinctly Islamic social order. Islamic economics has fueled the illusion that Muslims can solve a wide range of social problems simply by embracing Islam and resisting Mammon – the evils associated with immoral forms of economic gains. It has promoted the spread of antimodern, and in some respects deliberately anti-Western, currents of thought all across the Islamic world," see Kuran, *Islam and Mammon*, IX.

[41] See details in Elsenhans, "The Relevance of the Principles of Keynesian Economics for the Transition to Capitalism in Today's Underdeveloped World", in Paul Davidson and Jan A.

Western economics is not so much this or that observation or argument, but the very focus of the theory: Islamic economics maintain that there could and should not be a self co-ordinating economy as the necessary inequality of access to assets will always favour the a-moral free rider. The economy has to be embedded in moral prescriptions in order to keep free riders from emerging and perverting the market system. It is not surprising the negative image Islamic economists draw of Western economics. However, they normally do not take into account the heterodox approaches like Keynesianism[42] but concentrate on neoclassical economics mostly of the American mainstream as scapegoats.[43]

It does not seem to be very useful to reproach this moralistic character of Islamic economics as it is the result of the empirical world in which it was developed and the empirical world to which it is addressed today. Both these worlds are not capitalist. There are markets, there are people who want to make "profits", there are people who exploit the labour of others, there is competition on markets, and obviously private property which its owners use for increasing their wealth. But the mechanisms which limit the possibilities of capitalists from enriching themselves, which exist in a capitalist economy with fairly high levels of competition, are absent.[44] The profit in Keynesian and Kaleckian model depends on investment spending.

Kregel (eds.), *Improving the Global Economy: Keynesianism and the Growth in Output and Employment* (Cheltenham: Edward Elgar, 1997), 283-303.

[42] "Adopting integrity, supporting charitable causes and engaging in social welfare as a means of enhancing company reputation and hence favourably impacting on that business's bottom line is explicitly condemned in Islamic teachings. Virtue must not be subordinated to making a profit. This is also logical, since if morality is seen as a means of making money, then immoral behaviour will be preferred if it leads to more money. This tendency can be illustrated by the actual ethical practices of some Western businesses. For example, after learning that design defects in the Ford Pinto would lead to deaths by burning in rear-end accidents, the Ford company calculated that the costs of a safety recall would be more than the projected monetary value of death and dismemberment", in Zaman, *Islamic Economics*, 40. See also Asad Zaman, "Fundamental Flaws of Conventional Economics", (2016), available at https://rwer.wordpress.com/2016/01/29/fundamental-flaws-of-conventional-economics/.

[43] Kurshid Ahmad, "Global Economic Crisis", *Policy Perspectives* 8, no.2 (July-December 2011): 9.

[44] An author's study shows that rather few North American scholars discuss Marx in the light of Keynesian theory. See Hartmut Elsenhans, "Capitalism and Global History", in *Erwägen - Wissen - Ethik* 25, no.4 (2014): 529-542; See also "Capitalism – An Achievement of Labour: Empowerment of Labour and Rising Mass Incomes as a Condition of Capitalist Growth", *Erwägen - Wissen - Ethik* 25, no.4 (2014): 601-625.

It is believed that "capitalists get what they spend". However, it does not exist in an economy where there are not high levels of employment, where increasing investment does not lead to higher mass incomes, that in the long run only higher incomes lead to additional investment opportunities via the market etc. The economic structure of non-capitalist and pre-capitalist societies does not empower labour but only increases the possibilities for the rich to get richer, with some of the (rising) rich enriching themselves via imperfect markets. In some historical narratives, the rich are called capitalists.[45]

At least to a degree, Keynesians share some arguments of the Islamic economics. The critique of Say's law implies that there may be involuntary unemployment on the basis of perfect markets. Keynesians will not say that the state has to intervene on the basis of moral prescriptions in details of price formation, but they will implicitly justify state intervention on the basis of their reference to the public good of high levels of employment through instruments which may use market incentives. Public works for alleviating the hardships of unemployment not only preceded Keynes in Europe (national workshops in the Second French Republic 1848-49) and were the subject of proverbs in Northern India already documented in the early 19th century.

Keynesians consider that an overall responsibility of the public sphere, government and other agencies and political regulations, can play an active role for bringing the economy to a state of high levels of employment to the point where the neoclassical mechanisms of coordination are quite satisfactory because labour is scarce and its incomes rise approximately in line with average productivity increases. Rising demand launches private investment and a further demand for the services of labour. Islamic economists are convinced that the imbalances of a market economy cannot be overcome within the pure logic of the market but require permanent political and social defense of moral principles in order to avoid moral hazard of the affluent.

With respect to underdeveloped economies, Keynesians also consider that demand management is not promising but structural changes are required.

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[45] Jürgen Kocka, *Geschichte des Kapitalismus* (Munich: C. H. Beck, 2013); and Hartmut Elsenhans, "Kapitalismus", in Gerd Jüttemann (ed.), *Entwicklungen der Menschheit* (Lengerich: Pabst Science Publisher, 2014), 291-299.

It implies that Keynesians will not reject the basic analysis of the economics the Islamic economists have to deal with: inflexibility with large shares of rents in surplus and weakness of profit, with the result of a highly politicized character of their economies. The whole literature on the contradictions of the so-called Third World state is pertinent here.

The fact that economic prescriptions of the type defended today by Islamic economists were en vogue also in pre-capitalist Europe (ban on interest or usury) shows that the application of moral economy is a rational response to the absence of capitalism with its restrictions on capitalists.

Keynesian economics constitutes an improved and more elaborate formulation. It shows how the principles of moral economy can be applied and imposed on highly diversified economies with reasonable instrumentalization of the mechanisms available in a capitalist economy in case the political instance succeeds in complementing these mechanisms by a parsimonious but efficient application of government intervention.

Islamic economics and Keynesians share their doubts on a market system's capacity to lead to fair, in Keynesian terms high employment equilibria. They diverge in their expectations on how to realize such fair equilibria. Both have no chance of prevailing with their concepts at the global level in today's period of globalization where the counterweight of labour can no longer result from the self-organizing capacity of culturally homogenous working classes and their organizations.

The necessary counterweight of labour for a functioning capitalism, under the conditions of globalization and the much more intensive interconnectedness of markets, requires coordination between labour of different cultural heritages. Given their importance and relevance the author considers that such a dialogue could usefully start between Keynesians and Islamic economists where they would give priority to their views and the necessity of embedding capitalism in noneconomic structures. They could do so not by qualifying the moral value of the arguments from each side but by concentrating on the potential efficiencies of the instruments which they both suggest.

South is the major empirical field for the Islamic economists. Therefore, this area could spur a debate on how to translate principles of

Keynesianism into development policies.

A difficult dialogue: First impressions

Some analysts of globalization still cherish the hope of economic globalization leading to cultural convergence and a world of relatively uniform norms and values. The rise of the new cultural identitarian movements points to the existence of, and at least equally, powerful tendency to cultural dissociation within the world system. The argument that these movements also share some world-wide tendencies is not relevant because at any time in history strategies of dissociation are supported by limited adoption of elements of the world from which one wants to dissociate. The important point is that the new cultural identitarian movements use their auto definition of being different in order to only admit as politically relevant such elements of the other world which they feel comfortable with.

There are regions in the world, especially East Asia, where the move to Western universality appears to be much stronger. In these places those forces choose as their partners in the West political forces, which have adopted neoclassical economics. Even if some observers with neoclassical background consider China as adopting Keynesianism because China runs budget deficits.[46]

There is structural similarity between neoclassical and Marxist economics. As far as this author can tell, it has led to mainland China's interpretation of the requirements for the management of the world economy being a mixture between neoclassical economics and a crudely market-oriented approach which considers most problems as reflecting power relations. There is no interest in how to arrange decentralized power relations in a way that the mechanisms proposed in neoclassical economics work relatively automatically. China will constantly reserve its competence to intervene politically in the maintenance of its own economic balances and the right to manipulate comparative advantage in a way compatible with preserving the possibility to participate in any future branch where technical innovation with strong trickle-down effects on the rest of the economy is expected.

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[46] Christopher Lingle, "China's Flirtation with Keynesian Economics" (1999), online available at http://https://fee.org/articles/chinas-flirtation-with-keynesian-economics/. (Lingle 1999, Warner 2015).

When political power is used for shaping comparative advantage and dealing with imbalances, we are wise to consider that regionally separated economies operate as national economies whatever the degree of interconnectedness. Factor movements, especially of labour, will not be entirely free, and factor incomes will be mediated through the exchange rate. Obviously, there will be many smaller economies mutually dependent on others, but there will be overlap between an international political system with a limited number of major powers and an international economic system where these powers, but only them, are relatively free to determine the conditions of their integration into the overarching world economy.

These are powers which cannot be forced to comply with majorities at the global level without being bound by defeat in war. The United States, China and India are clearly members of that club. Probably, Russia and Brazil will join it. Europe can become a member provided that it succeeds in its unification. European unity is probable insofar as the United States expects from this unity a special relationship which guarantees its place as the major member of this club.

In these major powers, overall political responsibility for the defence of the opportunities to economic growth and technical innovation is maintained. The different major powers will respect the political competence of their partners. The Singapore issues of deep integration have been rejected by the major powers outside the European Union and the United States.

The new cultural identitarian movements rise as the failure of the secular state classes cannot be met by simply liberalizing the economy but requires a new not yet compromised political force which can occupy the instances of political intervention into the economic sphere. Therefore, within globalization, national regulations remain important.

In reviewing the political forces close to the Keynesian idea that markets do not produce the necessary imbalances, but that the establishment of some crucial balances between profit and consumption are required, and business and labour are preconditions for a large degree of depoliticized functioning of the world economy, Islamic economics come across as the closest. The forces of moral economy are nearest to Keynesian skepticism as they reflect the fear of the weak in pre-capitalist societies from abuse of market power just like workers who have only their labour power to sell. Labour in capitalist settings need full employment policies to be able to negotiate the conditions of their employment and their participation in the fruits of increased productivity.

The author's experiences as regards to necessary dialogues with Islamic economics as a major current among moral economic doctrines reveal tremendous obstacles. The experiences are drawn from a teaching period in Islamabad (Pakistan), research with Islamist in Algeria on the transformation of some cultural identitarian political movements from a focus on identity issues to a focus on management of the economy, and a similar research on the Hindu fundamentalist Bharatiya Janata Party in India from 2007 to 2011.[47]

On the Western side, there is a great fear of engaging in such a dialogue, because the forces on the other side are politically discredited. They are often considered as politically incorrect, even denounced as fascist. There is the additional fear of the Muslim. Muslims and Christians believe that there is an omniscient Supreme being. Hence, in the ultimate judgment everything is disclosed, a conviction not shared by Hindus and Buddhists with far-reaching consequences for the dealings with reality; Christian and Muslims being rather realist, whereas, Hindus and Buddhists constructivist.

The author has found that in this dialogue the Western side is well advised to clearly state its fear of the other side because of the existence of extremist tendencies in the Islamic political camp.[48] This should allow a focus on the technical aspects of how to manage the world economy for establishing reasonable balances without enquiring on either side the ideological foundations from which the demand for political intervention in favor of such balances is drawn.

On the Muslim side, the role of Islamic economics for creating a stable identity is a major challenge in such a dialogue. As the latest revealed

[47] Hartmut Elsenhans, Rachid Ouaissa, Sebastian Schwecke and Mary Ann Tétreault, *The Transformation of Politised Religion: Zealots Turned into Leaders* (Aldershot: Ashgate, 2015).
[48] Hartmut Elsenhans, *Contre le tout Marché: Economie Islamique et Keynésianisme* (Algiers: Hamas - MSP, October 2015). Visit at http://hmsalgeria.net/ar/5i3kd (27 January 2016).

religion of the axial time (if we leave out the Sikhs), Islam is further away from the elements of magic from which religion has developed according to the Comtean schema.[49] The prescriptions about desirable behaviour occupy a much larger part of the religious doctrine than in Christianity. The principle of "din-wa-daula", which is often misinterpreted and exaggerated, implies that good behaviour has to be made easier by encouraging structures which dominate day-to-day lives outside the private home. As economics is the sphere where most interactions between otherwise separated households occur, just in line with Tönnies'[50] remark about society being the sphere of economic exchange, a religion which stresses the necessity of constructing in the public sphere an order which makes it more easy for the individual to safeguard salvation has to stick much more than a less moralistic religion to such principles of behaviour.

The fear of any social group in the previously colonized South from accusations of being once more instrumentalized for a further wave of Western subjugating penetration cannot avoid raising the suspicion that such a pragmatic dealing with behavioural prescriptions is just another attempt to dilute the coherence of the cultural system of the Islamic side. There are great difficulties to intellectually "play" with concepts by considering them only relative and conditioned by history. The ban on interest is a good example: in the Christian Middle Age and certainly also in the Muslim pre-capitalist economies it served to limit exploitation which the moneylender would impose (like in India) on the basis of the market mechanism: in marginality ridden economies the risk premium would be very high as many loans are never paid back. When there is much less marginality because of higher marginal productivity in the wake of technical development, the ban on interest may already have lost its economic and social function. It may have even become counter-productive because it keeps innovative entrepreneurs from gaining loans on the basis of their own assessment of the potentialities of their inventions. Why not interpret the ban on interest not as a ban on this form of remunerating a credit, and replace it by other instruments for protecting

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[49] Auguste Comte, *Discours sur l'esprit positif [1842]* (Paris: Union Générale d'Editions, 1963), 32.

[50] Ferdinand Tönnies, *Gemeinschaft und Gesellschaft: Grundbegriffe der reinen Soziologie* (Berlin: Curtius, 1935), 43.

debtors, as is already largely the praxis.[51]

Such an effort of interpretation through dialogue requires trust. There is actually no trust between the intellectuals engaging in Islamic economics and the rest of the world. When they deal with Western economics, they concentrate on neoclassical economics, largely because it seems that most of them have been trained in relatively conservative faculties of economics in the United States.

Trust can only come through dialogue and why not start such a dialogue through simple initiatives, for example, confronting each other with their interpretation of the other's point of view. Distrust between the United States and the People's Republic of China has been softened through cultural exchanges when they allowed athletes to play ping-pong together. Why, then, not start a dialogue between the Islamic economists and Keynesians around the question related to the absence of a tendency of market coordinated economies moving to socially desirable equilibria between business and labour? Moreover, why does each not explain the other its respective meta-theoretical bases of approaches to practical solutions?

[51] Timur Kuran, "Explaining the Economic Trajectories of Civilizations: The Systemic Approach" in *Journal of Economic Behavior and Organization*, 71 (2009): 595.