

Disintegrative tendencies in global political economy, BRICS, and the possibility of a global clearing union

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Introduction

As a result of the birth of the Bretton Woods system in the 1940s and its transformation in the 1970s, the world economy is centred on the US dollar. Different ICU plans exemplify alternatives to using one or more national currencies as the basis of the world monetary system. On the one hand, this contrast provides opportunities to look at the functioning and effects of the current system from a fresh perspective. On the other hand, this contrast also raises questions about the feasibility of the alternatives. Prevailing disintegration tendencies and confrontations seem to make the realisation of a global clearing union unlikely. In what follows, I try to explain the current world political situation and the possibilities of implementing an ICU-style rational alternative from an integrative global political economy perspective, combining world politics, pluralist economics, and realist and pragmatist philosophical ideas (see Kotilainen and Patomäki, 2022).

The role of the US dollar in the world economy and claims about US hegemony (leadership) as something good for the whole world are closely connected.¹ The common idea in these discussions is that the US benevolent leadership in the world economy creates the conditions for a liberal international order (LIO) benefitting everyone.² In International Political Economy (IPE), this idea has been articulated as the theory of hegemonic stability (HST), according to which leadership by a single hegemonic state is both a necessary and sufficient condition for an open, liberal world economy. Critics disagree. The position of the US as the

¹ Concepts and ideas are constitutive of foreign and economic policies. Paraphrasing Keynes, “[p]ractical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct or contemporary theorist”. From another direction, theorists often articulate practical and material interest-based concerns into general claims about the world. The formation of concepts and ideas is a process, where actors with concept- and theory-laden pre-understandings try to solve problems in everyday situations, while they also reflect upon the meaning of situations in terms of human nature, world history, etc. It is an empirical question what the concepts and ideas prevailing in any given context are. For more systematic social-ontological discussions, also in the context of foreign policy analysis, see chapters 2-4 of Patomäki, 2002.

² The dominant way of looking at social reality in the US-based IR and IPE corresponds to the orthodox, quasi-official account of US foreign policy, which involves a normative belief in the principles of the liberal international order (LIO) and a causal belief in the positive effect of US “leadership” (Hozic and Oren 2024). Whereas IPE focuses on public goods and the liberal world economy, the benevolence of the US can also be justified in terms of democracy and human rights or modernisation. Different emphases, definitions, and theories converge on the assumption of US benevolence, resonating with US nationalism (more on this later). For the past two decades or so, especially after the global financial crisis and following the rise of China, there has (again) been a growing concern about the erosion, decline, or collapse of the US-led liberal world order. Many stress that the current neoliberal order has created losers also within the West who have turned against LIO. For a sample of recent discussions, Norrlof, 2010; Gills and Patomäki, 2017; Mearsheimer, 2019; Hathaway and Shapiro, 2020; Barnett, 2021; Adler-Nissen and Zarakol, 2021; Flaherty and Rogowski, 2021; Goldstein and Gulotty, 2021; Lake et.al., 2021; Weiss and Wallace, 2021; Mendes, 2023; and Larson, 2024.

“leader” grants it many privileges and liberties that are not shared and do not benefit the rest of the world.³ A case in point is the role of the US dollar in the world economy.

The US dollar’s role as the world’s key reserve currency provides the US with unearned privileges, resources, and power while creating unwanted and unnecessary dependencies on US domestic economic policies, particularly in the global south. Critics may argue for replacing the US dollar with a more diversified system of national currencies and/or for replacing the US dollar with an alternative key currency such as the euro or, in particular, the renminbi (yuan). Some advocate regional solutions, which may involve clearing unions, though often in a rather technical sense of the term. Several international reformists have proposed expanding the role of Special Drawing Rights (SDRs) to reduce reliance on any single currency and to create a mechanism for redistributing resources in the world economy. A globalist alternative – professed in this paper – is a new kind of worldwide clearing union involving novel regulative components, such as the principle of an equal obligation of surplus and deficit countries to adjust. Institutional components include a global central bank.⁴

World politics in the 2020s is conflict-ridden, as for instance the US-China trade war and military confrontation demonstrate. Many of the conflicts and confrontations stem, at least partially, from the way the world’s monetary and trade relations are organised around the US dollar. Since the 1960s, several rounds of global discussions on reforming the system have taken place in changing historical contexts. Many of these and struggles have focused on SDRs. SDRs managed by the IMF were first created when the dollar-based monetary system went into crisis in the 1960s. The aim was to supplement the supply of gold and dollars as reserve assets. The delinking of the dollar from gold and the move to floating exchange rates in the first half of the 1970s rendered the existing SDRs largely irrelevant, although multiple actors have proposed the strengthening of this multilateral alternative. After 1969, SDRs have only been issued three times, and each time the context involved a major crisis (in 1978, mistrust in the dollar at the time when the “great inflation” reached its peak; in 2009-11, the uncertainty generated by the global financial crisis and the subsequent euro crisis; and in 2021, when the Covid-19 pandemic, impending financial crisis, and the large fall in global GDP and trade were seen to require exceptional measures).

³ A report available at the site of the Ministry for Foreign Affairs of the People’s Republic of China summarises such complaints as follows: “Since becoming the world’s most powerful country after the two world wars and the Cold War, the United States has acted more boldly to interfere in the internal affairs of other countries, pursue, maintain and abuse hegemony, advance subversion and infiltration, and willfully wage wars, bringing harm to the international community. The United States has developed a hegemonic playbook to stage ‘color revolutions,’ instigate regional disputes, and even directly launch wars under the guise of promoting democracy, freedom and human rights. Clinging to the Cold War mentality, the United States has ramped up bloc politics and stoked conflict and confrontation. It has overstretched the concept of national security, abused export controls and forced unilateral sanctions upon others. It has taken a selective approach to international law and rules, utilizing or discarding them as it sees fit, and has sought to impose rules that serve its own interests in the name of upholding a ‘rules-based international order.’” (CMFA, 2023)

⁴ In this paper, the first two possibilities are examined first and foremost in the context of the aspirations of BRICS, while the three scenarios outlined at the end of this paper focus on the latter two. Regarding other papers in this book, Amato et.al. and Kahn discuss regional solutions, Kari & Holappa argue for the reform of the IMF and expanding SDRs, while Faudot, Kotilainen and I explore the possibility, underpinnings, and consequences of global ICU-type systems. For further sources, see references in these papers.

The US holds a veto over SDR allocations due to its significant voting share in the IMF.⁵ The US has opposed most proposals to expand SDRs – except on the three occasions mentioned – and has outright rejected the proposals to establish new global ICU-style arrangements. Discussions about ICU and related ideas have been sporadic and often limited to small and specialised academic circles. However, there are important exceptions to this. In particular, in 2009, the governor of China’s central bank, Zhou Xiaochuan (2009), put forth a high-level proposal to replace the US dollar as the primary global reserve currency with a supranational reserve currency. The US ignored this, and the proposal went nowhere. Despite the latest round of SDR expansion, most of the SDRs rest in the central banks of the developed countries, which do not seem to find significant use for them. Based on these kinds of experiences over the past half century, it may appear that the global monetary system is unreformable – at least as long as the world is not facing a crisis comparable to the two World Wars or the Great Depression between them.

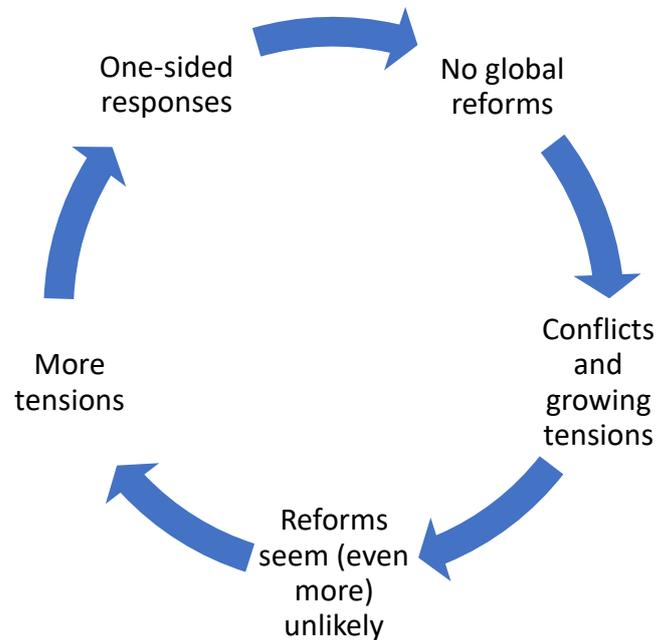
In this paper, I argue that this unreformability involves a vicious circle. An adequate global monetary system would reduce, mitigate, and eliminate causes that co-generate conflicts between states, especially trade wars. The absence of an adequate global system and thus the apparent unreformability of the world monetary system is in a significant part responsible for the current world political situation.⁶ The liberal end-of-history optimism of the 1990s has turned into the gloomy 2020s. The world economy continues to grow but is unstable, exhibiting uneven growth, economic imbalances, financial instabilities, deepening ecological crises, and insufficient or contradictory responses to these. Territorial states seem incapable of governing the world economy adequately, and the outcome involves the securitisation of commodity chains, weaponisation of interdependence, and the increasing division of the world into two mutually hostile camps.

To reiterate the point: the underlying contradictions and related negative tendencies could have been mitigated and in some cases overcome by means of appropriate reforms. For many, the difficulty of achieving global reforms indicates that the only way forward is through unilateral actions, whether by individual countries, regional blocs, or alliances of some sort – in the 2020s, this stands especially for the BRICS countries. However, unilateral responses do not solve the global problem. Moreover, actions that can be perceived to go against the leadership of the US evoke the fear of ever-growing disorder among those who rely on the ideas of a benevolent hegemon and hegemonic stability. The responses of the hegemon to

⁵ As of 2024, 85% of the Fund’s voting power is required for major decisions to take effect, and even after some voting reforms, the US retains a share of more than 16% of the votes.

⁶ Absences can be causes, even if they can never cause anything on their own. This can be analysed in terms of John L. Mackie’s (1974) account of cause as an INUS condition (an insufficient but non-redundant part of an unnecessary but sufficient condition). Mackie’s standard example concerns a fire that has partly destroyed a house. Experts conclude the fire was caused by an electrical short-circuit within the house. Many other INUS conditions were necessarily involved in generating the fire, such as the presence of flammable material and oxygen and the absence of sprinklers. However, sprinklers’ absence differs from the absence of adequate common institutions, because institutions also mould elements of social reality, in particular identities, interests and positioning, shaping agency and conditions of cooperation.

reinforce its position – and the consequent responses by contenders – tend to further intensify the prevailing geo-economic and political competition and deepen the division of the world into hostile camps. It is possible to schematically visualise the vicious circle as follows:



In this paper, I argue that while this cycle is indeed vicious, it can be broken. First, I discuss the HST and its conceptual basis and performative effects. To be sure, the US (and Western) foreign policymakers do not rely only on the idea of hegemonic stability of the liberal order. HST overlaps for example with the perceived division of the world into democracies and authoritarian states. Second, I outline a contrastive storyline, which sets the post-colonial developmental states against Western neo-imperialism. From this point of view, the essential confrontation is between the supremacy of the West and the developing states struggling for equality in the world system and its governance. Third, I summarise some of the prevailing global political-economy developments in terms of uneven growth, economic imbalances, financial instabilities, and contradictory responses to these developments. Actors make sense of the events and changes they experience and observe in terms of ideas and stories, which are entwined with their positioning and interests, and it is this complex that (co-)determines their responses. In the fourth section, I take a closer look at the contradictions of the current world monetary system and employ this analysis in my diagnosis of recent world historical events, episodes, and trends. I also consider a related counterfactual question: how different would the world be if the ICU had been implemented in the 1940s or 1970s? I make a case for peaceful transformations and new ICU-style institutions. In the final section, I outline three scenarios about the future of the world monetary system, followed by a short conclusion.

The presumption that the US is a benevolent hegemon

The theory of hegemonic stability emerged in the 1970s when the partial collapse of the Bretton Woods system was widely conceived as a sign of crisis in US global leadership. This perception was further reinforced by the Vietnam War and the rise of the New Left movement. The theory was first proposed by economic historian Charles P. Kindleberger (1973) in his book *The World in Depression 1929-1939*. In the last chapter of the book, “An Explanation of the 1929 Depression”, Kindleberger discussed four partly contrastive historical eras, suggesting a rough correlation between leadership and stability in the world economy⁷ (the term “stability” tends to be associated with peace, even if only tacitly)⁸. The theory claims that the stability of the world economy is dependent on the benevolent leadership of the hegemonic state – before WWI, Britain, and since WWII, the US.

In its standard version (developed by Krasner, 1976; Gilpin, 1981; Kindleberger, 1981), the theory assumes that maximum global welfare and Pareto optimality are achieved under free trade and that a hegemonic distribution of potential economic power is likely to result in an open trading structure and, more generally, in an open world economy. Indeed, the liberal international order is viewed as a global public good that only a hegemonic leader-state can provide. The global public good is supposed to include the definition and enforcement of property rights, resolution of disputes, and the strengthening of stability and security. For many, the problem lies in free-riding by the lesser states in Europe, Asia, and the global south; the poor seek to exploit the rich. However, the emphases of the different versions of the theory vary in this regard, and some of them “even” allow that the hegemon can sometimes be the sole benefiter. Kindleberger (1981, p. 248) asks “how should one distinguish exploitation from leadership?” and answers:

Management of the gold-exchange standard by Britain from 1870 to 1913 and by the United States from 1945 to 1971 can be viewed as provision of either the public good of international money, or the private good for itself of seignorage, which is the profit that comes to the seigneur, or sovereign power, from the issuance of money. Of course it can be both. Public goods are sometimes competitive with private good [...] and sometimes complementary: maintenance of Pax Britannica or Pax Americana provides peace for the world as well as the status quo for the provider.

⁷ Kindleberger discusses only two cases of stability and instability and his interpretations of history are contentious. For example, the claim that 1846/1860–1913 is an example of stability is questionable if not outright false. The claim to apparent stability in Europe hides uneven growth, the long downward wave from the beginning of the 1870s to the 1890s competitive neo-imperial expansion, constant warfaring outside Europe, formation and subsequent attempts to repress the working class, struggles over democratisation and nationalism, alliance formations in the interstate field, an arms race, and multiple international crises. Together these processes formed the components of the causal complex that generated – in a non-deterministic way – the First World War in 1914 (see Patomäki, 2008, pp. 36-99; cf. Polanyi 1957).

⁸ “Stability” has often been conceived as the opposite of violent conflicts and war. Against this, Kenneth Waltz (1986, pp. 161-162) famously clarified his views by arguing that international stability means only two things, namely that “anarchy” (= non-hierarchy) prevails and that the number of principle parties that constitute the “system” remains unchanged. This move makes the Waltzian theory of international politics either trivial or absurd. Besides coalitions, Waltz’s (1979) main explanandum is stability. Waltz’s theory tries to predict the number of great powers by tautologically referring to the number of poles in a power-balancing system. I consider this to be the *reductio ad absurdum* of Waltzian neorealism. (See Patomäki, 2002, p. 74)

Whereas Kindleberger emphasises ambiguities, moral responsibilities, and the need to counter business cycles,⁹ IR theorists such as Gilpin (1981, p. 145) have put forward a more straightforwardly neo-imperial interpretation: premodern empires such as the Roman Empire and the modern hegemonic powers Britain and the US are similar because they supply public goods (security and protection of property rights, enabling free trade) in exchange for revenue. The arrangement includes a monetary system revolving around the hegemon's currency. In the post-WWII decades, the dollar was the basis of the world monetary system and the US was the world's banker. According to Gilpin (1981, p. 174-5), the US finances its global military and political position not only by its trade surplus (which turned into a deficit in the 1970s and has remained in red ever since)¹⁰ but also by printing money. In the Cold War circumstances, this possibility of printing money meant that "in effect, America's allies extended credit to the United States to finance its world position because it was in their economic and security interests to do so".¹¹

While theories such as the HST make truth claims, they also articulate certain practical knowledge and world understandings. They participate in justifying that practical knowledge by universalising it into an international purpose that is supposed to be compelling to everyone (Ashley, 1989). In the case of HST, this normative purpose is defined in terms of public good, a concept derived from neoclassical economics. Already in the 1970s and early 1980s, the concepts of neoclassical economics had spread and become part of popular consciousness in the US (increasingly defining the "common sense", e.g. George, 2013); and were doing more and more so elsewhere in the West and the world, especially through transnational social relations (including those of the academia), consensus building, and agreements (e.g. Carroll and Sapinski, 2016). While the articulation of the theory was largely based on this economistic common sense and the standard concepts of neoclassical economics, the substance of the theory was derived from the day-to-day dilemmas of the US foreign policy-makers mixed with American ethnocentrism, assumptions about the benevolence of the US and claims that the "small exploit the rich" (Grunberg, 1990).¹² In a situation where the decline of the US hegemony begins to look real (first in 1970s and 1980s,

⁹ Exceptionally, Kindleberger (1973, p. 308) was open to the alternative of new "international institutions with real authority and sovereignty" to govern the world economy (i.e. an evolutionary path towards a "post-hegemonic" situation, with increased trans-nationalisation of state authority, governing a trans-nationalised economic system). However, he too seems to have assumed that agenda-setting and decision-making must always be hierarchical at least to a degree; i.e. one state must always lead and others must follow.

¹⁰ Macrotrends, U.S. Trade Balance 1970-2024, available at <https://www.macrotrends.net/countries/USA/united-states/trade-balance-deficit>, retrieved 2024-02-13.

¹¹ Gilpin's list (trade surplus and printing money) is not exhaustive. Moreover, the US *net income from abroad* has been positive simultaneously with its negative trade balance. This also indicates the changing position of the US multinational corporations in the world political economy. They have constructed global production chains and taken advantage of the tax and other opportunities of the re-emergent global financial system, thus building also wealth chains. The rise of the US net income has been especially rapid since 2007. Trading Economics, United States - Net Income From Abroad, available at <https://tradingeconomics.com/united-states/net-income-from-abroad-us-dollar-wb-data.html>, retrieved 2024-02-13.

¹² Further, the theory accepts uncritically the idea that free trade and security of property rights are public goods. Numerous nationalist, Keynesian, Marxian, and feminist critics have disagreed

and then again since the early 2000s), the theory encourages intensely self-regarding thinking: the “only thing to do is to ignore everyone else and look after your own individual or national interests” (Strange, 1987, p. 552), because ultimately the US hegemony is good and probably also necessary for the stability and prosperity of the world.

The theory of hegemonic stability is not the only sense-making storyline in the US. First, although the developers of HST are considered neorealists, some US-based political realists have been sceptical of the idea of the US as a benevolent liberal hegemon. They have been in the minority yet often prominent. For example, these realists have opposed NATO expansion, warning that if NATO expands to the east, a confrontation with Russia will arise and the result will be a serious conflict at some point.¹³ For many political realists, ethical evaluations – for example, “the US is a benevolent hegemon” – are ideological by-products of the art of politics. Classical realist criticism is particularly aimed at those forms of liberalism which believe self-confidently in their own superiority and righteousness and in the moral baseness of the enemy who must be punished for its crimes. From a classical realist perspective, such liberalism tends to form a closure that is incapable of learning from history. (Morgenthau, 1947, pp. 36-41) Morgenthau and similarly-minded contemporary political realists call for limits to self-centeredness. It is essential to look at things also from the perspective of others and add breadth, colour, diversity, and fine discrimination to judgments about them.

Second, in practical politics, different structures of meaning tend to get mixed up. Such mixing can reinforce overlapping meanings and thus weaken the warnings of classical realists. In particular, the idea of a benevolent hegemon can also stem from the contrast between freedom/democracy and serfdom/authoritarianism. Many political theories defend and justify liberal freedoms and rights and democracy, while in discursive practices, their value can be taken as given, something that appears necessary, timeless and universal (cf. Ashley, 1989, pp. 258-60). Standard versions of economic modernisation theory (for a discussion, Patomäki, 1999); hypotheses such as liberal-capitalist peace and democratic peace (critical analysis, Patomäki, 2018, pp. 45-9); and philosophical interpretations of world history such as Francis Fukuyama’s “end of history” thesis, have further supported the idea that the US, presumably located at the end-point of human development, is benevolent.¹⁴

¹³ Perhaps most famously, in June 1997, 50 prominent foreign policy experts, including former senators, retired military officers, diplomats, and academicians, signed an open letter to President Clinton expressing their opposition to NATO expansion. They believed that the policy was a historic error. This letter, with explanations, is available at <https://www.armscontrol.org/act/1997-06/arms-control-today/opposition-nato-expansion>. Other well-known realists opposing NATO expansion have included William J. Burns (a long-term diplomat and the current CIA director), George F. Kennan (a renowned diplomat and architect of America’s post-World War II strategy of containing the Soviet Union), and John Mearsheimer (a self-labelled “offensive realist” and one of the most famous and controversial IR scholars).

¹⁴ Different assumptions and concepts combine as part of the background of the prevailing social world. Democracy promotion during the so-called third wave of democratisation resonated with the penetration of the (neo)liberal “new world order” (declared at the end of the Cold War) into every region of the world, whilst layers of concepts drawn from neoclassical economics sedimented into the social background in many contexts across the world. One aspect of this resonance has been the explicit democracy promotion by the US, the EU and several international organisations such as the OECD and various parts of the UN system. Mostly these Western or West-led actors have been promoting “polyarchy”, “low-intensity democracy” or “competitive elitist democracy”, a form, which is compatible with neoliberal policies (see Patomäki, 2021, for a detailed discussion

Many variations and combinations of these kinds of elements are possible, all of which can blend into the mythic ideas such as “Western civilisation” or “manifest destiny of the US”, the latter exhibiting ethnocentrism at its purest (ultimately the US is taken as God’s chosen nation; for a discussion of relevance in the contemporary era, see e.g. Marsden, 2011). The main point in this context is that the causal belief in the positive effect of US “leadership” is widely shared in the US and among its foreign policymakers and that various mixtures of meaning based on these kinds of elements constitute the mode of responsiveness of the US in concrete situations such as when the expansion of SDRs is placed on the decision-making agenda at the IMF.

The economic developments in the 1980s and 1990s, and the end of the Cold War, seemed to engender a short “unipolar moment”, sidelining the hegemonic stability problem for a while. The declinist problematic returned in the 2000s and 2010s. The relevant political economy developments include trends such as the declining US share of world GDP (from 40% in 1960 to 23-24% in the early 2020s in nominal US dollar terms, and to 15-16% in PPP terms); and the declining US share of world trade (14% of exports in 1970 to 8% in the early 2020s). US trade deficits have more than doubled since 2000 and US debt is about 125% of GDP in 2024. In 2023, the US government spent more than \$1 trillion on interest costs (net costs of \$0.7 trillion are equivalent to 2/3 of military expenditure).¹⁵ As a result, first Fitch in August 2023 and then Moody’s in November 2023 downgraded the US credit rating. The US dollar continues to dominate trade and forex markets (for example, 90% of forex transactions involve the US dollar), but the US dollar share of foreign reserves has declined from 72% in 2000 to less than 60% in the early 2020s. None of these indicators means anything as such, but they can be perceived as problems by foreign policymakers, particularly in HST terms.

Perceived US problems have also included the multipolarisation of the world, the failures of the US policy in the Middle East (especially the failure of the protracted war in Iraq and its consequences), and the global financial crisis of 2007-9. In situations characterised by hegemonic decline, HST encourages increasingly self-regarding thinking and actions (for an analysis of the leadership styles of the US presidents since 2001, Mendes 2023). As the hegemon narrows the concept of the common good and identifies it with its short-term interests, various shifts occur – fewer restraints, more plainly double standards, and a deepening inability to see the collective consequences of one’s actions. This has consequences also for the governance of the world economy. Depending on the responses of others, the subsequent process can, and is likely to, involve a spiral of tit-for-tat retaliations.

on the ambiguous and ambivalent relationship between different forms of neoclassical economics and variations of the ideology of neoliberalism, on the one hand, and democracy, on the other). It is indicative of the limits and contradictions of this kind of democracy promotion that by the early 2020s, the third wave of democratisation is over. According to V-Dem (2023), advances in global levels of democracy made over the last 35 years have been wiped out and the world is back to the situation of the mid-1980s. The US itself is now classified as a “flawed democracy”.

¹⁵ The Congressional Budget Office (CBO) has projected that interest costs will exceed their previous high relative to the size of the economy, reaching 3.2 percent of GDP (\$951 billion) in 2025 (the previous high was in 1991, a result of developments that started in the 1970s, interrupted by the “roaming 1990s” and the “unipolar moment”). (Source: <https://www.pgpf.org/budget-basics/what-are-interest-costs-on-the-national-debt>).

Alternative storyline: postcolonial developmental states are opposed to Western neo-imperialism

During the last two centuries, many intellectuals and actors across the world have embraced variations of economic liberalism to promote free trade and free markets to foster prosperity, peace, and individual freedom. However, many contenders have tried to restrict foreign influence or subordination to Western powers; create a national-statist, regional, or wider unity to create the conditions for development and industrialization; or overcome the underlying capitalist relations of production and exchange. (Helleiner 2023; Patomäki 2023, chps 4 and 6). In the early 21st century, the main alternative set against the US-led liberal order can be called “postcolonial developmental states opposed to Western neo-imperialism”. This label expresses on an abstract and general level the ideals and structural constraints that the BRICS countries and a significant part of the global south share. There are some commonalities but no single uniform identity or well-developed ideology. Moreover, the positioning of each country and region in the world economy is unique, each has its history, and within each country, there are debates about what the nation’s or state’s ideal and material interests are (e.g. Nau and Ollapally, 2012; reviewed in Patomäki, 2014). The wider context of the debates about ideal and material interests includes the contemporary systems of regional and global governance, the institutional basis of which was created at the end of WWII including the UN system, the Bretton Woods institutions, and the WTO (GATT).

The expression “postcolonial developmental states opposed to Western neo-imperialism” has multiple components. “Postcolonial” indicates (i) that formally the colonial and imperial era is over; (ii) that both one’s self-understanding and positioning in the world economy and system have been shaped by experiences of Europe-originated industrial, colonial, and imperial expansion; and (iii) that various asymmetries and neo-imperial tendencies continue to characterise the world in the 21st century. The term “developmental state” was initially coined to describe a specific late 20th-century East Asian form of state (“the plan-rational capitalist developmental state, conjoining private ownership with state guidance”; Woo-Cumings, 1999, p.2), but the term can be used also in a deeper and wider historical sense, describing various state-forms from the 16th-18th century Holland and Britain to the 20th century Soviet Union and Japan (Bagchi, 2004). Through changing geo-historical situations, especially since the 19th century, developmental states have been constructed as a response to the exigencies and requirements that emerged due the expansion or dominance of the centres of growth and military power in the global political economy. What matters in this context is that the idea of a developmental state and related policies and institutions differ in some important ways from economic liberalism in its various historical guises.¹⁶

¹⁶ Post-colonial developmentalism represents historical continuity to the anti-colonial project of collective self-reliance. Ideologically this project was based on a form of dependency-avoiding radical political economy, involving attempts to catch up with the industrialised West (or the Soviet Union). In the 1970s, the leaders of collective self-reliance (Gandhi’s followers, Mao, Nyerere, etc.) demanded a New International Economic Order (NIEO). The heyday of this project – closely connected to the movement of non-alignment – was in 1955-1979. By the 1980s the political failure of NIEO had become obvious. Key countries such as China began to turn outwards and participate in market-driven globalisation, albeit cautiously at first.

The third part of the expression is “opposed to Western neo-imperialism”. In the early 20th century, the term “imperialism” was often used critically (just consider J. A. Hobson and V. I. Lenin), but after WWII, the term became almost universally negative in meaning. As the era of formal empires was ending, only a few wanted to use the term to describe their own activities or power. It is indicative that Hans Morgenthau wrote in 1948 (p. 26) that “today ‘imperialism’ and ‘imperialistic’ are indiscriminately applied to any foreign policy, regardless of its actual character, to which the user happens to be opposed”. Nonetheless, it took decades before the process of decolonisation was concluded. While building formal empires through military conquest may no longer be considered desirable or acceptable, or has ceased to be feasible, various forms of economic and cultural neo-imperialism continue to be practised.¹⁷ Economic imperialism employs asymmetric power relations to promote certain economic ideals and interests, while cultural imperialism pursues particular forms of popular consciousness (not least “Americanisation”). The opposition to Western cultural and economic “imperialism” can take forms such as reducing reliance on Western markets, creating alternative sources of funding, or creating a spatially wide economic whole to further self-guided industrialisation and development.

What is particularly important is that the opposition to Western dominance concerns also power over the processes of global regulation and governance. In the early 2000s, it remained plausible to state that “[w]hen the US and the EU Commission can agree on which direction global regulatory change should take, that is usually the direction it takes” (Braithwaite and Drahos, 2000, p. 27). Since then, however, multilateral negotiations in various functional areas have either come to a factual standstill or have had only very limited success (the failure of the Doha round being a case in point). Multipolarisation in the context of current institutional arrangements characterised by institutional “inertia”, and related attempts to balance global influence and prevent hegemony, are among the key causes of the gridlock and decline of global governance in the early 21st century. (Hale et.al., 2013, pp. 34-48) The institutional inertia has two sides: first, the formal, treaty-based nature of many of the postwar institutions makes them cumbersome to change, and second, once power is formally vested in a certain institutional arrangement, that institution then has additional power to defend the status quo (e.g. voting powers in the IMF; veto powers in the UN Security Council). The problematic nature of the situation in the 2020s is evident even for some adamant supporters of economic liberalism. As the research and analysis division of The Economist Group, EUI, writes in their 2023 democracy report entitled “The Age of Conflict”:

The position of the US as the global hegemon is increasingly contested by rising powers such as China, fuelling instability across the world. Though its predominance

¹⁷ From a political realist perspective, the current war in Ukraine – like some other post-Cold War wars – is subject to two possible interpretations, depending on whether it is seen as defending the status quo or exhibiting an imperial tendency to expand territorially. In the first interpretation, Russia is defending the status quo against the NATO and EU expansion into the territories of the former Soviet Union; in the second interpretation, Russia is expansive and tries to (re)build a territorial empire. See Forsberg and Patomäki, 2023, for debates about this. Force can also be used to support the spread of economic and cultural imperialism, with no territorial claims.

has waned, the US retains economic and military primacy and continues to dominate international political and economic decision-making. Meanwhile, the European powers, whose economic weight in the world is greatly diminished compared with the post-war period, continue to enjoy a privileged position in major world institutions. A failure on the part of the Western powers to reorganise the global, multilateral system in conformity with the increasing economic and political importance of emerging economies is generating resentment against the West. The preservation of an antiquated international political system that does not reflect the shift in the global balance of economic power, in particular to Asia, is increasing the risk of tensions spilling over into conflict. (EUI, 2023, p. 23)

Resentment of the Western countries' domination of international institutions is not the only problem; there is also the criticism of perceived double standards, not least concerning military interventions, but also more generally about commitment to agreements and principles of multilateral cooperation (ibid., p. 31; cf. note 3). When there is no universal and legitimate principle of the rule of law, a selective application of law tends to mean the acceptance and legitimation of unilateral use of power. The idea that a particular actor is above the law, but demands that everyone else abides by it, is in essence an argument for a "universal monarchy" (to use the European term that originates from the Middle Ages and later found its way into Immanuel Kant's writings, for example) or even "universal dictatorship" (as an analogy for Carl Schmitt's justification of dictatorship). A king – or, in today's world, a "leader" or "hegemon" – is above the law but demands that their subjects follow the law and obey orders. (For different viewpoints on this, Forsberg and Patomäki, 2023, pp. 41-2) A unilateral denial by others of this kind of selectivity may, in turn, be a step towards a Hobbesian "anarchy", where the interpretation of the law is in effect left to all relevant actors themselves (in the case of international law to sovereign states; this tendency has been the problem of international law all along, cf. Koskenniemi 2005).

The dynamics of contradictions and antagonisms in the world political economy

Especially since BRICS was formed in 2009 and Xi Jinping assumed power in China in 2012, the critics of the hegemony of the US dollar have argued for replacing the US dollar with a more diversified system of national currencies and/or for replacing the US dollar with an alternative non-global reserve currency. Whilst the BRICS have been pushing for IMF voting reforms, they have also established the BRICS Development Bank and a reserve currency pool ("contingent reserve arrangement"). They have made trade agreements based on the use of BRICS currencies instead of the US dollar and are developing an alternative payment system to SWIFT. In the early 2020s, at the time of intensification of geopolitical conflicts and when the US interest rate hikes hit many countries especially in the global south (revealing once again the structural power of the US and US-based financial institutions in the world economy), the idea of a common BRICS currency has gained some momentum.¹⁸

¹⁸ The BRICS currency could be a basket-type reserve currency backed with precious metals (gold and silver). The BRICS' 2015 summit decided to explore creating a new reserve currency that these countries would use in

Independently of how important the steps taken so far have been in an economic sense, these kinds of ethical-political aspirations are clearly in conflict with simultaneous attempts to retain or restore the hegemony of the US and reinforce the position of the dollar as the key currency. Behind this visible contradiction lies political-economic processes that have been ongoing for decades, stemming from uneven growth¹⁹ and significant imbalances in the world economy. In 1979, the US economy was 18 times bigger than that of the Chinese, whereas in 2023 the two GDPs were nearly the same (18 trillion vs. 25 trillion in current US dollar terms, but 32 vs 25 trillion in current international PPP terms).²⁰ Since 1993, the US trade deficit with China expanded (Xu, 2012) and the gap was becoming ever larger until President Trump started a trade war against China. In 2018, the deficit was 418 billion US dollars, in 2022 382 billion and 2023, 280 billion.²¹

As a result of uneven growth, trade imbalances, and the prevailing frameworks of interpretation, China has come to be seen as the main adversary and primary threat to the US. US complaints have included unfair trade practices and currency manipulation. While already the George W. Bush administration moved to perceive China as a threat, this perception has gained further strength since the global financial crisis of 2007-9. In 2011, the Obama administration declared a “pivot to Asia” and the 21st century as “America’s Pacific Century”. These were linked to military “forward positioning” and US-led free trade efforts

preference to the dollar. At the 2023 summit, Brazilian President Luiz Inacio Lula da Silva called for the BRICS countries to create such a currency for trade and investment. Lula is quoted as arguing that “developing countries should not be charged interest rates that are 8 times higher than those charged to richer countries”. This proposal found support, especially in Russia, which is under severe sanctions because of the invasion of Ukraine. “BRICS summit: Leaders eye expansion, common currency”, *DW* (Deutsche Welle) 23.8.2023, available at <https://www.dw.com/en/brics-summit-leaders-eye-expansion-common-currency/live-66606155>. According to some sources, the 10 June 2024 BRICS meeting in Nizhny Novgorod, Russia, announced new trade agreements involving non-BRICS countries based on the use of local currencies, while these sources also mention the arrival of the bloc’s independent payment system. The formulations of the Joint Statement of the BRICS Ministers are more cautious (see <https://www.mea.gov.in/bilateral-documents.htm?dtl/37860/joint+statement+of+the+brics+ministers+of+foreign+affairsinternational+relations>).

¹⁹ Processes of uneven growth in the world economy involve both vicious and virtuous circles of cumulative causation (cf. Kaldor 1996). When particular constraints and mechanisms tend to slow down economic growth or cause stagnation and underdevelopment, feedback loops that often work through political processes and changing power relations, can further strengthen such developments. On the other hand, the Keynesian demand-led Kaldor-Verdoorn effect can generate a virtuous circle between output and productivity growth (Kaldor 1966). There are two main explanations for the Kaldor-Verdoorn effect: (i) economies of scale prevail in manufacturing and (ii) learning by doing increases skill levels and can lead to innovation. Output can only grow if there is sufficient demand for the produced goods, so an increase in demand in world markets can lead to investments and higher productivity.

Hence the Kaldor-Verdoorn effect resonates with the so-called new trade theory (e.g. Krugman 1980). World trade enables markets to grow, increases product diversity, brings benefits from economies of scale and causes real wages to increase. Although a sceptical post-Marxian economist may hold that the subsequent fall in profitability will eventually undermine the effects of increased demand (Shaikh 2016, pp. 654-7), evidently China has sustained this effect continuously since the early 1990s (for three decades). Entering the 2020s, China’s growth rate has slowed down, its financial sector has gone into crisis and the trade war with the US has negative effects, but still, China’s growth remains significantly faster (5.2% in 2023 and expected 4.5% in 2024) than growth in the OECD world.

²⁰ World Bank open data, the international PPP figures are from 2022.

²¹ “United States goods trade deficit with China from 2013 to 2023 (in billion U.S. dollars)”, *Statista Research Department*, 1.3.2024, <https://www.statista.com/statistics/939402/us-china-trade-deficit/>.

in the Pacific region. The Trump administration's economic and security policies made the existing US policy steeper and more unpredictable; the US self-regard started to exhibit protectionist tendencies, and there was a declaration of trade war. The Trump foreign trade doctrine was known officially as the "America First Trade Policy". It included exploiting the leverage of interdependence for forced market opening or improved market access for American goods and services. Biden's government has by and large continued similar policies under the rubric of "invest, align, and compete", focusing on outcompeting China and preserving or developing a free and open Indo-Pacific region that excludes China.

In the US, a popular (including in foreign policy circles) though misleading way of understanding the consequences of this geo-economic and -political struggle is the concept of the "Thucydides trap". The "trap" indicates a strong tendency towards a war between China and the US. Paraphrasing Thucydides, the basic storyline is that "because the Chinese have grown in power and alarmed the Americans, this is making a war between them nearly inevitable". Even Graham T. Allison (2017), who coined the phrase, admits that the "trap" is not a theoretical concept but rather a mere metaphor.²² A worrying aspect of the "Thucydides trap" conceptualisation of the conflict is that these kinds of anticipations tend to be self-fulfilling, particularly since other antagonisms are pushing toward the same direction. Moreover, in China, the situation and US actions acquire meaning in a very different framework. For the Chinese, the problem is a US imperial presence that mirrors Western interference in Chinese affairs during the so-called "century of humiliation" (Maritan 2024).

The division of the world into democracies and autocracies affects the dynamics of the global political economy. The dividing lines correlate with how actors identify with the ideal of liberal democracy and/or with different stories of world history and politics, i.e. ideological accord is part of the overall group dynamic. However, the "great" or "super" powers can and do support actors sympathetic or important to them, regardless of how autocratic or democratic these others are. Moreover, according to recent reports on the state of democracy in the world (EUI, 2024; IDEA, 2023; V-Dem, 2023), BRICS countries are to varying degrees autocracies or flawed democracies, while the US allies vary from full and flawed democracies to hybrid regimes and autocracies. The US itself is classified as a flawed democracy and is verging on becoming an autocracy.²³ Social reality is multifaceted, and

²² Allison's interpretation of Thucydides is based on neorealism and fails to understand Thucydides' dramatic reconstruction of the story of the Peloponnesian war – or grasp the limits of Thucydides' imaginary. Given the evidence that Thucydides provides, the war was "inevitable" only because of the insistence of Pericles that Athens should keep the empire and make no concessions, although its actions were giving rise to widespread grievances (for an alternative critical realist interpretation, Patomäki, 2002, pp. 186-9).

²³ Here, I do not have the space to discuss different models of democracy or the prevailing de-democratisation tendencies (democracy comes in different forms and shapes, Held, 2006; cf. Held and Patomäki, 2006). It should be mentioned, however, that behind these tendencies lie increased inequalities within most countries during the last decades. Although inequalities between countries have decreased, especially due to the rise of China (and Asia), socio-economic differences have increased and deepened in the world. Through multiple but varying mechanisms, this has fuelled polarisation and political turmoil, not least in the US. Increasing inequalities between social classes and regions, and underlying political economy processes such as deindustrialisation, have generated a rise of anti-elite populism. The polarisation of societies, often also feeding violent conflicts and wars, is harmful to democracy. (E.g. Piketty, 2014; 2020; Patomäki, 2018)

complex, and involves ambiguities, conflicting interpretations and contradictions. The lack of critical self-reflection can easily contribute to conflicts and their development. Moreover, when conflicts escalate, the ability to see one's actions in a critical light or the different aspects of others disappears. If the world is not already seen as black and white, it becomes simplified, and in that kind of situation, overlapping antagonisms tend to reinforce each other.

The contestations and struggles over the position of the US dollar are part of the overall dynamics of global political economy and security. The US has been able to take advantage of its special position in the world economy. It has maintained high levels of consumption – including military consumption – in part by creating more dollars for the needs of the world economy. This has cumulative consequences over time. The US mission of preserving “hegemonic stability” by unilateral measures if needed, and perhaps “to make America great again”, intra- and interact with other tendencies and mechanisms in the global political economy, involving rising inequalities, existential insecurities, and increasingly authoritarian and nationalist political systems within many countries. Because of such disintegrative tendencies, since the early 2010s, we have seen processes of securitisation of value chains and the weaponisation of interdependence.²⁴ The US tech-oriented geopolitics includes sanctions against China and attempts at tackling commodity- and value chains by decoupling and friendshoring.²⁵ Similarly, China tries to secure access to critical inputs and minimise exposure to the weaponisation of trade, and it has responded to many moves by the US either by precautionary measures (e.g. reducing trade through the Strait of Malacca) or by imposing similar restrictions and major attempts at friendshoring (in particular the Belt and Road Initiative). As a result of these and other processes, the world is being divided into two camps, increasing the probability of a military catastrophe.

The current world-historical conjuncture illustrates how unilateral efforts to build non-global alternatives to the current dollar-centric system can be intertwined with geopolitical conflicts. When postcolonial developmental states are opposed to the status quo-oriented Western powers and their narratives, this is in effect an instance of the recurring conflict between “haves” and “have-nots” that has occurred several times in modern world history. When analysing similar international conflicts in the 19th and early 20th centuries, famously, E.H. Carr (2016, p. 195) employed an analogy to capital vs. labour in domestic politics:

In the latter part of the nineteenth century and the first part of the twentieth the “have-nots” of most countries steadily improved their position through a series of strikes and

²⁴ Actors can bring about securitisation by presenting something as an existential threat and by dramatising an issue as having absolute or very strong priority, and this can justify exceptional – typically non-democratic military – measures. Weaponised interdependence in turn refers to a situation where states with political authority over central economic nodes “can weaponize networks to gather information or choke off economic and information flows, discover and exploit vulnerabilities, compel policy change, and deter unwanted actions” (Farrell and Newman, 2019, p. 45). It is revealing how the Trump administration quickly adopted the ideas of Farrell and Newman’s 2019 article as a “good playbook to implement” (2023, pp.101-102).

²⁵ Decoupling implies increasing separation, disengagement, or dissociation of us (i.e. “our” part of the world economy) from them. Friendshoring in turn means trading primarily with “friendly” countries sharing “similar values” to secure access to critical inputs and minimise exposure to the weaponisation of trade.

negotiations, and the “haves”, whether through a sense of justice, or through fear of revolution in the event of refusal, yielded ground rather than put the issue to the test of force. This process eventually produced on both sides a willingness to submit disputes to various forms of conciliation and arbitration, and ended by creating something like a regular system of “peaceful change”.

This indicates that what is needed is the establishment of an international procedure, however imperfect, of peaceful change. Although interests can be redefined, typically changes do not happen without (at least short-term) harm to the ideal or material interests of the dominant party in a given geohistorical context. Peaceful changes are not possible unless common global institutions make them possible; or unless the dominant actors become willing to allow for those institutions to be changed (peaceful changes of power relations). Although the dominant actors may, in principle, change and allow for other changes, the institutional inertia that stems from veto power is not compatible with the idea of peaceful change.

Carr (*ibid.*, p. 196) continued his analysis by stressing that it is unlikely that “the party at whose expense the change was to be effected would acquiesce in it without the existence of means of pressure to compel him”. In the international sphere, war or the threat of war, tacit or overt, or the aftermath of a massive war, has appeared as a condition of significant changes given the absence of adequate and legitimate common institutions.²⁶ Bearing in mind all the catastrophes of the 20th century, and also considering weapons of mass destruction and the collective threat they pose, the dangerousness of such a connection should be obvious to all parties involved. A better common procedure on a global scale is needed.

The possibilities and limits of Keynes’s ICU plans: a counterfactual analysis

When peaceful changes do not seem possible for a “have-not”, there are two non-exclusive possibilities in principle: either try to increase your independence from the larger entity (world economy, global institutions) or prepare to use force if the situation calls for it. In an intertwined world withdrawing from the activities of the world economy or global institutions is difficult, if not completely impossible, but one can try to build degrees of separateness together with other like-minded states. The ensuing intensification of conflict with the “haves” can easily become securitised and weaponised – and self-reinforcing.

²⁶ As Roberto Unger (2014) argues, the extent to which change depends on crisis or catastrophe is not an invariant element but susceptible to historical modification. Although in the 20th and 21st centuries “the main impulse to significant change has been external especially in the form of war and of ruin” (consider the establishment of the League of Nations and the UN system, or the Bretton Woods institutions), social contexts can become more open to transformations without such an impulse. The key word here is significant: what changes are supposed to be significant? There are also implicit assumptions about the desired direction of changes in Unger’s argument. In particular, the neoliberal transformations since the 1980s have occurred mostly peacefully, and they have also led to changes in the systems of regional and global governance (e.g. the establishment of the EU and WTO). Socially and democratically oriented changes have been more difficult to achieve and as I argue in this paper, the existing global institutions appear almost unreformable (see Hale et.al., 2013, for an analysis of the current gridlock; extended and deepened in Patomäki, 2023a, chp. 7). One of the aims of rational social science is to increase the likelihood of peaceful changes under “normal” circumstances.

The central purpose of Keynes' original ICU plan was to prevent the recurrence of such tendencies (resulting in rounds of self-defeating devaluations, trade wars, etc.). What is characteristic of Keynes's plan is that it saw economic developments from the standpoint of all actors and countries simultaneously. Perspective-taking is the very basis of cognitive and moral learning, enabling actors to see the social world from an increasingly differentiated and generalisable perspective. In close interaction with other "Cambridge apostles" (Macciò 2016), Keynes developed the capacity to see part-whole relationships in the international system (notably in *The Economic Consequence of Peace*) years before he developed the basic concepts of what is now known as Keynesian economic theory. In the context of the debates of the 1930s about exchange rates and payment practices, WWII, and Keynes's response to the German bilateral clearing agreements and 1940 proposal for a new economic order, he drafted a series of ICU proposals in 1941-43 (for detailed accounts, Skidelsky, 2001, pp. 179-228; Markwell, 2006, pp. 233-47). In 1944, however, Keynes accepted Harry Dexter White's plan, which became the basis of subsequent Bretton Woods negotiations.

In his draft proposals, Keynes aimed at facilitating full-employment policies in all countries simultaneously, trying to avoid fallacies of composition and maximise generalisability. The mutual dependency of the parts and whole works through effective demand and the multiplier effect. Countries are not isolated systems. Moreover, in the world as a whole, trade deficits and surpluses cancel out. Over time, countries with trade surpluses tend to have savings surpluses, whereas countries with trade deficits tend to accumulate debt. In Keynes' plans, the adjustment obligation would have applied to both surplus and deficit countries. Adjustments were meant to occur in a common multilateral system, which would have included a central bank for the whole world and a common central bank currency. In some versions, Keynes proposed mechanisms for confiscating resources from surplus countries in the name of the common good, but only if they were not willing to increase their domestic demand for imports to restore balance. The aim was to enable a "new deal" everywhere, benefiting the surplus and deficit countries alike, while leaving room for the choice of rational policies within the states. In some versions, Keynes envisaged the use of the union's idle credit balances to finance international bodies concerned with relief and reconstruction, buffer stocks for commodities, and international investment. (Markwell, 2006, p. 242)

The extent to which Keynes's ICU plans would have been able to prevent or at least significantly mitigate the disintegration tendencies and conflicts of the first decades of the 2000s depends on which version would have been implemented.²⁷ Regardless of the version, however, the ICU would have created a context in which the HST or similar ideas are unlikely to have emerged as a plausible interpretive framework in the US or its allied countries. Although no version of the ICU would have barred uneven growth in the world economy (which is a good thing for opportunities to develop and catch up), it would have affected, for example, the economic developments of China and the US through the introduction of some adjustment measures within the framework of the ICU mechanisms.

²⁷ For the controlled use of counterfactuals, see Tetlock and Parker, 2006; Forsberg and Patomäki, 2023, ch 1.

This is likely to have happened already at the end of the 1990s or the beginning of the 2000s. The basic premise is that China would have increased domestic demand or external investments more rapidly than what has happened, for example by raising the wage level of workers, while the US would have limited its consumption whilst increasing its exports, especially to China. A likely effect would have been the evening out of growth differences at least to some extent and the slowing down of the deindustrialisation process. This accords with Marie Duggan's (2013) counterfactual analysis based on balance of payments data, suggesting that for the US and China since 1982, Keynesian ICU would have prevented or slowed down US deindustrialisation, while yet permitting export-led growth in China.

For many countries in the global south, the ICU would have improved prospects for economic growth quite markedly, probably already during the time of decolonisation in the 1950s-1970s. Since the early 1980s, a large number of countries have run into debt problems and been forced to deflate their economies in a way that has led to mass unemployment (and/or contributed to the expansion of a large informal sector with very low levels of fragile income), low investment, and often also to the accumulation of phantom loans. The prescriptions of the actual IMF have tended to lower growth and increase inequalities. A Keynesian-Kaleckian ICU would have better enabled developmental state policies and, simultaneously, full and equitable participation in the world economy. Particularly those versions of ICU that involve taxation of surplus countries, finance for development, buffer stocks for commodities, and international investment could have made a significant difference (of course, depending on the precise scale and functioning of these mechanisms).

Some ICU proposals of the 1940s went beyond Keynes's plans, often by emphasising the importance of investments. Michał Kalecki proposed an international investment organisation with both short and long-term financing facilities (Kalecki and Schumacher 1943; Kalecki 1946). The idea of Roy Harrod was to use the world's central bank as the world's "investment machine" through money creation (see Skidelsky, 2001, p. 220). By using money creation, the world's central bank could engage in financing development or eliminating poverty (or eliminating the causes of climate change and mitigating the effects of warming and their consequences; Stiglitz, 2006, pp. 260-8). If realised in the 1940s or later, for example in the 1970s, these kinds of ideas would have made a big impact on the development of the world economy.

Although, if implemented, the ICU and related plans would in all likelihood have produced a world less prone to conflict and nationalism than our actual world, all social formations are formed as a result of multiple causal processes. In a capitalist market society, there may be inherent tendencies toward free-market ideologies (Kalecki, 1943) and financialisation (Minsky, 1982), although the power of all tendencies is context-dependent. Moreover, the social world is open-systemic, meaning that we cannot assess counterfactual histories as if they were controlled laboratory experiments. Many external factors and unexpected qualitative changes could have led to problematic developments or crises despite the ICU. Still, as argued above, there are good reasons to believe that an ICU would have prevented or at least mitigated the currently prevailing disintegrative tendencies and conflicts.

However, none of the ICU plans proposed in the 1940s or later involved a procedure for peaceful changes. The idea behind all the plans was to create a new institution that would have remained more or less the same from then on regardless of the problems it faced or how the world changed (although Keynes considered some future possibilities). Thus, the ICU's learning ability and self-transformative capacity would have been poor, which is likely to have led to problems over time. For example, Keynes paid only a little attention to the problem of adjusting exchange rates and at least some versions of the plan envisaged a special role for the US and UK in the system – both potential major problems. Even if the ICU had lasted much longer than the original Bretton Woods system, there is no sure guarantee that it would still exist or function as intended in the 2010s and 2020s. A 21st-century version of the ICU must include procedures of change. As democracy is about resolving conflicts peacefully, the issue of conflicts and changes is intertwined with the question of democracy.

Three scenarios about the future of the world monetary system

My overall argument is that the absence of an adequate global monetary system is a significant enabler and cause of disintegrative tendencies in the world political economy and that many of the current antagonisms and conflicts in world politics are a visible manifestation of these tendencies. If we take the current world political situation as a sign of what is possible or “realistic” in general, then we fall into a circular conclusion that can, through discursive practices, contribute to maintaining the prevailing vicious cycle. In this final section, I present three scenarios of how the world's monetary system may be reformed without a large-scale or total military catastrophe. i.e. through peaceful changes.

Scenario 1: Perhaps the most popular and in any case the simplest alternative to the current system is to increase the number of SDRs and strengthen their role in the global economy. The IMF Articles of Agreement include a so-far unrealised obligation to make the SDR the principal reserve asset of the international monetary system. This scenario does not involve significant institutional changes or innovations and is therefore easy to see as the most “realistic” option. Many major decisions such as an increase in SDRs require a supermajority of 85% of the votes. The distribution of voting power is a function of member states' shares of total quotas; also changes in this regard require a super-majority. What this means is that SDR-based reform of the world monetary system is only possible if the US or any country group with a total of more than 15% of the votes does not oppose the reform. Given the narrowly defined interests of the US,²⁸ this does not seem very likely in the 2020s. So far, the

²⁸ An extreme case of such narrowness concerns the alleged cost of SDRs to the US (and some other OECD countries) holding more SDRs than their allocations, thus facilitating the use of SDRs by other members. For more than 20 years, the US Congress has required the US Department of the Treasury to report on the cost to the US of participation in the SDR regime. The total net interest cost to the US has been 2.6 million USD a year on average, which is merely equivalent to the budget of a small research institute in human sciences. Over the same period, the US reported a capital gain of \$36.1 million per year. Both amounts are insignificant on the scale of the US federal budget or the global economy, and yet they are watched so pedantically. (Truman, 2022, p. 8).

US has agreed to the expansion of SDRs only during a crisis that (i) has directly affected the US and (ii) during Democratic administrations (Carter, Obama, and Biden). These conditions may reoccur during the 2020s or early 2030s, but it would still only be a matter of limited temporary expansion at best, taking place under the conditions of the current quotas and rules. Of course, all demi-regularities are context-bound, but even though the actors can act otherwise, usually such changes require structural changes in the context.

In terms of assessing the effects of such an IMF-reform, and their significance, it seems clear that SDRs can assume some of the functions of a Keynesian ICU. SDR additions to existing reserve assets allow member states to adjust more easily without resorting to harmful deflationary policies (a member's use of its SDR allocation is essentially without conditions, unlike IMF loans). There are many versions of an SDR-based reform. Edwin Truman (2022) proposes moderate, regular annual allocations of SDRs based on their quotas at the level of 150-200 billion USD per year. Most of the allocations would continue to go to the richest countries and biggest economies, including the US, Japan, China, the UK, and the biggest EU countries. The IMF pays interest on SDR holdings. If a country exchanges its SDRs for hard currency, it loses this modest source of income. Using SDRs is equivalent to borrowing directly from other member countries, whilst this kind of lending remains voluntary.

To make the rich countries more favourable to such a reform, Truman (ibid.) recommends raising the interest rate, which is currently calculated on the basis of a basket of currencies. While regular annual allocations may be a low-cost alternative to the costs of *ex ante* reserve accumulation via borrowing from global financial markets (or through generating current account surpluses at the expense of domestic investment), its real impact is mostly limited to mitigating short-term crises. It would not have any significant effect on development, processes of uneven growth, or a gradual accumulation of surpluses and deficits – not to speak of the global distribution of income, wealth, or power.

Moreover, the current scale of SDRs is minuscule. If the idea is simply to keep the relative number of SDRs roughly the same as it is now or increase that number only moderately, then the SDRs do not matter much in terms of the overall dynamics of the global political economy (the current stock of SDRs is less than 1 per cent of global GDP, and only a very small part of the stock is used in any given normal year). There are also more ambitious SDR reform proposals, but if the chances of approval of a Truman-like proposal in the IMF seem weak, it can be concluded that the more ambitious plans have hardly better chances of success. More equally divided quotas would democratise the IMF to a degree, and thus facilitate peaceful changes, but the basic principle would remain “one dollar, one vote”.

Scenario 2: The process of establishing a global clearing union or bank (GCU from now on) can be started by a coalition of willing states with the support of global civil society movements and organisations. This idea of starting a new system is based on the observation that while “institutional inertia” and related practices and power relations tend to prevent changes in many international organisations such as the IMF, new international law and thus

new governance systems are relatively easy to create.²⁹ It only requires a grouping of interested countries that is of sufficient size for initiating such a system.

In scenario 2, such a coalition of the willing negotiates and concludes a GCU treaty, inviting and encouraging other states to join whenever they are ready and willing to do so. Unlike unilateral initiatives, which can be regional or transregional like BRICS, here the idea is from the start to create a comprehensive global system that expands and evolves over time. In terms of substance, the starting point for such a system is the idea that many harmful imbalances can be avoided if there is an impartial system of adjustments that treats deficit and surplus countries in an equal and symmetrical manner. Since in the current situation, the world is more and more divided (and further dividing) into geopolitical groups, it is important that in this matter the coalition of the willing includes countries from different groupings.

Different ICU plans can be systematically evaluated in terms of their preconceptions, justification, potential political support, institutional transformation effects, functional efficiency, and feasibility (these criteria are from Patomäki and Teivainen, 2004, ch 1; for a similar evaluation of different ICU designs see Kotilainen in this book). Regardless of which plan the relevant actors end up with as the basis of the ICU campaign and negotiations, in the 21st century it must include a procedure for peaceful changes. Not only are compromises necessary in a world characterised by different frameworks of interpretation and divergent senses of the ideal, but the system, once established, must be able to learn from criticism and its own mistakes. New problems and conflicts will arise and must be resolved. As the world-historical context is in a constant state of change, no institutional arrangement can be final or, in its designed form, even very long-term. Thus, the coalition of the willing should establish an ICU-style organisation including an accessible and equitable procedure for changes. This means that the organisation must be democratic, combining different understandings, such as equality of states, representation of the population, and active civil society participation.³⁰

Creating new international law may be institutionally and legally easier than changing existing organisations such as the IMF, yet that does not mean that the plan is easily realisable. We know that the global south has been trying to bring about changes in the world monetary system for a long time and that many (post) Keynesian (political) economists have made numerous proposals for the ICU or some such since the 1960s. In the introduction, I mentioned the Chinese 2009 proposal. In recent years, especially at the BRICS meetings, there have been discussions in this direction, although the starting point seems to be that only unilateral and non-inclusive progress in the matter is possible. Given the currently prevailing

²⁹ Originally, this idea emerged from the successful 1990s campaigns (for the ban on landmines and ICC; see Patomäki, 2001, p.182; Patomäki and Teivainen, 2004, pp. 98-100). After the (neo)conservative turn in world history, following George W. Bush's taking office in January 2001, and the 9–11 eight months later, attempts to apply this idea in various campaigns for global taxes, world parliament, etc., have so far been unsuccessful.

³⁰ I first proposed such a combination of principles for a currency transaction tax organisation (Patomäki, 2001, pp. 199-205). Recently, I have modified this idea to make it applicable in the context of a global greenhouse gas tax proposal (Morgan, Patomäki, and Wahlsten, 2023, pp. 273-4). It is beyond to scope of this paper to discuss the precise ways in which the idea of combining these principles is applicable in the case of GCU.

disintegrative tendencies, geopolitical conflicts, and related processes of de-democratisation, global civil society is weaker than it was a quarter of a century ago and few governments are interested in or even aware of opportunities like GCU. The immediate or relatively short-term possibilities of implementing GCU in the 2020s or early 2030s seem weak unless a strong impetus for changes emerges from somewhere.

Scenario 3: In this scenario, the threat of war, a small-scale catastrophe, a realisation that a process will lead to a disaster, and/or a breakthrough in another area of global governance generates momentum for a GCU. We know that since their inception, SDRs have been issued three times, and to reiterate, each time the context has involved a major crisis. Crisis, in its most general sense, connotes a potential turning point in a process, which decides whether an existing identity or system will continue as it is, be transformed, or even cease to exist and be replaced by something else (although continuity is involved in every change). Very often in discussions of crisis, what is at issue is not prediction but the etymologically related practice of critique, which focuses on the causes of the crisis. Although causal claims will almost invariably be disputed, the crisis itself will often function as a clear indicator that previously influential theories have been faulty. A crisis also provides an opportunity to learn, as in the alleged Chinese saying that every crisis is both a threat and an opportunity.

Although there is no reason to think that the current gridlock in global governance could not be broken in the economic area, or that the establishment of the GCU could not be a key factor in this change, the current context must become markedly different in some significant respects for such a change to become possible. A crisis is likely to be involved. In the 2020s or early 2030s, a widespread sense of crisis can emerge from a war or a rapid acceleration of climate change. Both can lead to a widely shared perception of an impending global disaster. The evidence of impending disaster can in turn prompt transformative efforts through social movements, the research community, international organisations, and some governments.

Evidence of an impending disaster is all the more convincing the more palpable it is, even though from a rational point of view it is in no way justified to wait until a reasonably predictable process will actually lead to catastrophic consequences (see Morgan and Patomäki, 2023, pp. 725-34, for a discussion on what is predicable or anticipatable in open systems). Consider the following sub-scenarios: (i) the annual human and economic costs of global warming-related extreme weather events will rapidly increase to 10 or 50 times the current level; (ii) the Gulf Stream loses its strength and Europe's climate becomes radically colder than it is now; or (iii) there is a limited nuclear war over Ukraine, Taiwan, or between India and Pakistan, with a long nuclear winter radically changing the circumstances on the planet for at least a decade. Several other similar sub-scenarios are plausible as well.

A breakthrough in global governance in the field of security or environment would involve a critique of the prevailing causal explanations, theories, ideas, and stories, and this change will

affect also the field of the economy – not least because recognising the role of political economy in security and environment is a likely part of this learning process.³¹

Conclusions

In this paper, I have analysed the dangers of world monetary and trading systems (i) based on the central position of a single national currency and (ii) characterised by the absence of adequate common institutions. I started by depicting how, when the original Bretton Woods system was no longer sustainable, an interpretation arose in the US that the cause of the then-current problems was a lack of adequate leadership. Without a hegemonic state, the world will drift into disorder and possibly a new world war. A doctrine which equates one national interest, involving its currency, with the good of the whole world, and which believes that national decline means problems for everyone, naturally begins to demand the re-strengthening of that nation-state and the special protection of its interests. “Make America Great Again” can assume multiple meanings, not only those proposed by Donald Trump.

In the US, in addition to some left-wing critics, many “realists” have tried to curb the normative idea of the superiority of the US and its normative role as the leader of the (neoliberal) world. Because of different geo-historical experiences, but also due to the rise of authoritarian nationalist populism across the world (see Patomäki, 2021), similar discussions and debates occur across the world. The majority of people live in countries that align with a contending story: postcolonial developmental states opposed to Western neo-imperialism. The causes of the prevailing conflicts and confrontations are manifold, as each conflict is characterised by many historically specific conditions and features, but overall the world is more divided than ever since the so-called Cold War. In this paper, I have argued that the mechanisms and contradictions of the political economy have been co-generating these conflicts and confrontations and thus the current division. With adequate global institutions and mechanisms (not confined to ICU), these tendencies could and likely would have been absent or at least significantly mitigated. Various ICU plans have all aimed at a rational monetary and trade system (some of them include also mechanisms for long-term investments for development), enabling sustainable growth and close to full employment within states. Keynes’s and some others’ goals have also included the prevention of politico-economic conflicts from escalating into the security field.

In this paper, I have not evaluated different ICU proposals, although I have suggested that what may seem “realistic” may not be institutionally or politically so and may even be

³¹ Of course, these connections raise important new questions concerning the relationship between growth and ecological constraints. For an argument that the immediate rational response to the currently prevailing contradictions and disintegrative tendencies in the global political economy would be global Keynesianism shorn of the “growthist” and technocratic connotations Keynes’s name sometimes conveys, see Patomäki, 2023b. In a short piece discussing the macroeconomic implications of declining population (Patomäki, 2022), I argue that “it looks clear that in an ecologically sustainable economic system, aggregate demand, savings, and investments would have to be controlled or at least steered on a macroeconomic level. This would seem to imply intensive and extensive planning at different scales of organization, including globally.”

unrealistic from the perspective of overall dynamics. To concretise these claims, I discussed briefly a counterfactual world trajectory where an ICU-type plan would have been accomplished either in the 1940s, or in the 1960s and 70s when the original Bretton Woods system no longer worked adequately. Following this, I outlined three scenarios for the realisation of a global clearing union or world central bank in the 2020s or 2030s. The point of these scenarios is not only to anticipate possible and likely futures but also to harness resources and activities for avoiding an undesirable possibility and realising a desirable one.

My conclusion is that while the second scenario may not be enough in itself to produce change, the impetus for change can arise from a crisis or its anticipation. This can be interpreted optimistically or pessimistically. From a rational point of view, it would be much better if learning did not require further deterioration of the situation and crises but could take place based merely on rational deliberation and discussion (see also Patomäki, 2023a). To this, I can only add that such learning would also be in the enlightened long-term interest of the US. None of the foreseeable and impending crises or major global catastrophes will be good for “America”, and certainly will not make it “great again”.

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