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## The Gradual Encroachment of Ideas Lessons from the paradigm shift to embedded liberalism

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### Abstract

Elements of the shift to embedded liberalism are of interest for those seeking to understand how political-economic paradigms shift or to precipitate such a shift today. Two policy programmes were particularly important: structural reform of the global financial system, manifest in the creation of the Bretton Woods system; and a shift in the balance of ownership across the economy, in favour of the public sector. As in other periods, those prosecuting the shift employed a wide-ranging 'theory of change' that included a diversity of groups, was ultimately successful upon the election of signal governments, and which benefited from the centralised power of the post-war state and the desire of electors for change. These favourable conditions stand in direct contrast to the outlook facing current change efforts.

**Keywords:** political-economic paradigm; post-war consensus; embedded liberalism

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## Summary

A ‘political-economic paradigm’ is a system of thought and practice that can drive the behaviour of decision-makers and policy-making institutions, helping determine the structures and dynamics of overall socioeconomic systems. Paradigms can shift, supplanted by alternatives perceived as superior during moments of crisis. In broad terms, Western political economy can be split into two major periods of breakdown and transition from one political-economic paradigm to another. The first occurred before, during and after the Second World War, with the interventionist paradigm of ‘embedded liberalism’ replacing the previous laissez-faire paradigm of ‘classical liberalism’. The second came after the crises of the 1970s, with the pro-market ‘neoliberal’ paradigm supplanting embedded liberalism. The failure of neoliberal ideas and policies to effectively anticipate or respond to the Crash of 2007/8, the resultant economic and political destabilisation, and the unprecedented crisis of environmental breakdown has led to greater interest in the processes by which political-economic paradigms shift.

Largely, this interest has focussed on the shift to neoliberalism. Instead, this essay looks at the period covering the First World War, the enduring crises of the interwar era, and the creation of the Bretton Wood institutions and activist welfare states after World War Two. It focusses on the UK experience. In doing so, it identifies a number of important areas of interest for those seeking to understand how political-economic ideas shift or to precipitate such a shift today. With regards ideas and policies, two particular programmes were important in the process of precipitating and entrenching a paradigm shift: structural reform of the global financial system, manifest in the creation of the Bretton Woods system; and a shift in the balance of ownership across the economy, in favour of the public sector. Indeed, the shift to neoliberalism was also predicated on structural shifts in both finance and ownership. The paradigms of embedded liberalism and neoliberalism also share a growth model founded on unsustainable environmental impacts and so the next paradigm shift will have to constitute a more fundamental change than has hitherto occurred.

This essay also explores the strategies and means of organisation employed by those seeking a paradigm shift before, during and after WWII. In many respects, paradigm shifts are not accidents of history. Ideas and their proponents, none more so than John Maynard Keynes, often grab the attention of those looking to understand how change occurs. But change is a function of the wider efforts and organisation of an ‘ecosystem of influence’ of which academics and intellectuals are only one part. As in other periods, those prosecuting the shift to embedded liberalism employed a wide-ranging ‘theory of change’ that included political parties, organisation through trades unions, and was ultimately successful upon the election of signal governments. This ecosystem relied on the development and dissemination of persuasive narratives, which were founded on concepts of positive liberty. It also benefited from the centralised power of the post-war state and the desire of electors for change, both of which provided the means and the authority by which to make far-reaching and radical changes to the political-economic settlement that have, in some cases, endured to this day. These favourable conditions stand in direct contrast to the outlook facing current efforts to precipitate a paradigm shift, including fragmenting political coalitions, transnational economies and under-resourced states, and misinformation and declining political trust. The unprecedented challenges facing the world—foremost of which is compounding environmental breakdown—demand changes of the order of the shift to embedded liberalism, if not more, and modern efforts seeking a paradigm shift would do well to remember the scale—as well as limitations—of imagination employed in the past.

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## Introduction

The world is threatened by interrelated environmental, economic and social crises. These crises are systemic, resulting from the structures and resultant dynamics of economic systems.<sup>1</sup> In many respects, this state of affairs reflects the failure of the neoliberal ‘political-economic paradigm’ of economic theory, policies, narratives and power structures. Over the last forty years, this paradigm has largely dominated politics and policy-making in Western nations and throughout global economic institutions and structures. Financial deregulation has markedly increased the frequency and magnitude of banking crises, entrenching instability as a structural feature of the global economy and, in the case of 2007/8, leading to systemic crisis. Economic growth has been founded on an unprecedented expansion of household and private sector debt, accompanied by a fall in private sector investment, leading to stagnant productivity growth. The labour share of income is declining, and jobs have become more casualised and insecure. Inequality has grown to levels unseen since the nineteenth century, leading to large power imbalances. The consequences of these social and economic problems have increased political dissatisfaction with the status quo, resulting in a political backlash, including from resurgent ethno-nationalist movements. Most pressingly, neoliberal capitalism has further entrenched a growth model that is destroying the biophysical preconditions of human systems. This is increasing the chances of global as well as local breakdown in the climate and other natural systems, with the consequences falling hardest on those least responsible and most vulnerable. In turn, accelerating environmental breakdown is accentuating the social and economic crises of neoliberalism, driving further destabilisation.

The failure of the neoliberal political-economic paradigm to explain or respond to these crises—and its role in precipitating them—has stimulated a growing body of literature that seeks to understand the processes by which political-economic paradigms change. Often, this literature focuses on the shift from the post-WWII ‘Keynesian’ political-economic paradigm of embedded liberalism—encompassing the thirty-year global economic expansion ending with the 1973-75 recession—to the neoliberal or ‘free market’ paradigm, which is associated with the election of signal governments, including that of Margaret Thatcher in the UK and Ronald Reagan in the USA. In contrast, little attention is paid to the processes that stimulated a shift away from classical economic liberalism over the course of the inter-war years and toward its post-WWII replacement. Accordingly, this paper seeks to explore these processes, identifying major elements that eroded the legitimacy of the pre-WWII political-economic paradigm and drove the development and eventual acceptance of many collectivist political-economic approaches among economists, policymakers and public discourse before and especially after WWII. Section 1 defines the concept of a political-economic paradigm and characterises the process by which these paradigms can shift. Section 2 applies this characterisation to the shift between the inter-war and post-war periods, providing a brief summary of the economic history of that era. Section 3 explores a range of lessons that can be learned from the diverse range of actors, strategies and events that precipitated the paradigm shift. Section 4 concludes.

### 1. Paradigms shift

A ‘political-economic paradigm’ is a system of thought and practice that can drive the behaviour of decision-makers and policy-making institutions, helping determine the structures and dynamics of

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<sup>1</sup> IPBES (2019) *Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*. [https://www.ipbes.net/sites/default/files/downloads/spm\\_unedited\\_advance\\_for\\_posting\\_htm.pdf](https://www.ipbes.net/sites/default/files/downloads/spm_unedited_advance_for_posting_htm.pdf)

overall socioeconomic systems.<sup>2</sup> A political-economic paradigm encompasses various elements, including:

- A general analytical framework and set of assumptions for understanding how economies and societies operate;
- Political and economic goals, or problems needing to be addressed, which are regarded as most important for society and in policymaking;
- Principal social and economic policies that seek to realise these goals and overcome the problems, which, to varying degrees, are justified in reference to the analytical framework;
- Narratives and language that describe and seek to legitimise the other elements of the paradigm;
- The allied power structures and dynamics that bring it to prominence and sustain its dominance, including links to intellectual proponents, accommodation with powerful sectional and vested interests, and the support of governing parties.

A political-economic paradigm and the range of elements it encompasses are not the only factors driving the development of economic structures and dynamics across societies. These can also be determined by wider religious and cultural forces, environmental conditions or constraints, and conflict and profound societal crises, among other factors. But political-economic paradigms can exert a powerful influence over academic thought, media narratives, the programmes of political parties, institutions of policymaking, both national and international, and general public perceptions of how and for the benefit of whom economic structures can and should be constructed.

A dominant political-economic paradigm can lose legitimacy. This usually occurs over a period of economic and political turmoil in which ideas and policies associated with the dominant paradigm are perceived to have failed to adequately conceive of and respond to crisis. Under these circumstances, a new paradigm, seemingly offering stronger analysis and policies, gains the support of a critical mass of influence among key communities and supplants the old paradigm. Crucially, this requires the new paradigm to overcome the undue staying power of the old paradigm and the incumbency advantage enjoyed by its proponents and beneficiaries. Barriers to change include widespread entrenchment of ideas and policy approaches across institutional behaviour and wider cultural perceptions, the inherent uncertainties and political polarisation associated with the process of changing policy, and the ability of sectional interests to gain access to and affect the decisions of policymakers. Ultimately, a shift in the political-economic paradigm can be identified if the goals of policy have changed altogether, as opposed to merely the adjustment of or even complete change in an existing policy or set of policies.<sup>3</sup>

Paradigm shifts can only be identified retrospectively, after the political and economic uncertainty and instability associated with a period of change has calmed and a new equilibrium emerges. This has been the case in economic history over the last century, at least in the experience of Anglo-American political economy, which can be broadly split into two major periods of breakdown and transition from one political-economic paradigm to another. The first took place between the First World War, the enduring crises of the interwar period, and the creation of the Bretton Wood institutions and activist welfare states after World War Two. It led to a forty-year period of economic orthodoxy largely founded on Keynesian macroeconomics and policy approaches often described as the ‘post-war consensus’ in Britain and coinciding with the thirty-year post-war economic expansion. We refer to this political-economic paradigm as ‘embedded liberalism’.<sup>4</sup> The second breakdown and transition took place between the currency and oil shocks of the early 1970s and the adoption of a pro-market suite of

<sup>2</sup> Analysis in this section is based on: Stirling A and Laybourn-Langton L (2017) ‘Time for a New Paradigm? Past and Present Transitions in Economic Policy’, *The Political Quarterly*, 2017, doi:10.1111/1467-923X.12415; and Laybourn-Langton L and Jacobs M (2018) ‘Paradigm shifts in economic theory and policy’, *Intereconomics*, doi: 10.1007/s10272-018-0737-4.

<sup>3</sup> Hall P (1993) ‘Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain’, *Comparative Politics*, Vol. 25, No. 3, 1993.

<sup>4</sup> Ruggie, JG (1982) ‘International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order’, *International Organization* 36(2).

policies, including deregulation, privatisation and financialisation, in the 1980s. This led to the period of free market economic ideas widely known as ‘neoliberalism’<sup>5</sup> from the 1980s to the present day, to which we refer to as the ‘neoliberal paradigm’. The shift process and constitution of political-economic paradigms across the period differ between Western as well as non-Western countries. This essay focusses on the first period of breakdown and transition and largely considers the experience of the UK, though the lessons it draws hold relevance beyond.

## 2. The shift to post-war embedded liberalism

Patterns of change can be observed across the period in which the political-economic paradigm shifted before, after and during WWII. Similar patterns are observable throughout the period of breakdown and transition during the seventies and eighties. In both cases, this shift process can be characterised into seven stages; here, we inspect the period from WWI to after WWII.

**1. Classical liberal orthodoxy dominated economic debate and policy.** Prior to WWI, governments took a largely laissez-faire approach to economic policy, which was dominated by the belief that markets operated efficiently without government intervention. This belief was manifest in the ‘Treasury View’, which asserted that government spending crowded out private spending and thus had no net effect on economic activity. Without distortionary government intervention, efficient markets would clear, with new supply meeting demand if it were to outstrip production, leading to a state of general equilibrium across the economy. Unemployment was seen as the consequence of unnecessary interference from the state leading to a misallocation of resources or resulting from the idleness on the part of the unemployed—or the latter facilitated by the former through provision of social security. This view began to change prior to WWI with the introduction of modest health insurance, state pensions and other welfare reforms in a number of nations, which were expanded after the war, signalling a move beyond the ‘night-watchman state’. The expansion of formal and informal empires provided lucrative markets and cheap labour, and significantly increased inflows of extracted resources to imperial metropolises, at great cost to colonised nations. In turn, Western imperial hegemony provided the foundation of an increasingly global economic system. Technological advancements in transport and communications had further accelerated the globalisation of capital and labour, with many countries lowering tariffs and other barriers as they embraced free trade.

**2. Shocks and crises gripped the world.** The First World War ushered in an era of instability, constituting a profound crisis, not just in the prevailing political-economic paradigm, but in capitalism in general. The high human and material costs of the war had a non-trivial effect on many European nations and the colonies upon which they relied. A slump, following the immediate post-war boom, contributed to high unemployment which, in the case of the Britain, rarely fell below 1 million across the interwar period. Unemployment was persistently high in many other nations. Conditions of total war led to unprecedented changes to the size and role of the state, the composition and power of the workforce, and the structural arrangements of domestic economies. Globally, the USA replaced the British Empire as the world’s most significant creditor, marking its emergence as an economic ‘super-hegemon’. The diversion of Western production and seaborne trade was exploited by the USA, Japan and other regional powers to capture markets, shifting the power balance in international trade. The breakdown of the Ottoman, Austro-Hungarian and German empires contributed to enduring geopolitical destabilisation. The Soviet Union emerged as an ideological competitor to Western capitalist hegemony. Though the experience of post-war recovery differed across nations, the twenties

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<sup>5</sup> The term ‘neoliberalism’ is controversial in some circles, since it can carry strongly pejorative rather than merely descriptive connotations. We use it here as a conveniently descriptive term to characterise the dominant set of ‘free market’ theories, values and policies. A description of the main elements of neoliberalism is provided in Appendix 1. For more on the uses of the term ‘neoliberalism’, see: Hartwich OM and Sally R (2009) *Neoliberalism: The genesis of a political swearword*, the Centre for Independent Studies.

was marked by an ‘installation process’<sup>6</sup> for technological innovation, including mass consumption vehicles, communications technologies and medicines, which were both cause and effect of Fordist industrial management approaches and drove the urban consumption boom typified by the ‘Roaring Twenties’ moniker. By the end of the decade, the breakdown of the prevailing financial order precipitated the Great Depression, which fragmented trade and cooperation, exacerbating unemployment and socio-economic distress, thus stoking reactionary political movements. These and other factors led to the Second World War.

**3. Orthodox policies and ideas were inadequate.** To varying degrees, the classical liberal political-economic paradigm found itself unable to explain or effectively respond to these events. Two signal mistakes were made in the wake of the 1918 Armistice and over the course of the Versailles Peace Conference. Firstly, Allied nations rejected the plan for a new financial system backed by public authority put forward by John Maynard Keynes and the British treasury, choosing instead the pre-war private system underpinned by the gold standard. Secondly, the Allies broke the terms of the Armistice Agreement and imposed putative reparation conditions on Germany, exacerbating hyper-inflation and damaging structural constraints on the German economy. The consequences were severe. In Germany and across Europe, economic stagnation and crisis came at great social cost, driving political extremism. Continuance of an international financial system underpinned by private authority encouraged unsustainable fiscal and monetary decision-making, and tied nations together in a web of dependence. Crucially, this served as the transmission mechanism for the Great Depression. When crisis spread across the world, the gold standard led countries to pursue deflationary policies at a time when expansionary measures could have addressed stagnation in general and high unemployment in particular. In Britain, a dependence on increasingly uncompetitive staple industries and obsolescent manufacturing and a lack of investment in infrastructure and public goods provided founded interwar stagnation. This stagnation was worsened by the ill-advised return to the gold standard and the orthodox domestic response to the banking crisis in 1931, with cuts in wages and public spending having a deflationary impact.

**4. The status quo was increasingly challenged.** The unprecedented and persistent crises of the interwar years eroded the legitimacy of the classical liberal political-economic paradigm and its proponents and beneficiaries. Theoretical tenants were questioned, foremost of which was the assertion that increases in unemployment were part of the normal business cycle—and so the economy would naturally self-correct—which was undermined by persistently high unemployment. The origins of the Great Depression led to a backlash against financial sector interests and the complicity of government. Economic distress emboldened the rise of labour movements who, through trades unions and political parties, gained mass support for their criticisms of the status quo, and won key legislative victories and elections. In tandem, ethno-nationalist and fascist movements scored political victories, effectively marking themselves in violent contradistinction to the failures of the status quo and the arguments of rival political movements. Increases in suffrage and living standards, including as a result of the interwar consumer boom, changed the political landscape in some countries, increasing the political agency and economic power of large share of the population. Self-determination movements in colonial nations were spurred by the ongoing destabilisation, its effects on a range of communities, and the missteps of imperial powers. The severity of the crisis also challenged the central tenants of capitalism itself, benefiting socialist and communist movements. The Soviet Union further secured its position as an ideological competitor to Western capitalist hegemony.

**5. An alternative approach was emerging.** Even before the Great Depression, a range of mainstream politicians, economists and allied organisations were calling for policies constituting a

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<sup>6</sup> Perez C (2004) ‘Technological revolutions, paradigm shifts and socio-institutional change’, in *Globalization, economic development and inequality: An alternative perspective*, pp.217-242.

major break from the prevailing political-economic paradigm, including more regulation, the provision of universal public services, and an end to imperialism. After the Wall Street Crash, these ideas gained even greater traction. Countercyclical public spending was advocated by, among others, Keynes, through *The Means to Prosperity* and, shortly after and with greater effect, *The General Theory of Employment, Interest and Money*. These insights provided an effective theoretical justification for interventionist policy, arguing that high unemployment and low investment exist structurally and can be solved by deliberate intervention benefiting from multiplier effects; thus, the modern discipline of macroeconomics was founded. A growing voice for lower income groups coupled with ongoing social and economic distress bolstered support for investment in public goods, worker rights, and state intervention. But this was only one alternative current, and one that remained within the overall paradigm of Western capitalism. Beyond this, the relative economic success of the Soviet Union served as both an intellectual and, to a lesser degree, geopolitical counterweight to orthodox Western political economy. Fascist movements emerged in many Western countries and, in some cases, won political power. In the years preceding WWII, it appeared to some that the future favoured those paradigms constituting a radical break with Western capitalism, at least in its pre-WWI conception, particularly communism and fascism.

**6. The alternative increasingly gained acceptance.** The New Deal programmes undertaken by the US government in response to the Great Depression marked a significant break from the orthodoxy, including through dismantling participation with the gold standard, instituting financial sector regulation, and funding public works, jobs guarantees, and social security schemes. Keynesian ideas underpinned similar efforts in Sweden and other countries, as well as Nazi Germany. The outbreak of WWII saw governments once again mobilise for total war, bringing large parts of the economy into public ownership and coordination. In Britain, the government oversaw an unprecedented mobilisation of people and productive capacity in prosecuting the war, including throughout the British Empire, with financial inflows coming from the Stirling Area and resources and personnel from colonies, often at severe cost to home nations. In doing so, state planning and directed technological development and deployment became accepted across political lines and large-scale, unprecedented social mixing further fractured the pre-war political settlement. The power of labour movements and their ideas were enhanced by the key role of trades unions in maximising war production and through the creation of socialised institutions, such as a centralised Emergency Hospital Service, which entrenched a greater role for the state. Globally, the mobilisation of resources and the devastation wrought by the war irrevocably altered the balance of economic and geopolitical power, including through the further erosion of European export pre-eminence, the exhaustion of imperial power, and the emergence of the USA as a capitalist hegemon locked in geopolitical competition with the Soviet Union.

**7. The alternative became the new orthodoxy.** After the war, the creation of the Bretton Woods system inaugurated a new global monetary order, entrenching a radical break from the primarily private, pre-war construction. The European Recovery Program (or Marshall Plan) spurred the reconstruction of war-ravaged Europe and bolstered the economic and geopolitical power of the USA. The Bretton Woods settlement and Marshall Plan formed key parts of a wider foundation of post-war rules and institutionalism that marked the pre-eminence of a new political-economic paradigm within and across countries. These included the United Nations and its founding charter, which placed the right of self-determination into the framework of international law and diplomacy, thus speeding the end of the era of formal imperialism. Many newly independent countries soon adopted explicit socialist or neo-Marxian development models. In Britain and many other Western nations, the imperatives of post-imperialism and post-war reconstruction saw successive governments pivot domestic economic strategies toward a lasting break from the old paradigm. Elements included targeting full employment, building broad welfare states, extending labour rights and accommodating an institutional settlement with trades unions, redistributive taxation, nationalisation as part of a mixed economy, and demand



management. These policies were embedded through a new academic consensus that largely internalised macroeconomic concepts in general and the ideas of Keynes in particular and, in some cases, upon the election of signal governments, such the 1945 election of the Labour Party in Britain. The advent of the Cold War furthered the interplay between interventionist industrial strategy, state-led technological development and deployment, and militarism. All these elements featured in and were extended across nations through the development of international institutionalism, including the antecedents of the European Union.

Building on the Polyanian conception that markets had previously become ‘disembedded’ from political and other societal controls, this new orthodoxy became known as ‘embedded liberalism’. As David Harvey has noted, this was because “market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy.”<sup>7</sup> Thus the new paradigm constituted a compromise between the benefits of free market structures developed in the classical liberal era and the contemporary imperative for domestic economic autonomy—though operating within an overall, predominantly Western capitalist paradigm.<sup>8</sup>

Embedded liberalism presided over a period of worldwide economic expansion.<sup>9</sup> Growth rates and employment levels were high and sustained. Progressive taxation, social security, improved labour rights, and other state intervention, as well as rising growth, helped reduce income and wealth inequality. In turn, economic freedoms played into the expansion of social freedoms. Mass adoption of Western consumer lifestyles, themselves a result of rapid technological development and deployment, further spurred economic and social development. The Bretton Woods system presided over unbroken financial stability, unprecedented both before and after this period. It is for these reasons and more that the post-war economic expansion is often referred to as the ‘golden age of capitalism’ among Western historians. The era also saw rapid decolonisation, which played into the wider movement of economic and political power across the world.

### 3. Lessons for today

Today, many academics and commentators have drawn parallels between the destabilisation and fragmentation of the interwar years and the persistent political and economic dislocation coming in the wake of the 2007/8 financial crisis. In many respects, these comparisons are overblown. The world of the twenties and thirties, with its formal empires, pre-digital communications and stratified societies, was vastly different to the modern world. Yet in other respects, the similarities are clear. A highly unequal world experienced major economic crisis which spurred compounding economic and then social consequences manifesting in a political backlash that challenged the status quo, both within and across countries. By drawing comparisons between the crises of the interwar period and of the post-crash world we can see that the shift from the classical liberal political-economic paradigm to its post-war replacement affords some lessons for those seeking to realise a new paradigm today. In doing, it is useful to group these insights into two areas: the intellectual arena, covering the ideas and policies developed, prosecuted and implemented by those seeking a new paradigm in and after the interwar period; and the tactical arena, relating to the strategies and actions employed by these people and their allied organisations. We explore each in turn.

<sup>7</sup> Harvey D (2005) *A Brief History of Neoliberalism*, Oxford University Press.

<sup>8</sup> Blyth M (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge University Press.

<sup>9</sup> Skidelsky R (2010) *Keynes: the return of the master*, Allen Lane.

## Ideas and policies

In general, many of the policy agendas developed and eventually implemented by those seeking a new paradigm before and after WWII maintain their relevance today, with many contemporary economists and policymakers revisiting the arguments and ideas of that era. In the immediate aftermath of the 2007/8 Crash, Keynesian stimulus policies were implemented by countries across the world and often in synchrony, an outcome which was justified in reference to the devastation wrought by the failure to do so in the interwar period.<sup>10</sup> Persistent falls in the labour share of income and the steady increase in casualised and insecure work have bolstered arguments for improving the rights and powers of unionised labour, echoing those made by labour movements after WWI, as well as before. The calls for a ‘Green New Deal’ explicitly invoke the US government’s New Deal programme in arguing for large-scale mobilisation, backed by public investment, to ameliorate continuing economic stagnation, growing social distress and inequality, and ecological disaster, a state of affairs that readily draws comparisons with the situation during the Great Depression and the environmental catastrophe of the Dust Bowl. On the other hand, it is notable how many of the valuable insights and policies of embedded liberalism have been side-lined over the last decade, often at great social and economic cost. A leading example is the imposition of austerity policies after the initial period of stimulus in the wake of the 2007/8 Crash. Much of the justification for fiscal consolidation was reminiscent of the arguments made under the classical liberalism, including around the disutility of government spending, the virtue of parsimony, and the low moral character of the unemployed and those requiring state assistance.<sup>11</sup> Furthermore, the utilisation of household metaphors, particularly that the government should act to reduce spending during a slump, stood in contradiction to the insights of mainstream of the macroeconomics discipline, which rested on the theoretical and practical lessons of the interwar period.

One of the most important policy lessons from the shift to embedded liberalism—and indeed the subsequent shift to neoliberalism—is that significant structural change to the financial system is an important factor in realising a paradigm shift. In the wake of WWI, Keynes (among others) proposed a new international financial system underpinned by the issuance of German bonds guaranteed by Allied governments as a means to finance post-war reparations and recovery. Ultimately, the bonds would be purchased by other governments, forming an international currency moderated by Allied economies that could serve as “payment of all indebtedness between any of the Allied and Associated Governments.”<sup>12</sup> Keynes’s scheme would have marked a radical break from the status quo in which the global financial system was largely constituted and moderated through private means. But the scheme proved too radical for the United States, which ignored the positive endorsement of the UK government and stressed the “desirability of post-war lending going through the usual private channels.”<sup>13</sup> While the US riposte came in the form of a letter from President Woodrow Wilson, the letter had been drafted by a partner at J. P. Morgan, which had expanded foreign lending over the period of the war and wished to protect these interests.<sup>14</sup> With the signing of the Versailles Treaty passed a key opportunity for major financial system reform. A European recovery was superseded by the imposition of putative reparations on Germany. The continued advance of risky lending and speculation precipitated the Wall Street Crash. The era of the Gold Standard in particular and private financial governance in general was allowed to persist, the breakdown of which led to the Great Depression and the its catastrophic economic consequences. The resultant social distress, political extremism and, eventually, war was imprinted on

<sup>10</sup> Skidelsky R (2010) *Keynes: the return of the master*, Allen Lane.

<sup>11</sup> Stiglitz J (2015) ‘A Greek morality tale’, *Project Syndicate*, 3. <https://www.project-syndicate.org/commentary/greece-eurozone-austerity-reform-by-joseph-e-stiglitz-2015-02>

<sup>12</sup> Quoted in: Pettifor A (2018) ‘The indefatigable efforts of J. M. Keynes’, *The Times Literary Supplement*, 20 August 2018. <https://www.the-tls.co.uk/articles/public/jm-keynes-footnotes-to-plato/>

<sup>13</sup> Rauchway E (2015) *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace*, Basic Books.

<sup>14</sup> *ibid*

the minds of those constructing the Bretton Woods system in the years leading up to and after WWII. The system ensured currency stabilisation and allowed for capital controls, providing governments with autonomy over domestic policies to promote full employment. The World Bank and International Monetary Fund provided the institutional foundation for the system and public finance for post-war recovery and to support less industrialised nations. In turn, the system helped stimulate the global economic expansion and minimised financial instability, thus providing the foundation of embedded liberalism across countries. Crucially, this system allowed for expansionary domestic fiscal policy, itself founded on Keynes's central contribution to embedded liberal thought, that monetary policy was and could be a highly limited tool of economic management. Together, these were major factors in precipitating and entrenching a paradigm shift.

Alongside finance, the paradigm shift to embedded liberalism saw major changes in the balance of ownership across the economy in many countries, away from private control. This process was particularly marked in the UK, where the post-war Labour government brought entire industries into public ownership, including coal, steel, civil aviation, railways, electricity, water and gas. This was done for a variety of reasons, as the case of coal serves to illustrate. Collieries across the UK were in private ownership outside of wartime, an arrangement which was widely seen as responsible for the poor state of the industry and dangerous and exploitative working conditions. Successive government reports called for changes, culminating in the Reid Report, which concluded, on the cusp of the 1945 election, that there should be,

“...a National Authority endowed by Parliament with really effective powers to ensure (i) the merging of the industry into units of such sizes as would provide the maximum advantages of planned production, and the conservation of our coal resources in the national interest, and (ii) the efficient working of the coal-fields by these units.”<sup>15</sup>

At the time, the wartime coalition government sought to implement these proposals as a tool of industrial policy, in order to “regain lost ground, reduce substantially the costs of production and recapture our export trade in coal” and stressed that the proposals had “received support in almost every quarter” and across political lines.<sup>16</sup> Soon after, the Labour Party won a large parliamentary majority and the coal industry of nationalised and managed by a public corporation, the National Coal Board, as part of a wider strategy of nationalising weak or strategically important industries. This stance was underpinned by a new theoretical orthodoxy that deemed public ownership and coordination more efficient and effective than the private sector.

Nationalisation as a tool of industrial policy coexisted with a broad, overlapping mix of justifications for and strategies around public ownership. The government featured over thirty members of parliament who were directly sponsored by mining unions and, alongside many others, sought nationalisation in response to the poor working conditions experienced by miners and the extractive behaviour of private owners. This approach can be seen as a subset of approaches that employed public ownership as a means to prosecute social policy goals, as was the case with the nationalisation of large parts of the healthcare sector through the creation of the National Health Service. Furthermore, some sought to alter the balance of power between capital and labour through public ownership or even as a means to usher in a transition from capitalism to socialism. Ultimately, the mixed economy model greatly increased the purview of public sector activity in the economy and, with it, the power of government. In turn, it changed the balance of power in the economy, increasing the power of labour and trades unions at the expense of capital owners, creating constituencies who were invested in public ownership. To varying degrees and with mixed results, public ownership also opened up a greater level of accountability over certain key sectors, bolstering wider public engagement with and support for

<sup>15</sup> Summarised in a government memo. See: <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-66-65-wp-45-308-58.pdf>

<sup>16</sup> See: <http://filestore.nationalarchives.gov.uk/pdfs/small/cab-66-65-wp-45-308-58.pdf>

certain public institutions, such as the National Health Service. Over the following decades, public control and therefore oversight over key elements of the economy became a central pillar of the cross-party post-war consensus inaugurated by the paradigm shift to embedded liberalism.

In many respects the shift to neoliberalism was predicated on reversing these changes to the constitution of financial markets and the balance of ownership within the economy. The breakdown of the Bretton Woods system was followed by the liberalisation of its institutions and the deregulation of financial markets, as well as the reduction in the size and role of the state, chiefly through privatisation, thus disembedding markets from public purview. Ultimately, this created a reflexive process that created a new balance of power, this time favouring private capital. This process reached the global level through the creation of transnational economies expanded and enforced by supranational institutions. As David Singh Grewal has written, in this process, “first comes the empowerment of transnational (private) agents, on neoliberal grounds, which stimulates a supranational agenda in filling out cross-border governance gaps as necessary.”<sup>17</sup> The result has not just been a large shift in the power balance of economies, but a shift in the overall location of power which has favoured transnational private actors at the expense of domestic governments and other public actors. Moreover, in the case of finance, deregulation and the privatisation of global financial structures has been a factor driving financial crises, damaging power imbalances, particularly between global north and south, and the continued expansion of investment in environmentally damaging activity. As contemporary economists and commentators have argued, a fundamental re-evaluation of global financial structures is therefore needed, of the order undertaken at the Bretton Woods conference, without which a wider political-economic paradigm shift may not be possible. Similar arguments are made with respect to ownership, with a number of political movements seeking to substantially increase public and wider models of shared ownership, both as a means of prosecuting policy goals as well as changing the power balance within economies.<sup>18</sup>

If the policy agendas around finance and ownership provide salutary lessons for today, a number of intellectual and policy failures of embedded liberalism are important in the face of contemporary challenges. These include the perpetuation of imperial-era power imbalances through the construction of the post-war international order,<sup>19</sup> the inherent weaknesses of that order and the role these played in its eventual demise, and the missed opportunity to bring a greater level of realism into academic and applied economics, particularly in relation to the loss of Keynes’s insights around the importance of expectations, risk and uncertainty.<sup>20</sup> Another key problem with the paradigm of embedded liberalism was the failure to recognise and act on environmental breakdown. Broadly, the global economic expansion over which embedded liberalism presided came at a critical environmental cost, with measures of environmental impact increasing exponentially as part of the ‘great acceleration’ in human activity and impact impelled by increased globalisation, technological development and rising living standards.<sup>21</sup> This process was accelerated by the neoliberal paradigm and has driven the world to the point of catastrophic environmental breakdown. This process was and is still related to the primacy of narrow measures of economic progress that guided decision-making, such as gross domestic product (GDP), which does not incorporate measures of environmental degradation or a wider understanding of the factors that drive human progress—another shared feature with the neoliberal paradigm. This has led environmental scientists, academics and policymakers to conclude that a shift away from neoliberalism will likely require a move beyond an economic development model founded on unsustainable resource use and the adoption of more suitable measures of progress. If this were to occur,

<sup>17</sup> <https://lpeblog.org/2019/04/17/globalism-and-the-dialectic-of-globalization/>

<sup>18</sup> Berry C and Guinan J (2019) *People Get Ready!: Preparing for a Corbyn Government*, OR Books.

<sup>19</sup> See, for example: <http://www.un-documents.net/s6r3201.htm> and [https://unctad.org/en/PublicationsLibrary/osgdp20153\\_en.pdf](https://unctad.org/en/PublicationsLibrary/osgdp20153_en.pdf)

<sup>20</sup> Kahn, “The making of the *General theory*” (1984)

<sup>21</sup> Lewis SL and Maslin MA (2018) *Human planet: How we created the Anthropocene*, Yale University Press.

then the next paradigm would constitute a more fundamental shift than occurred across both the previous two shifts.<sup>22</sup>

## **Tactical**

Paradigm shifts are not accidents of history, exogenous events visited upon the world by the grand forces of economic time. In many ways, they result from the concerted efforts of a range of interested parties—including academics, politicians, union members, campaigners, technocrats—who, to varying degrees and in their own way, wish to realise change. Like the currents of a wave, the vectors of this ‘ecosystem of influence’ need not align but only flow within a general direction in order to build irresistible momentum. Their number and eventual success are a function of the travails and crises, whether real or perceived, afflicting economies and wider societies. In these moments of disjuncture, those who take effort to build coalitions, permeate narratives, ready influential ideas and policies, and organise for political power may best hope to affect the direction of the wave and the magnitude of change washing over societies. Famously, this was done to some effect in the period prior to the neoliberal paradigm shift. It was also done in advance of paradigm shift to embedded liberalism. In understanding how this happened, three areas of focus hold lessons for today: the composition of the ecosystem of influence that developed and prosecuted the agenda of embedded liberalism; the narratives employed and the media through which they were disseminated; and the bases of power that this ecosystem targeted and the means by which they did so. We explore each in turn.

### **The ecosystem of influence: greater than ideas**

The intellectual contribution of Keynes dominates perceptions of the process by which the paradigm shifted away from the classical liberal paradigm, both in academia and policymaking. This contribution was essential, and Keynes was, as an individual, surely responsible for an astonishing portion of the effort to overturn the classical orthodoxy. However, Keynes’s contribution should not distract from understanding his role within a wider ecosystem of influence and the other powerful currents of change. All too often, a focus on Keynes the economist and his epoch-defining ideas can lead us to fall into the trap of seeing change as coming primarily or even singularly from the persuasive force of argument. In this view, if we can marshal enough evidence and present it succinctly, even persuasively, through rhetorical force, and do so to the right people at the right time, then we are sure to see the world change. This is a ‘common room theory of change’ and to employ it, explicitly or implicitly, is to misread history.

The shift to embedded liberalism had been decades in the making before the interwar period. Throughout the 19<sup>th</sup> century, socialist and labour movements had spread across Europe and matured in their efforts to seek radical social change. In Britain, these movements manifested in a number of increasingly influential institutions. These included those associated with the trades union movement and the Fabian Society, an early think tank that sought the implementation of democratic socialism through gradualist means, as opposed to the revolution sought by others. Unions and the Fabian Society were integral in the founding of the Labour Party, which provided a platform for the growing political voice of socialist and social democratic ideas, placing pressure on mainstream parties. This pressure was a factor in the turn away from classical liberalism undertaken by the Liberal Party, most notably through its socially progressive ‘People’s Budget’ of 1911, which inaugurated key elements of the early welfare state. Moreover, the networks built up around the Fabian Society and the Labour Party extended their influence, and that of their social and economic programme, across society. At the heart of this

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<sup>22</sup> Laybourn-Langton L and Hill T (2019) *Facing the crisis: Rethinking economics for the age of environmental breakdown*, IPPR. <http://www.ippr.org/research/publications/rethinking-economics-for-the-age-of-environmental-breakdown>

network were social reformers Beatrice and Sidney Webb, who were integral in the creation of the London School of Economics and Political Science (LSE) in 1895, which was founded using a grant to promote the Fabian's objectives and with the aim of researching poverty, inequality and related socio-economic issues. The Webbs and other Fabian members also founded the *New Statesman* (in 1913), an influential political magazine, and contributed to the co-operative movement, unionisation, and major government reports on poverty and other problems.

By the interwar years, these various channels had reached new levels of influence just as the flow of national and international political economy increasingly began to change course. This influence extended across the political spectrum and outside of politics. In academia, Liberal supporters, such as Keynes and William Beveridge, the Director of the LSE, helped build the theoretical and empirical foundations of a new paradigm, with Keynes's *General Theory* constituting a seminal intervention. Academics further to the left were also influential, including Harold Laski, a political theorist who became president of the Labour Party and tutored future leaders, including Jawaharlal Nehru, John and Robert Kennedy, and Pierre Trudeau. Throughout, these and other academics contributed to the development of policy programmes. Foremost among them was Beveridge, who was tasked by the government during WWII to survey existing social security arrangements and make recommendations. The resultant 'Beveridge Report' served as the basis for the creation of the National Health Service and the post-WWII welfare state. An increased role for the state in ameliorating social ills and acting to direct economic activity won key supporters in the Conservative Party, many of whom were concerned about the impacts of high levels of unemployment, shocked at the squalor and ill health exposed by the social mixing during mobilisation for war, and saw economic logic in improving the health of the workforce.<sup>23</sup> This support increased markedly during WWII as the Conservative-Labour coalition presided over the state-directed war effort and developed a suite of policy proposals for rebuilding Britain during peacetime. Throughout, this support was bolstered by the increasing size and influence of trades unions in effectively mobilising the workforce and the role of their leaders within government. Furthermore, the unprecedented social mixing resulting from the assembly of large standing military forces helped expand social understanding and solidarity across the population. On the eve of the 1945 general election, fought in the dying days of the war, these elements and more had combined to push the flow of domestic political debate toward a situation in which parties sought to introduce variants on a suite of interventionist policies in a bid to 'win the peace'. In the end, the most radical of these proposals were made by the Labour Party, who won the election.

Overall, the contribution of academics and theoretical ideas was a necessary but not sufficient condition in compelling the momentum toward a paradigm shift. Within academia, policy-making and other elite communities, the contribution of Beveridge, the Webbs and others was essential, more so in the case of Keynes and the broad impact his ideas and efforts had across economics as theory and practice. But these contributions were not sufficient, as the limited acceptance of the ideas and policies propounded by these and others during the interwar period serves to prove. With the discontinuities of the breakdown of the international financial order, the Great Depression, and WWII came an unprecedented moment of opportunity as the orthodox paradigm failed to provide explanation nor policy to ailing decision-makers. In effectively exploiting this opportunity, proponents of a new paradigm benefited from having assembled the means of influencing elite and popular opinion, organised as they were through a range of organisations and networks. Without this organisation, it is questionable whether the arguments and policies employed by the proponents of a new paradigm would have reached prominence. Within this, influential, energetic and politically-minded academics—academics as leaders—such as Keynes were important. But so were trades union leaders, such as Ernest Bevin, who led the powerful Transport and General Workers' Union and was an influential Minister of

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<sup>23</sup> Addison P (2011) *The Road To 1945: British Politics and the Second World War Revised Edition*, Random House.

Labour during the wartime coalition. As were career party politicians, such as Clement Attlee, the Labour leader whose masterful facilitation helped further a new paradigm during the wartime coalition and afterward, when he was prime minister of a majority Labour government.<sup>24</sup> Sometimes these politicians brought with them practical experience of the world they wished to change, such as Aneurin Bevan, who, as Minister for Health, partly founded the National Health Service on a model of socialised healthcare pioneered in Tredegar, the mining town in which he grew up.<sup>25</sup> Across the aisle, a younger generation of Conservatives supported the new orthodoxy and entrenched it upon becoming senior politicians, such as Harold Macmillan, who, as prime minister in the fifties and sixties, was a vocal supporter of the post-war consensus. In turn, these actors were responding to the demands of political movements and the electorate at large.

Many of the ideas and policies argued for by these leaders were developed and disseminated by the networks associated with the Fabian Society, its allied academic circles, and the trades union and wider labour movements. Together, their effect was a patient strategy that navigated, and at times rebuffed, efforts for faster, more revolutionary change. As the first booklet of the Fabian Society noted, when explaining its connection to Quintus Fabius, the famed Roman general, “[f]or the right moment you must wait, as Fabius did most patiently, when warring against Hannibal, though many censured his delays; but when the time comes you must strike hard, as Fabius did, or your waiting will be in vain, and fruitless.”<sup>26</sup> In later years, early proponents of the neoliberal paradigm shift studied the activities of the Fabians and the wider set of ‘professional second-hand dealers in ideas’, as Friedrich von Hayek referred to them in his 1949 essay on ‘the intellectuals and socialism’.<sup>27</sup> Hayek found that excellent arguments are not enough; the realisation of their ends must be prosecuted through persistent, organised engagement with those communities who are best placed to absorb and act on ideas and, thence, to influence wider opinion. For those who helped realise the paradigm of embedded liberalism, these communities were often formed among the elite, an observation that Hayek was quick to remind those seeking a shift to neoliberalism. The success of these efforts are also themselves a function of the priorities of powerful elites, as well as of developments outside of elite groups, such as shifts in public opinion or the results of an election. This is clear when contrasting the two signal conferences that buttress the period of paradigm shift, the first at Versailles and the second in Bretton Woods. While both relied on capable individuals making reasoned arguments to win the day, these people were operating within a wider political-economic context, as illustrated by the differing reception accorded to Keynes’s ideas on both occasions. Even at Bretton Woods, when the great current of history was flowing in his direction, the power and organisation of the America delegation was able to overrule the lucid arguments and irresistible logic of Keynes’s alternative international monetary architecture.

### **Narratives: The era of the caught audience**

Narratives—the common themes binding together the web of stories through which people conceive political-economic ideas—are a key factor in developing and prosecuting an alternative paradigm. Many of the accounts of the shift to neoliberalism stress the importance of how the language of its proponents invoked freedom and liberty—concepts with particular resonance in the context of the Cold War—and tied them to the neoliberal policy agenda of deregulation, privatisation and financialisation. Similarly, the shift to embedded liberalism featured a range of effective narratives that sought to justify and win support for the new policy agenda. In the UK, these were developed in particular relation to the inequality and privation experienced before WWII and the desire to inaugurate a new society in the aftermath of victory. During the war, unprecedented mobilisation blurred social

<sup>24</sup> Bew J (2016) *Citizen Clem: A Biography of Attlee*, Hachette UK.

<sup>25</sup> See: <https://wellcomecollection.org/articles/WyjHUicAACvGnmJI>

<sup>26</sup> See: <https://fabians.org.uk/about-us/our-history/>

<sup>27</sup> Hayek FA (1949) ‘The intellectuals and socialism’, *The University of Chicago Law Review*, 16(3), pp.417-433.

boundaries and those seen to eschew shared responsibilities were attacked as greedy or furthering the cause of damaging “vested interests.” In turn, academics and policymakers maligned the inefficiency of an economy organised along laissez-faire lines and sought “euthanasia of the rentier,” in Keynes’s memorable phrase. For politicians espousing a new paradigm, theirs was a programme to “win the peace,” with a comprehensive welfare state—providing for all from “cradle to grave”—and full employment allowing people “freedom from [the] fear” associated with pre-war unemployment, sickness and squalor. In turn, the true potential of the country and its people could be unleashed, as “secure people dare.”

These narratives were effective, including when they came up against those attacking the new paradigm’s policies as a means to defend classical liberalism. An exchange between Winston Churchill, the Conservative prime minister, and Clement Attlee, his Labour deputy in the wartime coalition government, is a seminal example. On 4<sup>th</sup> June, during the 1945 election campaign, Churchill made a speech on BBC radio commenting on Labour’s policy proposals, which included the following lines:

“No Socialist Government conducting the entire life and industry of the country could afford to allow free, sharp, or violently worded expressions of public discontent. They would have to fall back on some form of Gestapo, no doubt very humanely directed in the first instance. And this would nip opinion in the bud; it would stop criticism as it reared its head, and it would gather all the power to the supreme party and the party leaders, rising like stately pinnacles above their vast bureaucracies of civil servants, no longer servants and no longer civil.”<sup>28</sup>

The next day, Attlee made a speech in reply, which featured this segment:

“I entirely agree that people should have the greatest freedom compatible with the freedom of others. There was a time when employers were free to work little children for sixteen hours a day. I remember when employers were free to employ sweated women workers on finishing trousers at a penny halfpenny a pair. There was a time when people were free to neglect sanitation so that thousands died of preventable diseases. For years every attempt to remedy these crying evils was blocked by the same plea of freedom for the individual. It was in fact freedom for the rich and slavery for the poor. Make no mistake, it has only been through the power of the State, given to it by Parliament, that the general public has been protected against the greed of ruthless profit-makers and property owners.”<sup>29</sup>

The interchange is often credited with having an impact on the election, which the Labour Party won with a landslide. Churchill’s elision of the Labour Party’s policy programme and Nazism was seen as a “fiasco” in terms of public opinion, particularly in the context of recent revelations over the Bergen-Belsen concentration camp, which had been liberated by British forces.<sup>30</sup> Indeed, Churchill’s speech, and Attlee’s “very adroit quiet reply,” did much damage to Churchill’s personal reputation. Being broadcast on BBC Radio, which dominated wartime broadcasting, election speeches often reached a large segment of the population and as much as an average of nearly half of the potential total audience.<sup>31</sup> Others read about the exchange in newspaper reports. Mass-Observation—a social research organisation undertaking qualitative evaluations of political opinion—concluded in its report on the election that, “[i]t would be difficult to exaggerate the disappointment and genuine distress aroused by this speech,” and that Attlee’s contribution was often viewed positively.<sup>32</sup> Over two thirds of those polled by Gallup thought Churchill’s speech “bad.”<sup>33</sup>

These speeches, and the narratives associated with embedded liberalism in general, hold two main areas of interest for efforts to precipitate a paradigm shift today. Firstly, neoliberal narratives are often founded on concepts of negative liberty, arguing for freedom from constraints imposed on

<sup>28</sup> Quoted in Toye R (2010) ‘Winston Churchill’s “crazy broadcast”: party, nation, and the 1945 gestapo speech’, *Journal of British Studies*, 49(3), pp.655-680.

<sup>29</sup> Quoted in Telfer K (2015) *The Summer of 45: Stories and Voices from VE Day to VJ Day*, Aurum Press Limited.

<sup>30</sup> Toye R (2010) ‘Winston Churchill’s “crazy broadcast”: party, nation, and the 1945 gestapo speech’, *Journal of British Studies*, 49(3), pp.655-680.

<sup>31</sup> Briggs A (1995) *The History of Broadcasting in the United Kingdom: Volume IV: Sound and Vision*, Oxford University Press.

<sup>32</sup> Quoted in Toye R (2013) *The roar of the lion: the untold story of Churchill’s World War II speeches*, Oxford University Press.

<sup>33</sup> Addison P (2011) *The Road To 1945: British Politics and the Second World War*, Random House.



individuals, particularly, or almost exclusively, pertaining to the actions of the state. While the classical liberal paradigm was, at least in theory, interested in both positive and negative conceptions of liberty, the application of narratives founded on conceptions of positive liberty were important rhetorical devices for those seeking a paradigm. We see this in Attlee's response to Churchill; freedom is embraced as a universal ideal but one that can be effectively realised through the state directed by elected means, a direct application to concepts of positive liberty conceived as enabling self-determination among peoples. Moreover, Attlee's narrative spoke to the lived experience of a great section of the population, both in terms of their experience of the failings of the old order and their hopes of an alternative. Today, politicians and allied movements are beginning to employ narratives relating to positive liberty and the role of non-private institutions in enabling self-determination and -realisation, including cooperatives and those associated with modern municipalism.

A second area of interest pertains to trust and the means of gaining access to information in the modern, digital era. In 1945, Churchill and Attlee, as well as leaders throughout the period of the post-war consensus, had a relatively attentive, trusting and captured audience digesting a slow flow of information. Deference, as a defining concept within the British class structure, was a factor in determining perceptions of information and arguments, as was the average level of education. Moreover, the population had exited a period of total war in which authority was sacrosanct and trust in government and political leaders was relatively high. A small selection of information sources was dominated by BBC radio broadcasts, enabling a more shared understanding of the world across the population. Today, access to information comes from myriad sources and the pace of the news cycle is far quicker than after WWII. Fears abound at the reliability of these sources, particularly those online. Trust in politicians, other authority figures, and institutions has fallen. The confluence of these processes has presumably impacted the ability for political-economic narratives to cut through to the general population, or at least the ability of individual politicians and parties to do so, and to create genuine moments of shared understanding of the world in general. These trends are exacerbated by the impact of social media, which, due to the advertising revenue model underpinning platforms, promotes engagement with news that elicits immediate emotional reward and lowers barriers to negative behaviours. These factors are implicated in the rise of ethno-nationalist political movements, themselves reminiscent of similar inter-war movements. On the other hand, modern technology has opened up unprecedented access to information and enabled levels of connection between people and groups hitherto impossible in human history. As such, the fundamental and rapid changes in media are non-trivial considerations for those seeking a paradigm shift today. The world of Churchill, Attlee and their BBC speeches, or indeed that of Thatcher, Reagan and broadsheet newspapers and television broadcasters, are vastly different from our own.

### **Power: centralised**

In the inter- and post-war period, the primary target of those seeking a new paradigm was clear: government. This was both in terms of developing and delivering a viable political project and winning power, as well as in changing the attitudes and approaches of decisionmakers across and related to government, including civil servants. Such an approach resulted directly from the constitution of power in Britain at the time, particularly in the wake of the increases in the power and centralisation of government during WWII. The state had the power, wherewithal, and authority by which to execute a fundamental shift in the political-economic paradigm, something which increased during and after the war, including by the protections to domestic policy afforded by the Bretton Woods system. This was evidenced at the Bretton Woods conference, where Allied governments, represented by politicians and civil servants, determined the structure of the post-war monetary system. It was also evidenced by the nationalisation programme undertaken by the Labour government, which, with the help of American financing and the financial weight afforded by the British Empire, was able to bring large sections of

the economy into public ownership and construct a welfare state of unprecedented size and scope immediately after an economically debilitating and physically destructive war. Furthermore, the desire to direct—and increase—state control was not just a pragmatic move to realise a paradigm shift but was seen as a necessary part of much of the political-economic programme executed by the Labour government, with Aneurin Bevan arguing that,

“...it is impossible for the modern State to maintain an independent control over the decisions of big business. When the State extends its control over big business, big business moves in to control the State. The political decisions of the State become so important a part of the business transactions of the combines that is the law of their survival that those decisions should suit the needs of profit-making. The State ceases to be the umpire. It becomes the prize.”<sup>34</sup>

Ultimately, it was the election of the 1945 Labour government that precipitated the full shift in the political-economic paradigm away from classical liberalism and entrenched the new paradigm of embedded liberalism, inaugurating the post-war consensus.

Two elements of this state of affairs are important for modern attempts to shift the political-economic paradigm. Firstly, power has become far more decentralised and dispersed in modern societies and economies. In many respects, governments still maintain sovereign right and authority to undertake large-scale policy action. Yet this capability has been steadily eroded. Capital markets, no longer as constrained as they were in 1945, are often recognised as barriers to domestic state action. The reduction in the scope and scale of state operations, including through privatisation of industries and public services, has rolled back public control across the economy and areas of society. Reductions in taxation and the persistent problem of international tax avoidance and evasion has robbed states of crucial revenues. International agreements can also impose decision-making constraints, such as the Energy Charter Treaty, an international investment agreement that has been implicated in constraining sovereign energy policy through investor state dispute settlements (ISDS).<sup>35</sup> Moreover, the erosion of state capacity to manifest change is potentially exacerbated by a fragmenting multilateral order, with powerful countries, including the United States of America, eschewing norms of international cooperation, or even flouting international law. As such, those seeking a paradigm shift today live in a world in which the balance and constitution of state power is vastly different and, in many ways, diminished. This may have non-trivial consequences for those seeking a change. For example, Labour Party commitments to nationalise utilities in the lead-up to the 2019 UK general election led firms to move operations offshore, including to jurisdictions with legal regimes best placed to protect investors or dispute ownership changes, while some legal experts noted these plans would fall foul of international treaties, such as the Energy Charter Treaty.<sup>36</sup>

A second element impacting contemporary efforts to realise a paradigm shift is the breakdown in the voting constituencies relied upon by those who realised the shift to embedded liberalism. In seeking an epochal shift in government, the Labour Party and its allies in 1945 could rely on relatively stable voter coalitions, particularly the support of trades unions and wider labour movement. Today, political allegiances have changed, and socio-economic constituencies associated with the main political parties have shifted. Those seeking to bring about governments delivering a new political-economic paradigm will have to identify and win the support of new constituencies of voters and manage the realities of the diffusion of power in the 21<sup>st</sup> century economy.

<sup>34</sup> Quoted in Perkins A (2003) *Red queen: The authorized biography of Barbara Castle*, Macmillan.

<sup>35</sup> Eberhardt P et al (2019) *One treaty to rule them all: The ever-expanding Energy Charter Treaty and the power it gives corporations to halt the energy transition*, Corporate Europe Observatory and the Transnational Institute. <https://corporateeurope.org/en/international-trade/2018/06/one-treaty-rule-them-all>

<sup>36</sup> See, for example: <https://utilityweek.co.uk/labour-renationalisation-plans-ignores-bilateral-treaties/>

## 4. Conclusion

“The past is a foreign country; they do things differently there.” So opens L.P. Hartley’s novel *The Go-Between*, a phrase that has become synonymous with the difficulties of drawing useful comparisons with or lessons from the past. In 1953, when the book was published, the world felt, in many ways, like a foreign country, weathering as it was the stormy transition from the tragedy of the First World War, the chaos of the interwar period, and the devastation of the Second World War, all of which still dominated hearts and minds. But on the horizon was a new era, a ‘golden age of capitalism’ that presided over unprecedented stability and a reduction in inequality. This was no accident and came about partly as a result of the concerted efforts of a broad ecosystem of influence that had long sought a shift in the political-economic ideas, policies and narratives that navigated the development of societies around the world. As this essay has explored, many of the ideas and strategies employed by this ecosystem have relevance for today. In many ways, these are strikingly similar to those which hold relevance from the shift to neoliberalism, including the focus on structural change to the finance system and the balance of ownership in the economy, as well as the use of an elite-focused ‘theory of change’ and the development and dissemination of popular narratives. This is partly because those seeking a shift to neoliberalism in the post-war years assiduously studied their pre-war competitors, who now presided over a seemingly immovable post-war consensus. It is thus natural that those seeking a shift today pay such keen attention to the efforts of proto-neoliberals before them. This essay has sought to complement these efforts by drawing useful insights from the previous shift—and, in doing so, cautions that, in so many ways, things were done very differently in that past.

But perhaps one of the most important insights from the inter-war period lies in the oft-repeated similarity between our time and theirs: the perception of an epochal crisis linked to if not resulting from the workings of a capitalist economic system. As Geoff Mann has written, Keynes was and remains saviour, with Keynesian political-economic ideas epitomising a conservative-liberal response to crisis and the threat of revolution, a reflexive force going back to Thermidor and other conservative reactions to European revolutions.<sup>37</sup> As Keynes himself wrote, “civilisation is a thin and precarious crust, erected by the personality and will of a very few, and only maintained by rules and conventions skilfully put across and guilefully preserved.”<sup>38</sup> These rules and conventions sought to mitigate for the tendency of capitalism to erode the social fabric upon which it relied. These concerns are echoed today. Take the warnings of Thomas Piketty, who has concluded that, “if the tendencies observed in 1970-2010 were to continue until 2059 or 2100, we will approach social, political and economic disequilibria of such magnitude, both within and between countries, that it is hard not to think of the Ricardian apocalypse.”<sup>39</sup> Outside of economics, the unprecedented crisis brought about by the breakdown of stability in the climate system and wider biosphere has led leading earth-system scientists to conclude that our response should be nothing less than a “fundamental, system-wide reorganisation across technological, economic and social factors, including paradigms, goals and values.”<sup>40</sup> Indeed, there is little time left to avert unmanageably catastrophic environmental breakdown, a pressing reality that should found all contemporary efforts seeking paradigm change. The pressing question for these efforts is this: as compounding environmental breakdown interacts with and drives social, economic and political destabilisation, is it possible to maintain a ‘Keynesian’ response, understood as a liberal-conservative correction to systemic crisis, and, if not, what are the alternatives? As the seas rise and the food shocks grow, we should remember the barbaric, ethno-nationalist response to the crises unleashed by WWI, and the cost incurred to prevent this from becoming the enduring alternative.

<sup>37</sup> Mann G (2017) *In the long run we are all dead: Keynesianism, political economy, and revolution*, Verso Books.

<sup>38</sup> Keynes JM (2010) ‘My early beliefs’, In *Essays in biography* (pp. 433-450), Palgrave Macmillan.

<sup>39</sup> Piketty T (2014) *Capital in the Twenty-First Century*, Harvard University Press.

<sup>40</sup> IPBES (2019) *Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*.