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Dr. Polanyi said that before the advent of the Third Reich revisionism was fast disappearing on the Danube. Some 7 million Magyars and Germans happened to be on the wrong side of the new frontiers, but some 32 million Slavs and Rumanians were now on the right side of the frontiers. While it was true that Hungarian frontiers ought to have been rectified, it is also true, on the whole, that Magyar complaints of the treatment of racial minorities were justified only against Jugoslavia and Rumania, not against Czechoslovakia. Hitler got in touch with the Sudeten German minority in Czechoslovakia as early as on 18th August 1920, according to the book of the Sudetendeutsch leader Hans Krebs. The present Sudetendeutsch movement was the result of the world trade depression which ruined the German export industries of Western Bohemia. Germany is looking to the East. Dietrich Klagges, the right hand man of Alfred Rosenberg describes the outcome of the War as ultimately favourable to Germany, because, as he says, "In the Great War the wall that separated Germany from the East crumbled away with the dissolution of the Habsburg Monarchy and of the (western border of the) Russian Empire". The Treaty of Brest-Litovsk (1918) in which Russia was to be practically dismembered revealed the real aims of German policy in Middle-Eastern Europe. The Nordic blood ideal would not prevent the Third Reich from attempting to assimilate the peoples of the Danubian region, once she should gain a sway over them. Reich-minister of the Interior, Rd. Frick, announced in 1935 that Reich-citizenship is restricted to Germans, but that this term includes, under the law, Germans proper as well as non-Germans whose blood is akin to the German. Dr. Frick added that all peoples except Jews, Gypsies and Negroes are to be regarded as akin to the German ~~XXXXXX~~ ~~XXXXXX~~ (deutschblütig). The Nuremberg laws, based on the racial principle, can not, therefore, be regarded as offering a safeguard against the forcible assimilation of the non-German peoples of Central Europe by the Third Reich.

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We had many local wars but they were not widespread or devastating. We had, for example, the Greek War, the wars of Italian and German unification, the Crimean Wars and the Balkan conflicts. All of these wars were localized and did not start any general large scale conflicts.

Until the nineteenth century peace interests were considered a weakness. It was nice to have peace—but peace was regarded like culture and the arts—nice to have, but by no means indispensable. During the nineteenth century it was different. Governments wanted peace because the international trade system could not operate in time of war. It was now the middle class that became nationalistic and this fact was the cause of many wars. This century may be divided into three periods:

1815-1846. During this time the Holy Alliance and the Concert of Europe were strong reactionary forces. Powers were built on thrones and dynasties, not on nations. "People do not want liberty; they want peace" was the cry of the rulers.

1848-1871. Germany went through a troubled period. The nationalistic movement could not be kept down. Germany and Italy joined the great powers of Europe.

1871-1890. Germany had what she wanted. She needed time to consolidate her position and she now became a peace power. She tried hard to keep the balance of power system working. The movement was so successful, that in 1884 Africa was peacefully divided.

If the balance of power system does not prevent war, how did it produce the Hundred Years peace? The answer is that the international economic system, or the gold standard could not operate in a general war.

THE GOLD STANDARD: The gold standard was established by England in the second quarter of the 19th Century. One by one the different national states between 1875 and 1885 brought their currency arrangements into the framework of the international gold standard. The United States insured the system in 1899. The nations deliberately planned an international money. Money, then, has both external and internal value. External value has reference to foreign exchange.

For example the American dollar could buy four German marks or twenty French francs or three Japanese yen. For the English pound we paid \$4.86. Thus based on gold the foreign exchange was kept stable. Stable currency was of tremendous advantage in foreign trade. It produced markets for world commodities, for world capital, and it made world money markets ~~im~~possible.

The disadvantage of the gold standard was in the internal value of money. The price level at home kept going up and down. In other words, the purchasing power of the dollar fluctuated. This condition naturally brought about grave problems. Countries were not able to deal effectively with their financial problems. In time of falling price levels this leads to crises and unemployment. From 1880 to 1912, countries tried to overcome this difficulty by foreign markets and colonial expansion. The tension which resulted and the international scramble for colonies is familiar to all of us.

Dr. Polanyi states that it is an axiom of economics that it is impossible to keep the external and internal value of currency stable at the same time.

Our economic system based on the gold standard was under a strain ~~by~~ 1900. Then followed a scramble for markets and the supreme crisis came in 1914. Following the war we became vaguely conscious of the political and economic system under which we had been living. We decided that we must restore what we had before and good times would return. We did not realize the real weaknesses of the gold standard which was the system of permanently fixed exchanges. Neither did we realize that the big nations through this system kept the little nations in their places. Organization of capital, of money markets, of commodity markets--everything was based on fixed exchange.

EFFORTS TO RESTORE THE GOLD STANDARD: Never was an idea as universally accepted as was the idea of the gold standard. English, American, German, and Russian statesmen all held that sound currency was based on the international gold standard.

This was of first importance and led to the restorative efforts of the nineteen twenties. The price was terrific unexampled mass unemployment. The gold standard was restored first in the defeated countries at a terrible cost. France and England restored theirs about 1925 at the same time trying to keep the smaller countries on the same standard. Still trade and output continued to decrease. We tried embargoes, tariffs, quotas and restrictions on imports but conditions went from bad to worse. Trying to restore the gold standard meant more starvation, less education, less social and medical service and other sacrifices. The small countries suffered most, so England tried to help with loans and her own difficulties became graver. The United States tried to bolster England but no sacrifice could save the gold standard. The burden was shifted but that was all. England went off the gold standard in 1931 and the final collapse came in 1933 when the United States also relinquished this standard. When this happened the gold standard was gone. When the leading powers gave up, such a system could no more be restored. This is very important because our international peace system was based on our economic system and that system had now collapsed.

Even today people persist in speaking as though we had suffered merely a temporary lapse in the functioning of our economy while every evidence shows that we have come to the end of an era. It must be definitely understood that a return to the earlier gold standard is out of the question. Unless another international economic order and another international political system can be <sup>designed</sup> ~~desired~~, we can expect perpetually recurrent general wars in the future.

EFFORTS TO RESTORE THE BALANCE OF POWER SYSTEM: The Balance of power system, as we said before, prevented general wars from 1815 to 1914. After 1918 we tried to restore that system under a new name, the League of Nations. The powers agreed to stand together against any nations who might seek to change the status quo.

It was based on the theory that all countries were independent sovereign states. Yet there was no equality of states for there were the armed and the disarmed powers. The balance of power system could not be rebuilt without power; therefore the whole thing was more or less of a bad joke. Furthermore, the small countries, the new independent sovereign states had become a source of danger. They could do little good; they took no responsibility and independent sovereign states and as such has as much voice as the powerful states. This is the clearest example of the complete bankruptcy of the entire political system. The outstanding anachronism in Europe is the persistence of "Balkanization"--the continual existence of small sovereign states.

The final breakdown of the international economic and political system came at the same time and the world divided into two groups. Nationalism grew strong because the institutions of international life had broken down. Nations had to fend for themselves both economically and politically. Italy, Germany, and Japan tried to solve the problems for their own ends. Theirs is a war policy. The United Nations must open the road to the solution of these international problems in a democratic manner. A new international order must be established which is both political and economic.

THE PLACE OF GERMANY IN THE NEW ORDER: What shall we do with Germany when the war is won? This is a much discussed question. Shall we be so severe that she can never rise again? Or shall we be lenient and offer a hand of friendship? That is not the problem. The problem is to set up a new economic and political order and the treatment of Germany does not answer that question. What is important is whether we the people feel that we are just because we clear the way for better understanding among the people of Europe and in the whole world.

Germany's criminal war has incidentally destroyed completely three anachronistic institutions which internationally had already broken down. These are first, the

independent sovereign state; second, the international gold standard, and third, laissez faire capitalism. Germany has no unique problem that other nations do not have. Nazism, a philosophy of extremism might have arisen anywhere. The main point is that there is no possibility of going back. We can only go forward to a new order. Unless such an order is suggested by the United Nations in concrete terms the German people will not accept it no matter how Germany is treated. This new order must answer three important questions: How will the national problem be solved? Independent sovereign states and the theory of self-determination have failed. How will the unemployment problem be solved? People must have job security. How will the question of international cooperation be solved? When these questions are solved the question of Germany takes on entirely different aspects.

IMPLICATIONS OF THE ASSERTION THAT THE INTERNATIONAL POLITICAL AND ECONOMIC SYSTEM HAS COLLAPSED.—This war came when the international system had completely failed. It is a war of forces which have not found a solution, with Fascism which has found a solution to its immediate problems but has no solution to the world problems except dominance which would lead to slavery and destruction. This war is part of the establishing of the new world order. The problem of peace is the same as the problem of the new order. What was the position of the world before the war started? How was the principle of self-determination as expounded in the League of Nations operating? The answer is, not at all. Self determination meant that all nations had all the rights of independent sovereign states and if they gave up anything, even the smallest issues, they lost face. They would then not prove their independent sovereignty. Thus no boundary dispute could be settled and cooperation with each other was impossible. For example, Poland and Czechoslovakia might have cooperated in their resistance to Germany but they couldn't. There was a boundary dispute over the Javorina and neither would prove to be an independent sovereign state if it gave up some of its territory. Independent sovereign states were utterly unable to settle even minor boundary disputes.

Neither could the independent sovereign states solve the racial minority problems. They couldn't solve their educational, social or political difficulties. They couldn't build universities for all groups. They couldn't conduct parliament in several languages. The minorities were continually suspicious that their governments wanted to restore the old world order and the governments were suspicious that the minorities might be fifth columnists. Under these circumstances the minority question was far from being solved.

What was the state of affairs in the economic and social field? The situation was indescribable in France, in Germany, in Austria, in Hungary, and in Poland. In fact all Europe was disrupted. There were reactionary and revolutionary movements. Business was at a standstill and the value of currency was continually fluctuating. People were hungry and unemployment increased.

If conditions were bad all over Europe, why did the eruption come in Germany and why was it so successful? There was hardly an economic or a political system at all. Conditions had reached a deadlock. The problems of currency deflation, of unemployment, of revolutionary and counter revolutionary movements were found in extreme form. Parliament could no longer lead. Fear became so great that the people were receptive to any change or to the offer of any new leadership. That solution was Naziism. That leader was Hitler. When democracy was given up the deadlock was broken. Under Fascism, capitalism was made to work at the expense of democracy.

The destruction of the old world order is much more complete than we are willing to accept. We must look forward to a new and better order.

THE NEW ORDER WHICH WE ENVISAGE. All lecturers are agreed that a federal council consisting of all the United States and United Nations must be established and that this council must be entrusted with laying down the conditions of the new system. As the defeated nations get organized and established they too should

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be represented in this council. However, the council should be established now and our government should express its willingness to take its share in the post-war reconstruction period--it must not run out again. It will take sacrifice, courage, far-sighted statesmanship and a closer cooperation than we have been willing to enter.

There will be less independence and less sovereignty. The example of the United States may be our guide. Before the Civil War there was a question as to the independent sovereignty or the individual states. The Civil War settled that problem. We, in California, do not worry much about the laws of Virginia. Each state gave up something under the union but was free to develop its institutions and solve its problems. So too in the international organization the national states will take less responsibility, the international organization more. This will mean sacrifice. The United States Senate, for example, will have to give up its right to ratify all treaties because international law must stand above all national law.

Equality of states did not prove successful under the League of Nations. In this new council nations must be represented according to strength. Decisions must be made by majority vote not by unanimous decision. Representation must include such organizations as the church, labor, and women's organizations.

The immediate problem of this council will be to provide for the wants of men, to establish law and order, to disarm aggressors both physically and morally, to transfer the military strength from a national to an international basis and to change from military occupation to civilian cooperation as soon as possible.

The long range problems are many and we do not see them all clearly. Some problems however can clearly be seen. They include a planned economy, the migration problem, planned currency, the colonial problem, the racial minority problem, and a world planned order.



The new order will be a planned order. Production, distribution and transportation must be organized on a world basis. Industry must make concessions. Man power too will be moved where most needed. Prices will have to be agreed upon and contracts will have to be made by governments, not by private industry. Government must take on more responsibility. Democracy must function in the economic field as it has functioned in the political field.

Another problem, that of migrations, needs solution. This includes voluntary as well as involuntary migrations, such as are brought about now in Europe and China. The Atlantic Charter promises free passage across the seas but doesn't say what will happen upon arrival. Who shall decide that question?

We will not return to the International Gold Standard but will have managed and controlled currency arrangements over definite periods of time. (I take this on faith.) We need stable foreign currency, or rather exchange, but no medium is necessary. The Gold Standard kept the exchange automatically stable but internally produced unemployment and suffering. Now it is kept stable by the governments. Under the new arrangement the time period will be agreed upon and no one nation can make changes unless all change. The important thing is that change is possible without the sufferings brought about when we tried to remain on the Gold Standard.

The colonial problem will continue to exist. The colonies must be placed under a new regime of natives, for the natives, possibly under supervision of the supreme council and placed on an international basis. Private interests in colonial affairs must disappear. We must give up the dislocation of native life for our benefits in the tropics.

The restoration of the independent states would not solve the racial minority problem. The United Nations must be prepared to give up some of their territory.

The racial problem does not exist in Russia. It is easier to aspire to national culture without independent sovereignty and without fear of the Gold Standard. Europe must be part of an international cooperative system rather than a group of many independent sovereign states.

Some speakers believe that the new world organization should be regional. That sounds dangerous to me for it would seem to create more powder boxes.

Dr. Graham Stuart and Dr. Inman both advocate an Inter-American System where government planning and finance will do what private industry did before and will enter fields where private industry cannot enter.

Dr. Coleman believes that Asia for the Asiatics will become a reality, that India, China, and Japan must get together and take over the leadership of that region.

Dr. Simons believes that collective security is best for Europe but that we must not try to impose one type or scheme on the whole world. We should encourage the ties that exist and make it as easy as possible for powers to take responsibility and make it as impossible as possible for large powers to intervene in Europe's internal affairs.

The problems are great and it will take vision and sacrifice to build a new and better world. We close the peace discussion with the closing statement of Dr. Hans Simons, "It is a hollow voice that speaks of the future world as long as everything depends on victory."

SUMMARY: Since 1648 the balance of power system has been the international political policy. There were continual wars, for the balance of power system is not a peace system. When the Gold Standard became the international economic policy it was imperative that we have no general wars. The balance of power system now produced the Hundred Years Peace from 1815-1914. The Gold Standard had its

advantages but it also had in it the germs of destruction. While it kept the foreign exchange stable, the internal price level fluctuated with supply and demand. Nations sought security through colonies which were to supply raw materials and markets. As competition grew internal currency became more unstable. The first world war put the international system on trial. Both the economic and political policies were found wanting but efforts were made to restore both after the war. The balance of power system came back under the League of Nations. Independent sovereignty and the principle of self-determination were not successful. The balance of power could not be restored if some powers were armed and some were disarmed.

The Gold Standard was restored at a terrific price in suffering only to break down completely when England and United States went off the Gold Standard. Both the political and economic system collapsed at the same time. Nations now had to look after their own interests. The result is that the world is again at war. The Axis Powers seek a new order by dominating the world. The United Nations seek a new order through closer cooperation.

If we want a better world we must solve such major problems as controlled currency, colonies, migrations, and planned economy which includes the problem of unemployment. We envisage a far-sighted World Council which will embrace all mankind and will work for the welfare of all mankind. That sounds ideal but that must be our aim if we are to prevent universal destruction

That U.S. still in 19<sup>th</sup> c. society - or rather is an anachronism, with 19<sup>th</sup> c. attitudes in a 20<sup>th</sup> c. world - most tragically true. U.S. - it Most Americans genuinely believe 'free-enterprise' is an essential of democracy - This is of tragic significance in a world ~~erping~~ where collective planning, nat. & internat., is an imperative. Americans are capable of enthusiastic - tho perhaps rather facile - idealism. But how can this idealism & love of social equality be weaned from 'laissez-faire'? Do Americans understand how socialistic, inclined the peoples of Europe are now?

2. Britain is only potentially with the USSR - & Br. Tories are still strong.

3. Will the USSR achieve a 'dem. socialist transformation' in neighboring countries? Polanyi seems optimistic; the 'Tribune' pessimistic. Which is right? (I think probably Polanyi, in the long run, as I cannot conceive of a 'priv.-enterprise' economy, even much 'controlled', continuing to function for years in the Soviet orbit of influence.)

4. Does 'planned trading' inevitably mean a decline in 'intractable chauvinism'? Cf. Germany. Surely the goal & type of planning is important. A planned society may be fascist or socialist - but there is a world of difference - I agree (with E.H. Carr) that 'politics must dominate economics' - rather than vice versa (Polanyi seems to be hinting at this, too) - in the sense that govt resp. to the people, & concerned for their welfare, must control economy to this end - rather than having private financiers & industrialists <sup>in effect</sup> controlling the govt.

5. As to cartels, I see no reason why these should not perform a useful function, provided - that they are no longer used to restrict production or hinder the full development of important inventions (patents), but instead are utilised as inter-governmental agencies dedicated to the common welfare. In other words, the goal is all-important, & determines the type of planning.

This last sentence indicates why I think Polanyi may feel unduly optimistic over the fact that Britain 'is entirely capable of organising the whole of her external economy on a controlled basis' - because, after all, 'whoever is eventually put in charge of the controls' is the vitally important factor, not to be dismissed lightly. I tend to share A. Bevan's ~~suspicious pessimism~~

doubts (in a recent 'Tribune') as to the adequacy of a State-controlled economy which does not nationalise outright major industries. And even ~~then~~ with nationalisation, the aim must be genuinely aimed at aimed at welfare of the people (and preferably, ~~under~~ responsible in the politically democratic sense). Knowing little of economics, I could not support this viewpoint with specific instances, but nevertheless, it is my feeling -

7. ~~I doubt~~ Polanyi recognises the dread of 'those who look more to the past', so he may not be as optimistic as his preceding remarks indicate. Still, I agree that he makes plan or absence of plan the criterion, rather than the goal & type of planning, & this is a mistake.

8. I think P's fundamental premise, the importance of regionalism (transcending national boundaries in the area), is valid. ~~But~~ Every effort must be made to subordinate national sovereignty to regional planning & cooperation. ~~But eventually the regions~~ Essentially, of course, regions must be subordinated to world authority, & it must be realised that regionalism does not necessarily preclude a ~~1<sup>st</sup>~~ World War, and that it <sup>(regionalism)</sup> is not the same thing as 'spheres of influence', which do lead positively to a ~~1<sup>st</sup>~~ World War.

L.W.