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The Restoration of "Universalism"

The Rise and Fall of Keynesian Influence on Social Development Policies

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prepared for the UNRISD project on
Social Policy in a Development Context

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Introduction

The history of social policy in the last hundred years would be seriously incomplete without giving full account of the dramatic influence of John Maynard Keynes. He was instrumental in helping Europe recover from the second world war of 1939-1945 – in contrast to the failures after the first – and in establishing the Bretton Woods institutions and the Welfare State. Social development lay at the heart of his concern – in the construction of practical policies as much as in his astute handling of economic theory. He cut the ground beneath the feet of classical and neo-classical economic theorists, and the policies he recommended were found to work in practice. Certainly the early post-war years represent an acknowledged watershed in world history. If not exactly a thing of the past mass unemployment was no longer an immediate threat. Recovery and economic progress were real. Inequality had been reduced. Colonial powers were in retreat.

But by the 1970s Keynes' steadying influence on world social development and the global market had faded. Monetarism and conservative political forces were in the ascendant. For more than three decades disciples of the free market have dismissed his ideas and successfully changed, but also shaped, the institutions of trade, communication and government as well as of the market itself. Keynes was reduced to legendary status. Neo-liberal economists could safely honour the legend without adopting its substance into their advice and action. But the legacy has turned out to be larger than many had bargained for. After being relatively dormant for more than a generation Keynesian thought is suddenly alive and well. There are accumulating signs of the re-surfacing of his ideas. The legend has become a strategy-in-waiting. Keynes internationalism and sense of planning are one thing. His universalism in constructing a socially viable economy – for decent minimal living standards and public services – is another. While pale pretences of the former certainly exist the latter is still largely denied. In 2002, both offer solutions to some of the world's most intractable problems.

In this chapter I will offer reminders of Keynes contribution to social policy – in the best sense of the term - in establishing the welfare state and international collaboration and development, and go on to trace current examples of ideas that are springing back to life in forms that are as compelling as they are necessary.

The Rise of Keynes in the 1930s and 1940s

There are many helpful strands of analysis. Keynes had established himself as the most prominent critic of inter-war economic theories. The mass unemployment and poverty of the 1920s and 1930s had culminated in the triumph of Nazism and the start of the Second World War. In 1936 his *General Theory of Employment, Interest and Money* was published. Neo-classical theory had insisted that recession had to be countered by reductions in wages and in public expenditure. Keynes took a different course. He was the first to make a clear distinction between macro- and micro-economic theories.

There were questions affecting the management of the economy as a whole – what decided how many people were employed or the total amount a country produces or the divisions between wages ands salaries or profits and rents. This was macro-economics. Then there were more specific questions affecting the individual firms, other organisations and individuals within the economy – what determined the price charged for a firm's product, the level of profitability or productivity, and the wage received by employees. This was micro-economics. The significance of making the distinction lay in Keynes argument that the factors determining the behaviour of the economy as a whole are not the aggregation of the forces determining the individual elements. Mass unemployment was not a problem of supply, and of the prices that had to be charged by individual businesses, but of demand. The remedy was therefore maximum feasible employment through unemployment benefits and government investment in jobs. He had rehearsed some of the principal arguments from the early 1920s and in preceding books, including his testimony of the value of investment in public works during a recession – *A Treatise on Money* – in 1930.

His macro-economics was linked to his insistence on planning and social development. This put economics back in the big league – re-establishing the grandeur of thinking about economics that is embodied in the work of Adam Smith, Ricardo and even Malthus. Governments contributed, and were bound to contribute, to the elaborate institutional framework of demand. Consumers did not, and could not, act in the national interest, especially at times of crisis. Neither could governments disclaim responsibility for the shaping of market demand, or indeed the developing structure of the market system itself. Since time immemorial they had been active participants, indeed dominant participants in the evolution of economies, they could not pretend to be aloof or detached. Nor could complex economics be conceived or pursued without governments being incorporated as a structural assumption. They were, and are, a necessary condition and determinant of operating markets.

To Keynes economics was more an empirical science conditioned by the economic and social constructs of many generations to explain developments and predict improvements than it was a mechanical application of deductive logic to produce ideal models for application and action.[1] In his thinking evidence of condition and cause had to be given the primary role. It was the key to penetration and success. It permitted conventional wisdom to be overthrown, new ideas to flourish and not merely register, and scientific authority to enhance political negotiation.

These were years when the influence of the ideas that Keynes advanced began to shape hearts and minds everywhere. By 1936 and the publication of his *General Theory* his star entered the firmament. Voices raised against the appeasement politics of powerful Conservatives and the drawing together of a political coalition for war made him a key national, and international, figure. His advice was everywhere sought. He went to the United States in the early 1930s and was made acutely aware of the effects of the slump and restorative effects of New Deal policies - to which his own work had contributed. His work on unemployment and the need for bigger public expenditure during the inter-war years had exerted influence in the US, even if it had encountered obstruction in the UK, despite strenuous advocacy and some professional support, throughout the early 1930s.[2] He praised some o0f the measures adopted in the New Deal but was severely critical of others and had a lot of publicity when he wrote an open letter to Roosevelt in 1933 (Skidelsky 1993: 489-495).

The New Deal was much more than a programme of public works, and recovery of employment. For example, the US introduced its Social Security Act in 1935. Provision for unemployment benefit was a core feature. A report prepared for the Committee on Economic Security, justifying the new law and explaining how it had come into being, declared: "The unprecedented extent and duration of unemployment in the United States since 1930 has left no one who is dependent upon a wage or salary untouched by the dread of loss of work." Relief was "expensive to distribute and demoralising to both donor and recipient. A device is needed which will assure those who are involuntarily unemployed a

1 In the course of an ironic summary of the "virtues" of Ricardian theory Keynes wrote: "That it was adapted to carry a vast and consistent logical super-structure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it allowed a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social forces behind authority" (Keynes 1936 : 32).

2 "In evidence to the Macmillan Committee on Finance and Industry in 1930; in recommendations to the committee set up by the Prime Minister under the chairmanship of Keynes later in the same year; in letters to the Times in the early 1930s, and in other ways, several of the leading economists of the day, as well as Keynes himself , called for the sort of measures (including big investment in public works) which would today be regarded as the right ones to adopt" (Stewart 1972: p. 72).

small steady income for a limited period"[3] Keynes had left his mark. Unemployment insurance was the vehicle that was chosen in the US. Benefit had to be as of right. Risks had to be pooled. European countries provided the model. And provision of income in unemployment could not be separated from provision of income in old age, disability and raising children. The 1935 Social Security Act represented a key turnabout in US strategy and despite the predatory incursions and threats of the Reagan and Bush years continues to represent a remarkable blip in the traditional grudging American approaches to welfare.

Keynes and the British Welfare State

Given acknowledgement of Keynes' influence on the US during the early 1930s and the following New Deal it is not surprising that during the war he had a powerful influence behind the scenes as well as directly on social developments in the UK. His backing of Beveridge at a critical juncture in the preparation of the 1942 plan for national insurance probably made the difference between failure and acceptance by the British Coalition Government of the recommendations of the Beveridge Report. Beveridge himself was too self-important to acknowledge Keynes' role, and Keynes too wrapped up in other national and international issues to want to seek credit.[4] Nonetheless, Keynes had prepared the way for comprehensive government planning and massive public investment or expenditure. He was aware of the grave limitations of private insurance and the needs of the poor – whether employed or unemployed. Most important of all – he was at the time of quite central importance to the British Treasury.

The Beveridge plan had a knock-on effect around Europe. It was not simply that the pooling of risks through compulsory social insurance contributions ensured a minimal income for the unemployed, but the message influenced many governments and also influenced those wanting to meet the needs of the elderly, disabled and families with children.

Keynes' work on behalf of national reconstruction and the reduction of unemployment was fundamentally social in character – observing the psychology of social renewal and inclusion as well as establishing minimally adequate living standards for all. This feature of his theories has not been properly recognised – even by sympathetic

[3] Committee on Economic Security (1937, p.3).

[4] Beveridge's principal biographer shows that Keynes not only set the scene of planning and full-employment for post-war conditions but met Beveridge repeatedly during the crucial months of 1942, prior to the publication of the report in December. For example, Keynes took a lead in advising pay-as-you-go rather than accumulating a fund in financing better pensions, and also the strengths of State social insurance compared with voluntary industrial and private insurance (Harris (1977: 408-412). See also Timmis (1995: 15-17)).

economists and biographers (for example Harrod 1951; Skidelsky 2000; Stewart 1972) Stewart, 1967.

The Internationalism of the 1940s- Bretton Woods

The fact that Keynes ideas carried so much weight needs to be explained. His theoretical work long before the war anticipated the need for the re-organisation of international institutions. Thus, his 1930 book *A Treatise on Money* suggested a Super-national Authority or Central Bank (see Harrod 1951: 411-413). His chance came in the war, and in an attempt to reconcile American and British thinking he produced in April 1943 an international plan. There was a need to buttress economic recovery. "We need a central institution, of a purely technical and non-political character, to aid and support other international institutions concerned with the planning and regulation of the world's economic life" (Harrod 1951: 527). The plan was thought to be Utopian. Certainly there were dozens of exchanges with leading officials and ministers and new drafts. Inevitably Keynes was forced to concede ground but eventually, in late 1944, the International Monetary Fund and the International Bank for Reconstruction and Development were established. Of course, these institutions cannot be separated from the motives for setting them up and the objectives written into their policies and practices. Keynes wanted the institutions to be both more democratic and more accountable than in fact they became. He was also an advocate of writing off loans, and reducing high interest on remaining loans, that crippled the poorest countries. He backed gifts as well as low-interest loans for countries recovering from war or otherwise impoverished.

Keynesian Strategy Re-born

Because Keynes was supposed to be relevant only to a special period of European history his influence has been allowed to wane (though there are powerful contemporary voices renewing his arguments, for example, Skidelsky, 1996 (Hutton 1996: 239-247; Skidelsky 2000). The exigencies of mid-twentieth century war were certainly special, in some respects unique, and brought extreme demands. Keynesian remedies of lend-lease, public ownership and public services, and state planning, had immense public appeal. After 1945, they certainly brought peacetime stability and a measure of security for all populations in many of the industrialising countries.

Both the international and domestic influence mattered. *The General Theory*, published in 1936, confirmed the influence Keynes already exerted on international as well as national thinking about both economic and social policy through his other work – especially *A Treatise on Money* (1930). The "uncertain prophet in the wilderness of the

early 1930s" had, in Nick Timmins words, become the fount of Keynesianism (Timmins 1995: 35).

The case for Keynes is stronger than generally made out. Because his macro-economics was rooted in economic and social realities his policies linked market "efficiency" with social justice. The scope of his work for both international social and welfare state development is considerable. What he advocated had ramifying effects on social development in all its forms and not just in establishing new international economic institutions to smooth the evolution of global capitalism. Some economists have argued that Keynesian employment policies are relevant only when the means of production exist, but goods are not being produced because there is too little effective demand. This seems to cut out much of the Third World. These economists suggest that Third World policies have to be different. For example, "More expenditure by government or consumers would not raise output and employment - it would merely raise prices and imports. For it is not effective demand that is lacking, but factors on the supply side" (Stewart 1972: 308). People are idle because "there are no machines for them to work with, few managers to organise them and few skills or basic educational qualifications to be employed…" What are needed is techniques and equipment to raise productivity, education and investment in machinery, railways, power stations and irrigation systems (Stewart 1972: 308).

I believe this is a mis-reading of Keynes as well as a mis-reading of Third World economies. But many western economists persuaded themselves that Keynes was relevant only to the developed western economies and not to comprehensive cross-national interpretation. The idea that his theories just happened to coincide with the particular needs of industrial countries at one stage of history has been used to minimise them but also re-assert neo-classical and monetarist influence. Powerful counter-arguments have had to be mobilised. Loss of faith in monetary policy occurred before Keynes. It had been "ineffective in pulling the economy out of the Depression "(Desai 1981:35). But Keynes was the person who produced the most telling arguments about its failure in the 1930s and 1940s and these arguments applied as much to the social development of the poor as of the rich countries. Public investment, state planning, public services and redistribution of income had to play a major role in both groups of countries.

The case on welfare or social policy is also stronger than generally made out. Keynes is remembered best for his ideas about investment in jobs and benefits for the unemployed. But the reconstruction of social security (indirectly and directly he helped shape the Beveridge Report of 1942) and the expansion of public services fell within the scope of his argument. His contribution to the emergence of the post-war welfare state was considerable.

Macro-Economics, Social Development and Social Policy

Keynesianism therefore had two particular effects. One was in re-directing international economic development within a more disciplined relationship between market and state - including setting up the Bretton Woods institutions.

The second effect of Keynesianism was in increasing the momentum in favour of establishing welfare states in Europe.

Universalism: Approaches to the Welfare State

What Keynes did was to link international social development with the arguments for national welfare states. In comparing welfare states within Europe or within the wider OECD grouping the evidence can be put in a Keynesian frame .

For example, countries are usually grouped by social scientists into three or four sets. Esping-Andersen, for example, uses the principle of the commodification or de-commodification of labour to identify those countries that characterise a liberal welfare state, a conservative-corporatist welfare state and a social democratic welfare state (Esping Andersen 1990)(Esping-Andersen, 1996)

Critics of this categorisation of welfare states include Pierson and Leibfried, who argue that countries like Germany, France and the Netherlands have deep regional divisions, socially heterogeneous populations and fragmented institutions, where "centralised" policies are strongly influenced by "territorial" politics. Europe, they say, is already a "multi-tiered polity," and the integration of future social policy through different strategies of harmonisation and integration are highly unlikely to succeed.

Their arguments deserve close examination. I believe they are subsidiary rather than contradictory. They represent fine-tuning rather than the central thrust of the argument. The typology has explanatory power. This has been borne out most recently in a study of the U.S., Germany and the Netherlands (Goodin et al. 1999). The authors admit they would have wished to include Sweden because it represented best the active labour market policies and high levels of public employment and public consumption that characterise the social democratic welfare state. But with some corporatist characteristics they argue that the Netherlands deserves inclusion in the ranks of the "social-democratic" welfare regime especially in the tax-transfer side of social policy. The governing reason for the choice of these three countries was that they were the only three for which 10-year socio-economic data were available.

The study is devoted to exploring what differences alternative welfare regimes make to people's lives. "The upshot of our analyses …has been to single out the social

democratic welfare strategy as strictly dominant over both the others… (It) is at least as good as (and usually better than) either of the other welfare regimes in respect of all the social objectives we traditionally set for out welfare regimes… and at least as good as any other on economic objectives as well (including) economic growth rates…" (Goodin et al. 1999: 261-262). The typology helps to direct attention away from a pre-occupation with factors internal to a country. This prevents internal variations in culture and politics from taking up an exaggerated part of explanation and of the mobilisation of future policy.

In some respects the UK model compares well, but in too many respects badly, with the Corporatist and Scandinavian models. It also compares badly with the "ideal" model put forward 30 years ago by Richard Titmuss. He also adopted three models of welfare (Abel-Smith and Titmuss 1974: 30-31). One, which was broadly similar to the "liberal welfare state," was entitled "the residual welfare model of social policy." The second corresponded to the "conservative-corporatist" model and was entitled "the industrial achievement-performance model of social policy."

But the third went much further than the "social democratic model" achieved in the welfare states of Scandinavian and other countries. This was the "institutional redistributive model of social policy." The model conceived of "universalist services outside the market on the principle of need." But is applied the principle of equality in an increasing number of ways and incorporated "systems of redistribution in command-over-resources-through-time." The ramifying problems of acquisitiveness and conspicuous wealth across the world were clearly forecast.

This analysis can of course be traced back to Keynes and deserves extension to middle-income and low-income countries. The constraint of "industrialised" versus "non-industrialised" countries is no longer, if it ever was, justifiable. There is more of a continuum because of globalisation and growing inequality within rather than only between countries that makes global analysis and planning inevitable.

Universalism: The Shortcomings of Targeting and Safety Nets

The speed of social polarisation across much of the world in the final decades of the 20th century (Atkinson 1996; Atkinson 1999; Townsend 1991; Townsend 1993; Townsend 1999); Cornia, 1999) seems to have been faster than in recorded history, because wages and the labour market were de-regulated, progressive taxation reduced, means-testing of benefits extended, social insurance weakened, and publicly owned industries and services substantially privatised. Such reports are common across Europe. This recent trend has to be related to the analysis of welfare regimes. Its counterpart is a

revival of Keynesian planning for modernised social insurance, more jobs in the public services, and more redistribution and less privatisation in the economy.

When structural adjustment programmes began to be applied to Eastern Europe and the former Soviet Union in the early 1990s, they compounded the problems of poverty, following liberalisation. Evidence now available for the trends in that region in the last decade provides an object-lesson in global strategy (see for example, chapters by Clarke, Ferge and Dziewiecka-Bokun in Gordon and Townsend 2001). Prior to 1989 social security constituted a large part of the institutional infrastructures of these states. The collapse of the command economy and of industry might have led to external efforts to maintain at least a residual form of protection for vulnerable people, especially children, the disabled and the elderly. World Bank and IMF teams seem to have lacked the necessary expertise and appreciation of comparative history. The possibility that structural adjustment programmes might not be as applicable to the former industrial economies of different regions of the former Soviet Union as they were supposed to be to the poorest developing countries seems not to have occurred to them.

Keynesian analysis has become pertinent to the development strategies of the international agencies today. When introducing their structural adjustment programmes, first in Latin America and Africa, and then in the "transition" countries of Eastern Europe and the former Soviet Union, the IMF and the World Bank tried to balance the unequal social consequences of liberalisation, privatisation and cuts in public expenditure with proposals to target help on the most vulnerable groups in the population. For some years, and still to a large extent today, this has been presented in terms of applying the principle of test of means. Even if coverage was poor, large sums of money would be saved, it was argued, if the near-to-poor were no longer subsidised by public funds.

A stream of reports on the transitional economies has been influential. The international financial agencies have been trying to suggest that in many of the post-Soviet republics it is government that is resisting effective policies. But the agencies have ignored the history establishing public services and social security in those countries in looking for the development of appropriate national institutions (see for example Chu and Gupta 1998: 90-92 and 111-112). They did not consider how former universal provisions might have been modified to allow market competition to grow but not create penury among a third or more of the population.

The loan conditions demanding lower government expenditures in the poorest countries that were imposed have led to sharp reductions in general social spending and denial of access to basic health services and education on the part of the poorest people.

Evidence from the IMF's own work shows that "the poorest three-fifths of these nations are being excluded from whatever social 'safety net' exists for education, health, housing and social security and welfare" (Kolko 1999: 56).

The loan conditionalities have had more widespread social effects. For example, not only has the number of government employees been cut but salaries have been reduced and in many cases paid belatedly, thereby seriously weakening administration in general and protective welfare in particular. Intentions of a short, sharp economic shock have turned into protracted economic misery for large proportions of the population. Price subsidies for commodities such as bread and cooking oil have been cut. High value added taxes have deepened the problem by taking a regressive form. The IMF's own studies provided "a devastating assessment of the social and economic consequences of its guidance of dozens of poor nations" (Kolko 1999: 53).

Safety-nets and targeting are now being assessed for rich and poor countries alike. Those who have assembled evidence for different European countries over many years (for example Oorschot 1999) point out that such means-test policies are poor in coverage, administratively expensive and complex, provoke social divisions, are difficult to square with incentives into work, and tend to discourage forms of saving.

There are signs on the part of some international organisations that targeting can include "categorical" policies affecting vulnerable or disadvantaged *groups* in the population especially in Eastern Europe and the former Soviet Union. The objectives of ensuring a minimum standard of living for all citizens and a "relatively flat income distribution" were reported sympathetically in this study, and there was a lively appreciation of the arguments in favour of social insurance and against "the inefficiency and high administrative costs associated with means-testing programmes" (UNDP 1998: 90-92). The "socially inclusive" strengths of social insurance schemes was also acknowledged "as a kind of contract between generations, whereby people invested their efforts in the collective welfare and were rewarded by a guarantee of supplemental income…Because social assistance allowances are very low in all transition countries, moving pensions towards means-tested social assistance programmes would push practically all pensioners into poverty" (UNDP 1998: 108-109).

However, the World Bank has continued to avoid serious discussion of the subject (World Bank 1997b: 2-3) and has sought instead to promote a programme successor to structural adjustment built on a conceptual framework of "social risk management" (for example\ World Bank, 2000).

What are the lessons of the new approach recommended by UNDP? Funding should adopt public and private forms of Pay-As-You-Go. “Categorical benefits should be offered to all in need, or at least to all those near or below the poverty line. It is very important to avoid providing support only to the ‘poorest of the poor’ while neglecting the relatively poor.” This plea for group or “categorical” benefits in place of means-tested benefits was qualified by a recognition that some such benefits could be conditional in different ways. (Op cit., p. 105.)

One of the strategic choices lies between redistribution and privatisation. The practical arguments for reducing an over-extended private sector have grown. They reinforce some of the theoretical arguments expressed down the years. Privatisation has more than peaked in some countries - as some of the major international agencies are beginning to admit. The debate in Europe about the respective roles of the public and private sectors has been reopened. This means that new as well as revived arguments for more extensive public service can be developed. The regeneration of the public sector lies at the core of anti-poverty planning and future plans for the welfare state in general.

Whose Policy? Theoretical Problems

The resurgence of social policy at the heart of economic development depends not only on demonstrating which policies actually work in fulfilling expressed objectives, and invoking historical examples from Keynes. The conventional categorisation of knowledge has to be shaken up. Sociological theory may gain from the same kind of distinction used by Keynes to separate the study of world society as a whole from the study of particular groups, classes, populations, and cultures – while accepting the relevance of policy analysis to both. In some quarters “social policy” has been interpreted as taking an evolutionary course in theory and practice – as if its place in the world was natural rather than socially constructed.

Thus, the idea that it is an “applied” social science has been instilled, and has to be disinterred. It was instilled unconsciously as a means of maintaining the primacy of the physical over the social sciences. The former were “pure” and therefore more prestigious. Laboratory experiments with rats and mice to measure reactions, and the distillation of hydrogen and oxygen from air and water in different degrees to assess effects, were supposed to be much more important in advancing knowledge than measuring the effects of the submission of groups and societies to the polices imposed by governments. Government policies were not supposed in any way to be the determinants of societal problems and of structural and social change. They were benign instruments of remedial action.

Many social scientists have allowed this distinction between the pure and the applied to be maintained, partly by interpreting processes of adaptation or evolution more restrictedly than subsequently shown to be appropriate. Physical and material developments were understood to condition social circumstance and opportunity. Social structure and behaviour were believed to depend on the physical given. One of the problems for social development is for social scientists to break free from this largely self-imposed mind-set of intellectual subservience.

Many social scientists continue to accept the work they do as "secondary" by virtue of precedents that have been institutionalised – an unsought inheritance that is not challenged. Professionals have mechanically accepted this subordinate status. Not for them to expose wrong-doing – only dutifully to pose bland alternatives. Theirs is not so much to reason why as to comprehend descriptive realities and carry out the Government's bidding. Too often governments are left to set the research agendas and blame the messengers if they are not considered to have got the message right.

Examples of passive acceptance of this hierarchy of power are to be found in different forms of political and intellectual dependence. Political recognition of what is and what is not important in the work of social scientists can shape the career path of professionals. Orthodoxy can be cultivated by Vice-Chancellors, heads of Government research departments and politicians alike. Intellectual activity that questions the conventional wisdom can be ignored or derided. Certainly deliberate action to assert equitable status with the physical sciences is hard to find.

Social policy is also too often interpreted as Government policy – without regard to the pervading and sometimes critical influence of Church, family, community, Trans National Corporation, regional authority and voluntary organisation – to name but a few. It would be appropriate to give an answer to the question: "Whose social policy?" The Church has policies distinguishable from the state and which exert different effects on their adherents and non-adherents. Trans-national corporations uphold policies for customers, employees and governments or states, which are also distinguishable. That some have better effects than others, or are viewed more enthusiastically than others by sections of the public is obvious. But gestation, influence, and comparative effect are not much investigated.

Elements of a Strategy

Re-organisation of the Bretton Woods institutions

Keynes was a central figure in the creation of the Bretton Woods institutions in 1944 but the result was not what he wanted. In the 1930s, he had advocated the creation of an international credit-creating institution and in the early years of war he called attention to the serious financial liquidity problems that would arise at its end, and that needed concerted action if dangerous forms of instability were to be avoided. If the devastated countries of Western Europe had to restrict imports, devalue currencies, maintain tight price controls and cut public expenditure because they had insufficient resources combined with high levels of debt, their recovery would be long-delayed and economic growth kept low. On top of need for major post-war reconstruction was the problem of ensuring enough liquidity to finance the growth of world trade. Governments should not be forced by fluctuating balance of payments problems into cycles of deflation and competitive devaluation. That would depress employment and living standards in economically strong and not only weak countries.

Keynes then argued for a kind of world central bank or "Clearing Union" that created a deposit of new currency for every country in the world, which it could count on at times of difficulty to pay credit or governments. The total amount of currency deposited would rise steadily in rough proportion to world trade. In fact what materialised was a pale image of Keynes' intentions. Total resources made available turned out to be less than a third of what he advised. Countries were not awarded an allocation. They had to contribute to the total Fund to be eligible for membership and hence opportunity to apply for loans – to which stringent conditions could be attached.

Today the case for a new Bretton Woods, especially a more convincing development plan, is rising to the top of the international agenda. For example, the UK Chancellor of the Exchequer has called for a new Marshall Plan for the Developing World (HM Treasury 2002). "After 1945, George Marshall's plan for the reconstruction of Europe played a vital part in winning the peace. As a result both Europe and America flourished, with increased prosperity and employment helping to create a more stable peace" (HM Treasury 2002: 42). Another $44 billion needed to be added to debt relief, another $50 billion a year in official development assistance - through a Tobin tax, Arms tax or by issuing Special Drawing Rights. The means had not yet been decided, and decisions were to be taken at Monterrey in March 2002.

An international financial transactions tax

The principle of international taxation to finance development and not merely post-war reconstruction was implicit in Keynes approach to Bretton Woods. The quota that governments were urged to contribute in overseas aid (0.7 per cent of GDP) was a poor substitute because it was optional. By 2002 only three or four (small) countries have achieved that target. During the 1990s there have been increasingly frequent references to the possibility of raising huge sums for the poorest countries by means of a tiny percentage tax on financial transactions across the world - given the difficulties of raising sufficient resources from overseas development assistance. James Tobin put forward the idea of a tax varying from 0.1 to 0.5 per cent of international financial transactions. A tax of only 0.1 per cent has been estimated to raise $400 billions a year. It would dampen speculative operations in international markets.

Critics said it would be too complex, the economic effects would be ambiguous, avoidance would be practised, for example traders would bypass foreign exchange markets and use derivative instruments – notably the futures and options markets.

James Tobin put forward his proposal to tax international currency transactions in a Princeton lecture in 1972. It was intended to enhance macro-economic policy. Only subsequently did he appreciate the revenue potential of the tax – but even then regarded this as a by-product of the policy. The proposal went largely unheeded – but he contributed a revised version to UNDP's Human Development Report of 1994. Following discussion with UNDP connections, a book was published in 1996 by different people about the idea (ul Haq M. et al. 1996).

The political censors stepped in. Ordinarily, the ideas of great economists, especially those in the monetarist tradition, are not ruled out by legislators. This was a famous exception. Senator Bob Dole and three other senators introduced a bill to prohibit UN officials and UN agencies from developing or promoting Tobin's proposal, or any other scheme for international taxation. The title was "Prohibition on United Nations Taxation Act of 1996." The bill was remarkable in limiting freedom of thought and research by government action – hardly the stuff of democracy.

Tobin had explicitly advocated the tax to "preserve some autonomy in national and continental monetary policies and to defend them against the growing internationalisation of money markets" (Tobin, 1974, p. 87).Reference.

In 1994 Tobin recalled that no less a figure than Keynes had "pointed out that a transaction tax could strengthen the weight of long-range fundamentals" (UNDP, 1994).Reference. Subsequently, voices in favour grew in number (see for example Raffer

1998). Strong support has come recently from members of the European Union, and especially from the French Government.

In 2002, the General Assembly of the UN considered a report prepared at the instigation of Kofi Annan, the UN Secretary-General to the President of the General Assembly. This, the Zedillo Report, had been published on 25 June 2001. Its object was to "recommend strategies for the mobilisation of resources required to accelerate equitable and sustainable growth in developing countries as well as economies in transition, and to fulfil the poverty and development commitments enshrined in the UN Millenium Declaration."

The report disengaged from the Tobin tax. Instead it conveyed luke-warm support for the alternative carbon tax. The Zedillo panel claimed that was politically more realistic – since its objective of "making polluters pay" was widely accepted.

Surprisingly the Zedillo panel made no attempt to consider alternative practicable models of the Tobin tax, or to deal with the difficulties said to be involved in implementing it. They did not compare its merits with other methods of raising funds for overseas development. Their reasoning that a carbon tax was preferable because it made polluters pay was odd because they did not explain the effects of the Tobin tax or what uses to which it might be put or what social benefits might be derived. This lack of consistent treatment or analysis of different possibilities provides an object lesson for the future conduct of international social policy. On the technical side, there has to be better detailed formulation of the tax and how it can be applied. A fundamental problem is to identify the benefit or the uses to which this new form of revenue could be put. Keynes would not have left this gap in presenting such a model.

The Zedillo panel did not discuss the possible priorities for the use of the Tobin tax or discuss its possible effects – contrary to the case they made for a carbon tax. Below I suggest a universal child benefit, in cash or in kind, as the principal use of an international financial tax. This would have a direct and more immediate effect on human development than the carbon tax. It would also serve the fulfilment of child rights and the reduction of poverty, especially rural poverty.

Identification of the principal beneficiaries would greatly strengthen the arguments for a financial transactions tax. This would help not just with the problem of working out how the tax would work technically and to whom it would be applied. If resources were used for young children that would also improve dramatically the chances of, for example, reducing world poverty by half by the year 2015, and simultaneously ensure a reduction in the exposure of millions of young children to malnutrition and

premature death. It would also contribute strongly to the fulfilment of specific articles of the Universal Declaration of Human Rights and of the Convention on the Rights of the Child.

Social security to fulfil the fundamental right laid down in the Universal Declaration of Human Rights

Keynes was effectively Britain's chief negotiator at the UN at the time of its establishment and he was also a strong advocated of comprehensive social security. This universalism is now back in fashion. For example, human rights now play a central part in discussions of social policy. This certainly applies to civil and political rights, less so to social and economic rights. Articles 22 and 25 in the Declaration of Human Rights - dealing with the rights to an "adequate" standard of living and social security – have been overlooked in General Assembly and reports by other UN organisations. The fundamental right to social security is also spelt out in Article 26 of the CRC and to the related rights to an adequate standard of living in Article 27.

These rights had not been invoked during the 1980s and 1990s when high rates of poverty continued to persist and even deepened in many parts of the world, and when inequalities in living standards between the first and third worlds and within most countries continued to grow. For example, they were not believed to be a necessary element in the discussions about structural adjustment policies and then the social fund - especially in the particularly fraught regions of Sub-Saharan Africa, Latin America, South Asia and Eastern Europe (see Kanji in Townsend and Gordon forthcoming). As a consequence the discussion in the 1980s and 1990s focussed on targeting and short-term means-tested benefits rather than on long-term minimal living standards for all. To do them justice the international agencies have in recent years begun to acknowledge the strengths of comprehensive or universal public services and benefits. But that has not yet led to the wholesale reformulation of development policies to reduce poverty.

In the UK there have been some attempts to relate the right to an adequate standard of living to social policy. Thus the Children's Rights Development Unit published a valuable report[5] that took a lingering look at the comparable Article 27 in the Convention on the Rights of the Child - that is, "the right to a standard of living adequate for the child's physical, mental, spiritual, moral and social development." They concluded

[5] CRDU(1994)

that in the UK there was a need for a "fundamental examination of the principles which underpin the social security system…there is a need to address the adequacy of benefit levels and for independent research to establish a level of weekly benefit that would enable children and their parents to participate fully in their society"[6]

Dharam Ghai points out that social security in industrialised countries "reached its apogee in the 1970s" (Ghai 2001). There was a broad consensus among countries about comprehensive welfare and social security policies. This had been symbolised after the war by the inclusion of social security as a fundamental human right in the 1948 Declaration on Human Rights and later in the 1967 Covenant on Economic, Cultural and Social Rights.

In the 1980s globalisation and economic doctrines in favour of cutbacks in taxation and public expenditure and support for the privatisation of public services brought changes to the welfare state to a different degree in many countries. Some programmes were unscrambled. In others the level and range of benefits were diluted – partly because of alleged welfare abuses and the harmful effects on savings and investment of high rates of taxation.

Wholesale abandonment of programmes became a feature of the breaking up of the Soviet Union in 1989. As discussed earlier some of the republics are only now discovering the virtues of previous social security programmes and putting into place new though smaller public programmes.

The social security systems of developing countries present a more diverse picture. A semblance of a system had been introduced by colonial authorities in most of Asia, Africa and the Caribbean. They were extended in the first instance to civil servants and employees of large enterprises. There were benefits for relatively small groups that included health care, maternity leave, disability allowances and pensions (Midgeley, 1984; Ahmad et al, 1991 References). In India there are differences among major states as well as a range of schemes for smallish categories of population (Prabhu 2001). In Latin America some countries introduced schemes before the 1939 war, and others followed suit after that war. Benefits tended to be limited in range and coverage. There were differential systems for different occupations and categories of workers, and a multiplicity of institutions. Between 20 and 60 per cent of the workforce were covered, compared with between 5 and 10 per cent for most of Sub-Saharan Africa and 10 to 30 per cent for most of Asia "The greatest challenge facing the developing countries is to extend the benefits of

[6] CRDU(1994: 72)

social security to the excluded majority to enable them to cope with indigence and social contingencies." (Ghai 2001: 6).

Developments in social security in Latin America have been extensively reviewed in the 1990s and early 2000s. One authority points out that as a proportion of GDP social security is of variable significance across the region but remains substantial in most countries. She concludes that in addressing "the problem of poverty in old age and sickness for the entire population, non-contributory schemes, or schemes with minimal contribution requirements, for those in the informal sector are needed. A system of basic flat rate pensions, financed out of general revenue and with entitlement based on citizenship, would meet these needs. This system should be complemented by a public system of contributory, non-subsidised, capitalised pensions (Huber in Esping-Andersen, 1996, pp. 180-181) References.

Four clusters of countries were identified by Ghai:

1) *Broad-based growth*: exemplified by the old and new tiger economies of East and South East Asia – such as Singapore, Hong Kong (China), Taiwan, the Republic of Korea, Malaysia, Indonesia and Thailand;
2) Mineral-based growth, Kuwait and Botswana;
3) *Socialist orientation*, such as China, Cuba and Vietnam; and
4) *Social Welfare Approach*, such as Costa Rica, Sri Lanka, Mauritius, Chile, Jamaica and the state of Kerala (Ghai 2001: 6).

These examples help to show the need to extend social security systems in developing countries - to fulfil the fundamental right to social security laid down by the United Nations after the war of 1939-45 and serve the objective of eradicating poverty confirmed repeatedly by leading governments as well as the international financial agencies in recent years - as for example by the UN in 2000. Bodies such as the ILO and ISSA have provided much of the detailed evidence (see for example Dagdeviren et al. 2001; Reynaud 2001).

A universal benefit for children

There are extensive references to international standards and the collective rights of workers in the EU Charter of Fundamental Rights in up-to-date reviews of necessary policies and legislation.[7] In the UK, as in laws passed in many other countries in the last

[7] For example, Ewing (2001), especially Chapters 4 and 7.

decade, the introduction of the Human Rights Act in 2000 has allowed advocates to demonstrate the need for conformity in general with international standards as well as for collaborative social policies.[8]

Better links have to be established between human rights, including the right to social security, and international development policies but also macro-economics and international development policies. A typically Keynesian example is afforded by Tony Atkinson. He has argued that despite the many volumes written on the macroeconomics of European Monetary Union the impacts on children "had been largely ignored"…."We need to build links between macroeconomic analysis and the impact on families and children" …and "develop indicators of economic performance which are sensitive to the needs of families and children" - such as a European Price Index for families with children, a child-focused unemployment rate and measures of the cost of borrowing for families. (Atkinson 1998: 17). The case for each of these measures is spelt out in some detail.

Another example of the neglect of the impact on social development of macroeconomics can be drawn from the debate about the European single currency. In Britain the 1997 Treasury paper *UK Membership of the Single Currency: An Assessment of the Five Economic Tests* illustrates this. Nowhere in the text of 27 pages are children mentioned. Even the objectives of national prosperity or welfare are left unexamined and unspecified.

The fact that Keynesian connections between macroeconomics and social development are not being sufficiently made applies in particular to the current British and indeed World debate about child poverty. Ambitious aims to halve and eventually remove child poverty have been made nationally and internationally. But the connections between economic progress, policies and poverty are not being spelt out. Without a second Keynesian "revolution" poverty and social inequality are not going to be reduced. Multiple changes are of course required - in institutional form and culture no less than in priorities of public service, redistribution and universal rights.

Because of the different circumstances of different countries a child benefit would necessarily take a variety of forms. The UN could give attention to the value to be recommended per child and according to age, and which governments might allocate partial or full subsidies per child.

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[8] For example, Klug (2000)

There are possibilities of weekly cash allowances for children under a given age – say 15, or 5. There is the possibility of free school meals, or collection of free foodstuffs and milk. An advantage in establishing schemes even for small numbers is that forms of administration can be put in place and subsequently developed.

A start could be made in some countries with an allowance or benefit in cash for infants under two years. A low birthweight baby allowance is an example of a measure that could be applied in rich and poor countries alike. For example, a proposal for such an allowance is now being considered in the United Kingdom. Low birthweight babies are ten times more likely than normal birthweight babies to have cerebral palsy, and are also far more likely to experience other disabilities including deafness, severe vision loss, brain damage and special educational needs.

Another example is a categorical child benefit for severely disabled children. Whether parents are in paid employment or not, the costs of caring for a severely disabled child often account for family poverty. And the market does not recognise this form of dependency. While some forms of congenital or disabling long-term illness may be declining there are the disabling conditions of the major problems of the last two decades, like AIDS, oil, nuclear and chemical pollution, and armed conflict, including landmines.

The great virtue of an international child benefit is that it has a direct effect. Overseas aid or debt relief via governments to poor families, or the gains of economic growth, may take years to filter through to the population with low income and then fail to reach many families because they cannot or do not have access to paid employment. In the UK or other countries with a universal child benefit system an increase in the weekly or monthly rate of payment can have an immediate effect in reducing poverty. Indirect welfare, based for example on employment related incentives and means-tested tax credits, are incomplete in coverage, often take years to bring into effect, and are administratively far more costly or wasteful.

Definition of minimal basic social services in all countries and local and national rights to establish public social services

Similarly rights of access to health, sanitation, safe drinking water, education and information services are difficult to ensure if governments depend on general and indirect forms of aid. Deprivation of these rights has to be rigorously monitored and countries or localities given subsidies or grants for direct provision of particular services.

International company law

In the last two decades of the twentieth century corporation taxes in many rich countries were reduced. With de-regulation and privatisation other corporate responsibilities have been reduced – as in the provision of pensions or employer contributions towards social insurance. Information on the social and labour market policies of corporations in the early 21st Century is difficult to find. This applies to policies at headquarter level and even more at the level of subsidiaries. The unravelling of the Enron case in 2002 provides detailed examples of the ignorance of shareholders and public and even market leaders themselves of highly relevant information about developments.

The effects on consumers of corporation products and services have to be distinguished from the general effects on populations of their policies in different countries. Policies to do with TNC employees in different countries also have to be distinguished from those that involve consumers and the general public.

Paradoxically demands have grown for "guidance on corporate social responsibilities." Guidelines have been drafted by the OECD and other bodies – though agreement on the part of corporations is far from being reached.

In these circumstances the case for international company law becomes stronger. Voluntary codes of conduct are weakly expressed and hold little prospect of wide adoption. There are valuable precedents for international company law in the histories of national company law. The awkward question is whether national laws can be satisfactorily harmonised in an era when TNC's naturally take advantage of loopholes and shortcomings across countries or whether regional and international law is the only realistic vehicle by which common standards of behaviour or performance can be reached.

There are serious shortcomings in both national and international company and social law in relation to trans-nationals. While capable of contributing positively to social development, one review found that few of them were doing much of consequence. The activities of some were positively harmful (Kolodner 1994). Recent books on trans-national corporations (Korten 1996; Madeley 1999; Monbiot 2000; Sklair 2001; Stichele and Pennartz 1996) have been assembling a case that governments and international agencies are going to find hard to ignore.

The problem remains to be met internationally. As reported above, the OECD has issued "guidelines" exhorting corporations to be socially responsible. The ILO has gone further. In 1977 its Governing Board put forward a declaration. This sought to exert influence upon governments, concluding that gradual reinforcement could pave the way

for “more specific potentially binding international standards,” turning codes of conduct into “the seed of customary rules of international law” (ILO, 1998). (Reference or is it ILO 1989???))

International definition of the framework of social policy expected of transnational corporations

The spectacular growth of transnational companies was a principal feature of the late 20th century. Only 25 countries of the world are now listed as having larger GDP than the annual value of the sales of the biggest transnational corporations – General Motors. The top ten trans-national corporations (General Motors, Ford Motor, Mitsui, Mitsubushi, Itochu, Royal Dutch Shell Group, Marubeni Sumitomo, Exxon and Toyota Motor) have bigger sales than the GDP of Malaysia, Venezuela and Colombia, and some of them more than Saudi Arabia, South Africa, Norway, Greece and Thailand. New Zealand’s GDP is dwarfed by the sales of each of these corporations, and Australia’s accounts for only about three times the value of the average sale of all ten (UNDP, 1999, pp. 32 and 184-187).

The social policies of transnational corporations await full description and analysis. There are at least two forms. On the one hand their internal policies, in relation to their senior staff and permanent and temporary workers scattered through subsidiary companies in many different countries, have to be explained. On the other hand, the larger role they play in contributing to social change, by influencing developments in world trade, government taxation and redistribution and investment, as well as recommendations for privatisation, also has to be explained [Kozul-Wright, 1998 #50; Lang, 1993 #51; Deacon, Hulse and Stubbs, 1997. ; Parker, 1997 #63; Hudson, 1996 #39; Lieberman, 1998 #52; Lieberman, 1998 #52; Guislain, 1997 #32; Hoogvelt, 1997 ;ILO, 1989 #43].

One feature of mergers between companies and the absorption of workforces overseas into the subsidiaries of corporations is not just the extension of the labour force accountable to management, but the elaboration as well as extension of the hierarchy of pay and rights in the corporation. There are many layers in workforces consisting of scores of thousands, sometimes hundreds of thousands, of employees working full-time, part-time, permanently and temporarily in 50, 60 or even more countries. Salaries at the top have been elevated, those at the bottom depressed.

This fast-developing occupational system deepens social stratification and introduces new social problems in every country. Ideas of supra- and sub-ordination are played out internationally as well as nationally and locally, and are carried over from one context to the other. This evolving hierarchy of power, prompted by the dramatic growth of transnational corporations, ramifies everywhere. It is reflected in new relationships

between states and in international agencies - concentrating the representation of top-most personnel, origins of finance for research, and responsibility for the publication of statistical and other information to the media.

Conclusion: The Development of a New Strategy

Acknowledgement of the need for a radical review of international social policy has led to a remarkable revival of Keynesian ideas. For many social scientists and professional practitioners the ideas seem to offer potential remedies for apparently intractable forms of severe inequality and poverty as well as violence and instability across the world.

I have argued that in both the establishment of the welfare state and world social development following the 1939 war Keynes' seminal influence was underrated at the time, not least by his biographers. His idea of planning for development was international and surprisingly comprehensive – but entirely appropriate for its time. Some critics took the view that he was too accommodating to established forces and that he put more stress on regulating or intervening in market forces than setting the framework of acceptable wages and conditions in which they should operate. While widely shared at the time and, I believe, correct, those views now seem utopian. Keynes' measured sense of compromise between the dictates of the evidence and institutionalised opinion nonetheless promised substantial improvement then – as it does now. His instinct was for rational persuasion on the basis of the evidence, not least among elites and the public to achieve a consensus or majority opinion in favour of tolerable compromise action.

After a generation of relative indifference there have been signs of a return to his ideas. The edicts of monetarism were embraced but have been found wanting. Privatisation, reduced public expenditure, reduced trade union rights, low taxation, and selectivity in welfare have produced huge problems. Many are suggesting they are of crisis proportions in a large number of countries. They are re-inforcing trends for greater inequality, and persisting or growing poverty.

Long ago Keynes provided the prescription for such ills. His advice was not followed. International policies are now badly askew. The failure of neo-liberalism and of the unfettered growth of transnational corporate power has obliged a re-consideration of present policy in the light of his thinking. There are an increasing number of models based on his ideas. In the last half of the chapter I have sought to enumerate a few – a re-formulation of the Bretton Woods institutions; an international transactions tax; social security to fulfil the fundamental right laid down in the Universal Declaration of Human Rights; a universal benefit for children; definition of minimal basic social services in all

countries and local and national rights to establish public social services; international company law; and international definition of the framework of social policy expected of transnational corporations.

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