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W. Frankel

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UNIVERSAL CAPITALISM OR REGIONAL PLANNING?

By K. POLANYI

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Of all the great changes witnessed by our generation, none may prove more incisive than that which is transforming the organisation of international life. Behind the routine of power politics which either serve or, more often, are served by ideologies, we can catch a glimpse of far-flung and incalculable policies which may, albeit incidentally, fulfil the deeply rooted aspirations of the common man. It is probable that the chances of democratic socialism (which most people, even quite recently, would have pronounced to be nil) are greatly improved, although by unexpected paths. But whatever may be the fate of domestic affairs, the political system of the world as a whole has undoubtedly reached a turning point and, as a consequence of this, Great Britain is now standing at the cross-roads. The event is still too close, and too vast, to be clearly discernible, but the sooner we take our bearings the better.

One comes to realise this when making the attempt to describe more precisely the tendencies underlying the foreign policies of Great Britain, Russia, and America; for here it is quite certain that the traditional pattern is not enough. What is at issue between the powers is not so much their place in a given pattern of power, as the pattern itself. Broadly speaking, the United States fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself, belong to another, which is in course of transition to a new form. Each side will, or at least, in reason, should, favour that pattern which tends to keep its side of the balance secure. Obviously, it is of paramount importance to read the meaning of these patterns aright.

The tremendous event of our age is the simultaneous downfall of liberal capitalism, world-revolutionary socialism and racial domination—the three competing forms of universalist societies. Their sudden exit followed upon drastic, uncalculated changes in human affairs, and the beginning of a new era in international politics. World-revolutionary socialism was overcome by 'regional' socialism in the sufferings and glories of the Five Year Plans, the tribulations of the Trials, and the triumph of Stalingrad; liberal capitalism came to an end in the collapse of the gold standard, which left millions of unemployed and unparalleled social deprivation in its wake; Hitler's principle of domination is being crushed on a battlefield co-extensive with the planet he attempted to conquer; and out of the great mutation various forms of inherently limited existence emerge—new forms of socialism, of capitalism, of planned and semi-planned economics—each of them, by their very nature, regional.

This process was an almost exact replica of the establishment of the European states-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the period. In the Middle Ages that society was primarily religious, while in our time it was economic. It is obvious that the break-down of the nineteenth century system of world economy inevitably resulted in the immediate emergence of economic units of limited extent. In terms of the gold standard, that true symbol of universalist economy, this is self-evident since its passing forced every country to look after its own "foreign economy," which had formerly "looked after itself." New organs had to be developed, new institutions had to be set up to cope with the situation. The peoples of the world are now living under these new conditions, which are compelling them to evolve a new way

¹By "foreign economy" we simply mean the movement of goods, loans and payments across the borders of a country.

of life. Their "foreign economy" is the governments' concern; their currency is managed; their foreign trade and foreign loans are controlled. Their domestic institutions may differ widely, but the institutions with the help of which they deal with their "foreign economy" are practically identical. The new permanent pattern of world affairs is one of regional systems co-existing side by side.

There is one notable exception. The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation—a Utopian line since, ultimately, the attempt to restore the pre-1914 world-order, together with its gold standard and manifold sovereignties is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists, the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the U.V.A., have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism had done in Europe up to 1914. The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come.

With a free supply of land, unskilled labour and paper money, a liberal economy functioned in the United States, at least until the period beginning in 1890, without producing the lethal dangers to the fabric of society, to man and soil, which are otherwise inseparable from "self-adjusting" capitalism. That is why Americans still believe in a way of life no longer supported by the common people in the rest of the world, but which nevertheless implies a universality which commits those who believe in it to reconquer the globe on its behalf. On the crucial issue of foreign economy, America stands for the nineteenth century.

It follows that, potentially at least, Great Britain and the Soviet Union, together with other countries, conform to one pattern, the United States to another. The British Commonwealth and the U.S.S.R. form part of a new system of regional powers, while the United States insists on a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries still hope that it is not yet too late for Britain's own system of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue to-day.

II

It is from the regionalism to which she is committed that Russia draws her greatest strength. The victory of Stalinism over Trotskyism meant a change in her foreign policy from a rigid universalism, relying on the hope of a world revolution, to a regionalism bordering on isolationism. Trotsky, in fact, followed the traditional line of revolutionary policy, while Stalin was a daring innovator. By denying these facts, Communists caused hopeless confusion and made it unnecessarily difficult for us to realise the startling novelty of Stalin's policy.

To begin with, there is an entirely new attitude towards the uses of social change. The victorious Russian empire takes its independence for granted, and its dominating interest is durable peace. (Given this, the U.S.S.R. might, by half a dozen Five Year Plans, reach the American level of industrial efficiency and standards of life, and, indeed, surpass it.) As it has excluded universalist solutions on the model of the League of Nations or of World Federation, peace depends merely on the foreign policies of its neighbours. The Russians are determined to have only friendly states on their western borders, but they are loth to extend their frontiers so as to

include those neighbours. The new constitutional changes are designed to assist Russia in this endeavour, since they allow smaller neighbours to harmonize their policies with their own immediate neighbours inside the U.S.S.R., without necessarily having to carry on negotiations with the colossus itself. The U.S.S.R. offers them Slavonic solidarity against German aggression, and assumes that nothing but class interest would induce their rulers to side with Germany against herself. She wants, therefore, to destroy the political influence of the feudal class and "heavy" industrialists in these countries, and intends to use socio-economic means for this purpose, but for this purpose only. In other words, she wishes to put economic radicalism to the service of limited political ends. Such basic reforms as she advocates, in Poland, for example, would not mean socialist revolutions in the usual sense where socialism is an end in itself but merely popular upheavals aimed at the destruction of the political power of the feudal classes, while eschewing any general transformation of the property system. Such revolutions are far safer than the traditional, unlimited socialist ones which, at least in Eastern Europe, would either provoke a fascist counter-revolution, or else could maintain themselves only with the help of Russian bayonets, which Russia has no intention of providing.

Nothing could be less appealing to the conventional revolutionary than such a prospect. It is no exaggeration to say that he could not approve of it without mental reservations, and might find it difficult even to comprehend. Traditionally, he regards political action as a means of achieving socio-economic ends and to reverse this sequence by using socio-economic means, such as nationalization or agrarian reform, for political ends appears almost unnatural to him. In effect, the Russians themselves justly refuse to call these methods socialist since they are merely designed to safeguard their own security. For all that, they may achieve a democratic socialist transformation more effectively than anything world-revolutionary socialists ever attempted.

From the ideological stratosphere socialism thus parachutes to earth. Our generation has learnt how overwhelmingly the people rally behind policies designed to protect the community from external danger. The Russians promise their neighbours a secure national existence on condition that they rid themselves of incurably reactionary classes and it is to this end that they suggest expropriations and eventually confiscations. No one ought to be surprised if such methods, unpopular elsewhere, should find strong support in communities which see in them the means to national security. It should be remembered that once the Reformation began to involve the secularization of Church property, its success swiftly changed from the cells of monasteries to the council rooms of the Princes. Similarly, the people may decide with alacrity for socialist measures which deliver the political goods.

It follows that it is precisely the regional character of this socialism which ensures its success and prevents it from becoming a mere introduction to further wars and revolutions. These would necessarily result from the attempt to spread socialism, for its own sake, to neighbouring countries. Socialisation of the new kind is emphatically not an article for export. It is a foundation of national existence.

In Eastern Europe regionalism is also the cure for at least three endemic political diseases—intolerant nationalism, petty sovereignties and economic non-co-operation. All three are inevitable by-products of a market-economy in a region of racially mixed settlements. The virulent nationalism of the nineteenth century was unknown outside the confines of such economies and its geographical extension towards Central Europe, Eastern Europe and Asia coincided with the territories brought under the control of a credit system by autochthonous middle classes. In multi-national areas, like the basins of the Vistula and the Danube, this resulted in hysterically chauvinistic states, who, unable to bring order into political chaos, merely infected others with their anarchy. Moreover, to the amazement of the utilitarian free-trader, with his naive outlook bounded by economics, the unresolved racial issues prevented the smooth functioning of markets across the disputed frontiers. The Bolsheviks must soon have found out that this type of nationalism was merely the result of nineteenth century economics in multi-national areas. Indeed, their experience, both within and without their frontiers, taught them that whenever

market methods were discarded for planned trading, intractable chauvinisms lost their viciousness, national sovereignty became less maniacal, and economic co-operation was regarded again as being of mutual help instead of being feared as a threat to the prosperity of the state. In effect, as soon as the credit system is based no longer on 'confidence' but on administration, finance, which rules by panic, is deposed, and sanity can prevail. It must be admitted that any type of economic regionalism—whether socialist or not—any planning—whether democratic or not—might have a similar effect in the racial jig-saw puzzle of the Danube, the Vistula, the Vardar and the Struma. But, as it happened, history offered the chance to the Russians, who naturally took what was proffered to them.

Regionalism is not a panacea. Many old, and perhaps many new, troubles will not yield to its treatment. Nevertheless, it is a remedy for many of the ills of Eastern Europe: and this accounts for the superiority of Russian policies in this region. If the Atlantic Charter really committed us to restore free markets where they have disappeared, we might thereby be opening the door to the reintroduction of a crazy nationalism into regions from which it has disappeared. We should not only be importing unemployment and starvation into the liberated regions simply by 'liberating' the local markets; we should also be burdening ourselves with the responsibility of having thrown back the people into the anarchy out of which, by their own exertions, they had just emerged. Marshal Tito's partisans bid fair to solve the problem of Balkan hatreds simply because they start from the assumption of a system no longer market-ridden and no longer managed by the middle class. This is the key to the Macedonian miracle. To-morrow Europe as a whole may yearn for the Balkan cure, and regionalism will be supreme.

III

Thus it becomes apparent that liberal capitalism is not to-day primarily a domestic issue. First and foremost it is a matter of foreign policies, since it is in the international field that the methods of private enterprise have broken down—as shown by the failure of the gold standard; and it is in that field that adherence to such methods constitutes a direct obstacle to practical solutions. Liberal capitalism is based on one simple tenet: foreign buying and selling, lending and borrowing, and the exchange of foreign currencies are carried on between *individuals*, as if they were members of one and the same country. "Foreign economy" is thus an affair of private persons, and the market-mechanism is credited with the almost miraculous power of 'balancing' the foreign economies of all countries *automatically*,—that is, without the intervention of their governments. This Utopian conception failed in practice, as it was bound to do; and the gold standard was destroyed by the unemployment that it caused. In fact, the new methods of "foreign economy" which have superseded the gold standard are incomparably more effective for the purposes of international co-operation. With their help we are able to solve problems which were formerly intractable. Among these are the distribution of raw materials, the stabilizing of prices, and even the ensuring of full employment in all countries. Each of these problems was a permanent source of anarchy under the market system. Whether an even more universal system of marketing might not, after all, have been successful, will never be put to the test, since it would involve the impossible task of first restoring the market system throughout the world. Yet to this task the United States stands self-committed, and she may not realise for a long time that her attempt is doomed to failure. The alternative to the reactionary Utopia of Wall Street is the deliberate development of the new instruments and organs of foreign trading, lending and paying, which constitute the essence of regional planning.

Here lies Britain's chance. "Foreign economy" must necessarily be the pivot of the policies of an island empire dependent upon imports for maintaining a civilized standard of life, and on free co-operation with overseas dominions for the survival of the Commonwealth. Neither full employment, nor a flexible currency, nor continuous imports, are possible for such a country without a planned foreign

economy. With its help, however, Britain would be able to reap the huge economic and political advantages of the new regional organization of the world. She took a decisive step in 1931, when she went off gold, introduced a capital embargo and turned to paper money; another step was taken at Ottawa; still another lay in the establishment of national governments as a semi-permanent institution; and an avalanche of even more incisive changes followed during the war. Great Britain is no longer a free-trading country; she is not on the gold standard; she has been interfering at home with private enterprise in every conceivable manner; she is entirely capable of organising the whole of her external economy on a controlled basis—whoever is eventually put in charge of the controls; and all this has happened without any infringement of vital liberties or of the freedom to shape public opinion. Indeed, public opinion has never been more supreme over government.

Far from being cramped in her national life or frustrated in her imperial existence by breaking the taboo of non-interference with industry, Great Britain has become more healthily united with every year that has passed since she left the atmosphere of liberal capitalism, free competition, the gold standard, and all the other names under which a market-society is hallowed. There is nothing to prevent her from using the new methods of regional economics to abolish unemployment, periodically to adjust currencies, to organise bulk imports, to direct her foreign investments, to arrange for large-scale barter, to finance heavy industrial exports, to conclude long-term contracts of industrial collaboration with other governments and thus to co-ordinate domestic employment and living standards with her trade, shipping, financial and currency policies in such a way as to secure for herself the advantages which accrue in the modern world from a deliberately-established and purposefully-managed national system. Precisely because foreign economy is more liable to control—and more in need of it—than domestic trade, the British Isles in spite of their rigid class-structure, had the good luck to be ahead of the young American continent in adjusting themselves to the requirements of the new economy.

This advantage is now in jeopardy. The freedom which Great Britain purchased at so high a cost in the critical weeks of 1931, when her banks threatened to fail and were saved only at the price of the gold standard, would be endangered by a lop-sided policy of Anglo-American co-operation. Instead of securing for Britain the unique advantages of a regionalism, which would enable her to co-operate equally with the U.S.S.R. and the U.S.A.—a co-operation particularly essential in dealing with their sub-continent—it would deprive her of those organs of external trade which she needs for her survival. She would become merely a helpless partner in the old-fashioned system suited to the continental economy of the U.S.A., in which foreign trade plays only a very small part. For the sake of this doubtful privilege she is invited to forego the prospect of a close industrial co-operation on the European Continent with the U.S.S.R., which would secure for her freedom of action, a rising standard of life, and the adventures of a constructive peace for a long time to come.

The great symbol of universalism is the gold standard. It may be objected that the pre-1914 gold standard neither will nor can be re-introduced, and that to spread alarm about America's intention of restoring it, is to tilt at windmills. But this is a mere quibble. The *old* standard is, of course, as dead as a doornail; and no one will dream of resuscitating it, even though, till recently, the experts of the League of Nations declared that it was *the* condition of future prosperity. But, unfortunately, what America is striving for is not the mere shadow or the empty name, but the substance of the gold standard; and this—as well-informed people should know by now—is no other than the balancing of "foreign economy" through automatic movements of trade, i.e., through the undirected trade of private individuals and firms. The battle over the gold standard, which superficially appears to be a mere wrangle about financial technicalities, is in reality a battle for and against regional planning. There was a grim irony in some Russian statements favouring American plans of restoring the gold standard. For as to Russia, since she has no private trading, the question does not concern her. She is a mere onlooker who might be secretly amused by the antics of U.S.A. and Great Britain enmeshed in the toils of the gold standard.

Britain will, therefore, have to define her policy with regard to the gold standard, whatever form it may take. AMGOT, UNRRA, UFEA, and the others—the letters F and E stand for Foreign Economy—are instruments, mainly American, for re-establishing market methods in the liberated countries. The fact that, under the given conditions of scarcity, the use of such methods must tend to produce starvation and unemployment does not seem to have struck some interpreters of the Atlantic Charter. Even the alleged predilection of these organs of relief and rehabilitation for monarchists and clericals may be doubtful: for what makes them invariably side with the *ancien régime* against the popular forces is not so much their reactionary views as their determination to restore the practices of the free market—and to this determination any popular representative body would necessarily be opposed. It will be interesting to watch the reactions of the ordinary Englishman when he begins to realise that at the heart of world politics there is a universalist conspiracy to make the world safe for the gold standard.

There is indeed grave danger that Britain may miss her chance. An industrially stagnant ruling class is less swayed by economic considerations than by the advantages of birth and education. Whole-hearted co-operation with Russia on the Continent, enormously profitable as a business proposition, might involve the peril of a new equalitarian impulse radiating this time from a Continent which was turned into a home of popular government by Russian influence. Not as if the U.S.S.R. was feared any more as the mother of Soviets; yet she may still prove herself a true daughter of the French Revolution. The cloud on the horizon is not yet bigger than a man's hand. But what if it started to grow and, eventually, in some dire crisis or in some great adventure of progress, fresh forces should spring up and fuse Disraeli's Two Nations into one? Such a consummation is dreaded by those who look more to the past than to the future for their title to leadership. They will hold on to social privilege even at the expense of financial loss. Contrary to national interest, they might attempt to restore universal capitalism, instead of striking out boldly on the paths of regional planning.

OUR CONTRIBUTORS

Dr. A. Cobban is Reader in Modern French History in the University of London. ***Mr. W. Frankel, LL.B., is the Secretary of the Foreign Affairs Committee of the Board of Deputies of British Jews***Miss M. Mortimer, B.Sc., is a W.E.A. Tutor***Dr. D. R. Pye, C.B., F.R.S., is the Provost of University College, London***Dr. K. Polanyi is the former Editor of the Austrian *Volkswirt****Dr. G. Weiss is a Czechoslovak jurist and writer on international affairs.

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By K. POLANYI

I

Of all the great changes witnessed by our generation, none may prove more incisive than that which is transforming the organisation of international life. Behind the routine of power politics which either serve or, more often, are served by ideologies, we can catch a glimpse of far-flung and meaningful policies which may, albeit incidentally, fulfil the deeply rooted aspirations of the common man. It is probable that the chances of democratic socialism (which most people, even quite recently, would have pronounced to be nil) are greatly improved, although by unexpected paths. But whatever may be the fate of domestic affairs, the political system of the world as a whole has undoubtedly reached a turning point, and, as a consequence of this, Great Britain is now standing at the cross-roads. The event is still too close, and too vast, to be clearly discernible, but the sooner we take our bearings the better.

One comes to realise this when making the attempt to describe more precisely the tendencies underlying the foreign policies of Great Britain, Russia, and America; for here it is quite certain that the traditional pattern is not enough. What is at issue between the powers is not so much their place in a given pattern of power, as the pattern itself. Broadly speaking, the United States fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself, belong to another, which is in course of transition to a new form. Each side will, or at least, in reason, should, favour that pattern which tends to keep its side of the balance secure. Obviously, it is of paramount importance to read the meaning of these patterns aright.

The tremendous event of our age is the simultaneous downfall of liberal capitalism, world-revolutionary socialism and racial domination—the three competing forms of universalist societies. Their sudden exit followed upon drastic, unheard of changes in human affairs, and the beginning of a new era in international politics. World-revolutionary socialism was overcome by 'regional' socialism in the sufferings and glories of the Five Year Plans, the tribulations of the Trials, and the triumph of Stalingrad; liberal capitalism came to an end in the collapse of the gold standard, which left millions of unemployed and unparalleled social deprivation in its wake; Hitler's principle of domination is being crushed on a battlefield co-extensive with the planet he attempted to conquer; and out of the great mutation various forms of inherently limited existence emerge—new forms of socialism, of capitalism, of planned and semi-planned economics—each of them, by their very nature, regional.

This process was an almost exact replica of the establishment of the European states-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the period. In the Middle Ages that society was primarily religious, while in our time it was economic. It is obvious that the break-down of the nineteenth century system of world economy inevitably resulted in the immediate emergence of economic units of limited extent. In terms of the gold standard, that true symbol of universalist economy, this is self-evident since its passing forced every country to look after its own "foreign economy," which had formerly "looked after itself."¹ New organs had to be developed, new institutions had to be set up to cope with the situation. The peoples of the world are now living under these new conditions, which are compelling them to evolve a new way

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There is one notable exception. The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation—a Utopian line since, ultimately, the attempt to restore the pre-1914 world-order, together with its gold standard and manifold sovereignties is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists, the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the T.V.A., have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism had done in Europe up to 1914. The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come.

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It is from the regionalism to which she is committed that Russia draws her greatest strength. The victory of Stalinism over Trotskyism meant a change in her foreign policy from a rigid universalism, relying on the hope of a world revolution, to a regionalism bordering on isolationism. Trotsky, in fact, followed the traditional line of revolutionary policy, while Stalin was a daring innovator. By denying these facts, Communists caused hopeless confusion and made it unnecessarily difficult for us to realise the startling novelty of Stalin's policy.

To begin with, there is an entirely new attitude towards the uses of social change. The victorious Russian empire takes its independence for granted, and its dominating interest is durable peace. (Given this, the U.S.S.R. might, by half a dozen Five Year Plans, reach the American level of industrial efficiency and standards of life, and, indeed, surpass it.) As it has excluded universalist solutions on the model of the League of Nations or of World Federation, peace depends merely on the foreign policies of its neighbours. The Russians are determined to have only friendly states on their western borders, but they are loth to extend their frontiers so as to

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In Eastern Europe regionalism is also the cure for at least three endemic political diseases—intolerant nationalism, petty sovereignties and economic non-co-operation. All three are inevitable by-products of a market-economy in a region of racially mixed settlements. The virulent nationalism of the nineteenth century was unknown outside the confines of such economies and its geographical extension towards Central Europe, Eastern Europe and Asia coincided with the territories brought under the control of a credit system by autochthonous middle classes. In multi-national areas, like the basins of the Vistula and the Danube, this resulted in hysterically chauvinistic states, who, unable to bring order into political chaos, merely infected others with their anarchy. Moreover, to the amazement of the utilitarian free-trader, with his naive outlook bounded by economics, the unresolved racial issues prevented the smooth functioning of markets across the disputed frontiers. The Bolsheviks must soon have found out that this type of nationalism was merely the result of nineteenth century economics in multi-national areas. Indeed, their experience, both within and without their frontiers, taught them that whenever

market methods were discarded for planned trading, intractable chauvinisms lost their viciousness, national sovereignty became less maniacal, and economic co-operation was regarded again as being of mutual help instead of being feared as a threat to the prosperity of the state. In effect, as soon as the credit system is based no longer on 'confidence' but on administration, finance, which rules by panic, is deposed, and sanity can prevail. It must be admitted that any type of economic regionalism—whether socialist or not—any planning—whether democratic or not—might have a similar effect in the racial jig-saw puzzle of the Danube, the Vistula, the Vardar and the Struma. But, as it happened, history offered the chance to the Russians, who naturally took what was proffered to them.

Regionalism is not a panacea. Many old, and perhaps many new, troubles will not yield to its treatment. Nevertheless, it is a remedy for many of the ills of Eastern Europe: and this accounts for the superiority of Russian policies in this region. If the Atlantic Charter really committed us to restore free markets where they have disappeared, we might thereby be opening the door to the reintroduction of a crazy nationalism into regions from which it has disappeared. We should not only be importing unemployment and starvation into the liberated regions simply by 'liberating' the local markets; we should also be burdening ourselves with the responsibility of having thrown back the people into the anarchy out of which, by their own exertions, they had just emerged. Marshal Tito's partisans bid fair to solve the problem of Balkan hatreds simply because they start from the assumption of a system no longer market-ridden and no longer managed by the middle class. This is the key to the Macedonian miracle. To-morrow Europe as a whole may yearn for the Balkan cure, and regionalism will be supreme.

III

Thus it becomes apparent that liberal capitalism is not to-day primarily a domestic issue. First and foremost it is a matter of foreign policies, since it is in the international field that the methods of private enterprise have broken down—as shown by the failure of the gold standard; and it is in that field that adherence to such methods constitutes a direct obstacle to practical solutions. Liberal capitalism is based on one simple tenet: foreign buying and selling, lending and borrowing, and the exchange of foreign currencies are carried on between *individuals*, as if they were members of one and the same country. "Foreign economy" is thus an affair of private persons, and the market-mechanism is credited with the almost miraculous power of 'balancing' the foreign economies of all countries *automatically*—that is, without the intervention of their governments. This Utopian conception failed in practice, as it was bound to do; and the gold standard was destroyed by the unemployment that it caused. In fact, the new methods of "foreign economy" which have superseded the gold standard are incomparably more effective for the purposes of international co-operation. With their help we are able to solve problems which were formerly intractable. Among these are the distribution of raw materials, the stabilizing of prices, and even the ensuring of full employment in all countries. Each of these problems was a permanent source of anarchy under the market system. Whether an even more universal system of marketing might not, after all, have been successful, will never be put to the test, since it would involve the impossible task of first restoring the market system throughout the world. Yet to this task the United States stands self-committed, and she may not realise for a long time that her attempt is doomed to failure. The alternative to the reactionary Utopia of Wall Street is the deliberate development of the new instruments and organs of foreign trading, lending and paying, which constitute the essence of regional planning.

Here lies Britain's chance. "Foreign economy" must necessarily be the pivot of the policies of an island empire dependent upon imports for maintaining a civilized standard of life, and on free co-operation with oversea dominions for the survival of the Commonwealth. Neither full employment, nor a flexible currency, nor continuous imports, are possible for such a country without a planned foreign

economy. With its help, however, Britain would be able to reap the huge economic and political advantages of the new regional organization of the world. She took a decisive step in 1931, when she went off gold, introduced a capital embargo and turned to paper money; another step was taken at Ottawa; still another lay in the establishment of national governments as a semi-permanent institution; and an avalanche of even more incisive changes followed during the war. Great Britain is no longer a free-trading country; she is not on the gold standard; she has been interfering at home with private enterprise in every conceivable manner; she is entirely capable of organising the whole of her external economy on a controlled basis—whoever is eventually put in charge of the controls; and all this has happened without any infringement of vital liberties or of the freedom to shape public opinion. Indeed, public opinion has never been more supreme over government.

Far from being cramped in her national life or frustrated in her imperial existence by breaking the taboo of non-interference with industry, Great Britain has become more healthily united with every year that has passed since she left the atmosphere of liberal capitalism, free competition, the gold standard, and all the other names under which a market-society is hallowed. There is nothing to prevent her from using the new methods of regional economics to abolish unemployment, periodically to adjust currencies, to organise bulk imports, to direct her foreign investments, to arrange for large-scale barter, to finance heavy industrial exports, to conclude long-term contracts of industrial collaboration with other governments and thus to co-ordinate domestic employment and living standards with her trade, shipping, financial and currency policies in such a way as to secure for herself the advantages which accrue in the modern world from a deliberately-established and purposefully-managed national system. Precisely because foreign economy is more liable to control—and more in need of it—than domestic trade, the British Isles in spite of their rigid class-structure, had the good luck to be ahead of the young American continent in adjusting themselves to the requirements of the new economy.

This advantage is now in jeopardy. The freedom which Great Britain purchased at so high a cost in the critical weeks of 1931, when her banks threatened to fail and were saved only at the price of the gold standard, would be endangered by a lop-sided policy of Anglo-American co-operation. Instead of securing for Britain the unique advantages of a regionalism, which would enable her to co-operate equally with the U.S.S.R. and the U.S.A.—a co-operation particularly essential in dealing with their sub-continent—it would deprive her of those organs of external trade which she needs for her survival. She would become merely a helpless partner in the old-fashioned system suited to the continental economy of the U.S.A., in which foreign trade plays only a very small part. For the sake of this doubtful privilege she is invited to forego the prospect of a close industrial co-operation on the European Continent with the U.S.S.R., which would secure for her freedom of action, a rising standard of life, and the adventures of a constructive peace for a long time to come.

The great symbol of universalism is the gold standard. It may be objected that the pre-1914 gold standard neither will nor can be re-introduced, and that to spread alarm about America's intention of restoring it, is to tilt at windmills. But this is a mere quibble. The *old* standard is, of course, as dead as a doornail; and no one will dream of resuscitating it, even though, till recently, the experts of the League of Nations declared that it was *the* condition of future prosperity. But, unfortunately, what America is striving for is not the mere shadow or the empty name, but the substance of the gold standard; and this—as well-informed people should know by now—is no other than the balancing of "foreign economy" through automatic movements of trade, i.e., through the undirected trade of private individuals and firms. The battle over the gold standard, which superficially appears to be a mere wrangle about financial technicalities, is in reality a battle for and against regional planning. There was a grim irony in some Russian statements favouring American plans of restoring the gold standard. For as to Russia, since she has no private trading, the question does not concern her. She is a mere onlooker who might be secretly amused by the antics of U.S.A. and Great Britain enmeshed in the toils of the gold standard.

Britain will, therefore, have to define her policy with regard to the gold standard, whatever form it may take. AMGOT, UNRRA, UFEA, and the others—the letters F and E stand for Foreign Economy—are instruments, mainly American, for re-establishing market methods in the liberated countries. The fact that, under the given conditions of scarcity, the use of such methods must tend to produce starvation and unemployment does not seem to have struck some interpreters of the Atlantic Charter. Even the alleged predilection of these organs of relief and rehabilitation for monarchists and clericals may be doubtful: for what makes them invariably side with the *ancien regime* against the popular forces is not so much their reactionary views as their determination to restore the practices of the free market—and to this determination any popular representative body would necessarily be opposed. It will be interesting to watch the reactions of the ordinary Englishman when he begins to realise that at the heart of world politics there is a universalist conspiracy to make the world safe for the gold standard.

There is indeed grave danger that Britain may miss her chance. An industrially stagnant ruling class is less swayed by economic considerations than by the advantages of birth and education. Whole-hearted co-operation with Russia on the Continent, enormously profitable as a business proposition, might involve the peril of a new equalitarian impulse radiating this time from a Continent which was turned into a home of popular government by Russian influence. Not as if the U.S.S.R. was feared any more as the mother of Soviets; yet she may still prove herself a true daughter of the French Revolution. The cloud on the horizon is not yet bigger than a man's hand. But what if it started to grow and, eventually, in some dire crisis or in some great adventure of progress, fresh forces should spring up and fuse Disraeli's Two Nations into one? Such a consummation is dreaded by those who look more to the past than to the future for their title to leadership. They will hold on to social privilege even at the expense of financial loss. Contrary to national interest, they might attempt to restore universal capitalism, instead of striking out boldly on the paths of regional planning.

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UNIVERSAL CAPITALISM OR REGIONAL PLANNING?

By K. POLANYI

I

① Of all the great changes witnessed by our generation, none may prove more incisive than that which is transforming the organisation of international life. Behind the routine of power politics which either serve or, more often, are served by ideologies, we can catch a glimpse of far-flung ~~and meaningless~~ policies which may, albeit incidentally, fulfil the deeply rooted aspirations of the common man. It is probable that the chances of democratic socialism (which most people, even quite recently, would have pronounced to be nil) are greatly improved, although by unexpected paths. But whatever may be the fate of domestic affairs, the political system of the world as a whole has undoubtedly reached a turning point, and, as a consequence of this, Great Britain is ~~now~~ standing at the cross-roads. ~~The event is still too close, and too vast, to be clearly discernible, but the sooner we take our bearings the better.~~

② One comes to realise this when making the attempt to describe ~~more precisely~~ the tendencies underlying the foreign policies of Great Britain, Russia, and America. ~~For here it is quite certain that the traditional pattern is not enough. What is at issue between the powers is not so much their place in a given pattern of power as that pattern itself.~~ Broadly speaking, the United States fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself, belong to another, which is in course of transition to a new form. ~~Each side will, or at least, in reason, should, favour that pattern which tends to keep its side of the balance secure.~~ Obviously, it is of paramount importance to read the meaning of these patterns aright.)

* The ~~heraldic~~ event of our age is the simultaneous downfall of liberal capitalism, world-revolutionary socialism and racial domination—the three competing forms of universalist societies. Their sudden exit followed upon drastic ~~unheard of~~ changes in human affairs, ~~and the beginning of a new era in international politics.~~ World-revolutionary socialism was overcome by 'regional' socialism in the sufferings and glories of the Five Year Plans, the tribulations of the Trials, and the triumph of Stalingrad; liberal capitalism came to an end in the collapse of the gold standard, which left millions of unemployed and unparalleled social deprivation in its wake; ~~Hitler's principle of domination is being crushed on a battlefield co-extensive with the planet he attempted to conquer;~~ and out of the great mutation various forms of ~~inherently~~ limited existence ~~emerge~~ new forms of socialism, of capitalism, of planned and semi-planned economies—each of them, by their very nature, regional.

③ ~~This process was an almost exact replica of the establishment of the European states-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the period. In the Middle Ages that society was primarily religious, while in our time it was economic. It is obvious that the break-down of the nineteenth century system of world economy inevitably resulted in the immediate emergence of economic units of limited extent. In terms of the gold standard, that true symbol of universalist economy, this is self-evident since its passing forced every country to look after its own "foreign economy," which had formerly "looked after itself." New organs had to be developed, ~~now~~ institutions had to be set up to cope with the ~~situations~~. The peoples of the world are ~~now~~ living under these new conditions, which are compelling them to evolve a new way~~

¹By "foreign economy" we simply mean the movement of goods, loans and payments across the borders of a country.

← emergency.

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of life. Their "foreign economy" ^{is} the governments' concern; their currency is managed; their foreign trade and foreign loans are controlled. Their domestic institutions may differ widely, but the institutions with the help of which they deal with their "foreign economy" are practically identical. ~~The new permanent~~ pattern of world affairs is one of regional systems co-existing side by side.

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There is one notable exception. The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation—a Utopian line since, ultimately, the attempt to restore the pre-1914 world order, ~~together with its gold standard and manifold~~ ^{sovereignities} is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists, the ~~stupendous~~ achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the T.V.A., have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism ~~had done~~ in Europe up to 1914. The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come.

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With a free supply of land, unskilled labour and paper money, a liberal economy functioned in the United States, at least until the period beginning in 1890, without producing the lethal dangers to the fabric of society, to man and soil, which are otherwise inseparable from "self-adjusting" capitalism. That is why Americans still believe in a way of life no longer supported by the common people in the rest of the world, but which nevertheless implies a universality which commits those who believe in it to reconquer the globe on its behalf. On the crucial issue of foreign economy, America stands for the nineteenth century.

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It follows that, potentially at least, Great Britain and the Soviet Union, together with other countries, conform to one pattern, the United States to another. The British Commonwealth and the U.S.S.R. form part of a new system of regional powers, while the United States insists on a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries still hope that it is not yet too late for Britain's own system of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue to-day.

with an uncompromising determination Russia II & the Balkans

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It is from the regionalism ~~to~~ which she ~~is committed~~ that Russia draws her greatest strength. The victory of Stalinism over Trotskyism meant a change in her foreign policy from a rigid universalism, relying on the hope of a world revolution, to a regionalism bordering on isolationism. Trotsky, in fact, followed the traditional line of revolutionary policy, while Stalin was a daring innovator. By denying these facts, Communists caused hopeless confusion and made it unnecessarily difficult for us to realise the startling novelty of Stalin's policy.

To begin with, there is an entirely new attitude towards the uses of social change. The victorious Russian empire takes its independence for granted, and its dominating interest is durable peace. (Given this, the U.S.S.R. might, by half a dozen Five Year Plans, reach the American level of industrial efficiency and standards of life, and, indeed, surpass it.) As it has excluded universalist solutions on the model of the League of Nations or of World Federation, peace depends merely on the foreign policies of its neighbours. The Russians are determined to have only friendly states on their western borders, but they are loth to extend their frontiers ~~so as to~~

Küingding; vendage capitale restricted to limits of regionalism & symposiums with restricted foreign econ. a regional system: cooperation of such powers of international politics

~~include those neighbours.~~ The new constitutional changes are designed to assist Russia in this endeavour, since they allow smaller neighbours to harmonize their policies with their own immediate neighbours inside the U.S.S.R., without necessarily having to carry on negotiations with the colossus itself. The U.S.S.R. offers them Slavonic solidarity against German aggression, and assumes that nothing but class interest would induce their rulers to side with Germany against herself. She wants, therefore, to destroy the political influence of the feudal class and "heavy" industrialists in these countries, and intends to use socio-economic means for this purpose, but for this purpose only. In other words, she wishes to put economic radicalism to the service of limited political ends. Such basic reforms as she advocates, in Poland, for example, would not mean socialist revolutions in the usual sense—where socialism is an end in itself—but merely popular upheavals aimed at the destruction of the political power of the feudal classes, while eschewing any general transformation of the property system. Such revolutions are far safer than the traditional, unlimited socialist ones which, ~~at least~~ in Eastern Europe, would either provoke a fascist counter-revolution, or else could maintain themselves only with the help of Russian bayonets, which Russia has no intention of providing.

Nothing could be less appealing to the conventional revolutionary than such a prospect. It is no exaggeration to say that he could not approve of it without mental reservations, and might find it difficult even to comprehend. Traditionally, he regards political action as a means of achieving socio-economic ends and to reverse this sequence by using socio-economic means, such as nationalization or agrarian reform, for political ends appears almost unnatural to him. In effect, the Russians themselves justly refuse to call these methods socialist since they are merely designed to safeguard their own security. For all that, they may achieve a democratic socialist transformation more effectively than anything world-revolutionary socialists ever attempted.

From the ideological stratosphere socialism thus parachutes to earth. Our generation has learnt how overwhelmingly the people rally behind policies designed to protect the community from external danger. The Russians promise their neighbours a secure national existence on condition that they rid themselves of incurably reactionary classes and it is to this end that they suggest expropriations and eventually confiscations. No one ought to be surprised if such methods, ~~unpopular~~ elsewhere, should find strong support in communities which see in them the means to national security. It should be remembered that once the Reformation began to involve the secularization of Church property, its scene swiftly changed from the cells of monasteries to the council rooms of the Princes. Similarly, the people may decide with alacrity for socialist measures which deliver the political goods.

It follows that it is precisely the regional character of this socialism which ensures its success and prevents it from becoming a mere introduction to further wars and revolutions. These would necessarily result from the attempt to spread socialism, for its own sake, to neighbouring countries. Socialisation of the new kind is emphatically not an article for export. It is a foundation of national existence.

In Eastern Europe regionalism is also the cure for at least three endemic political diseases—intolerant nationalism, petty sovereignties and economic non-co-operation. All three are ~~inevitable~~ by-products of a market economy in a region of racially mixed settlements. The virulent nationalism of the nineteenth century was unknown outside the confines of such economics, and its geographical extension towards Central Europe, Eastern Europe and Asia coincided with the territories brought under the control of a credit system by autochthonous middle classes. In multi-national areas, like the basins of the Vistula and the Danube, this resulted in hysterically chauvinistic states, ~~who~~, unable to bring order into political chaos, merely infected others with their anarchy. Moreover, to the amazement of the utilitarian free-trader, with his naive outlook bounded by economics, the unresolved racial issues prevented the smooth functioning of markets across the disputed frontiers. The Bolsheviks must soon have found out that this type of nationalism was merely the result of nineteenth century economics in multi-national areas. Indeed, their experience, both within and without their frontiers, taught them that whenever

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By K. POLANYI

I

OF all the great changes witnessed by our generation, none may prove more incisive than that which is transforming the organisation of international life. Behind the routine of power politics which either serve or, more often, are served by ideologies, we can catch a glimpse of far-flung and meaningful policies which may, albeit incidentally, fulfil the deeply rooted aspirations of the common man. It is probable that the chances of democratic socialism (which most people, even quite recently, would have pronounced to be nil) are greatly improved, although by unexpected paths. But whatever may be the fate of domestic affairs, the political system of the world ~~as a whole~~ has ~~undoubtedly~~ reached a turning point, and, ~~as a~~ ⁱⁿ consequence of this, Great Britain is ~~now~~ standing at the cross-roads. The event is still too close, and too vast, to be clearly discernible, but the sooner we take our bearings the better.

One comes to realise this when making the attempt to describe more precisely the tendencies underlying the foreign policies of Great Britain, Russia, and America. For here it is quite certain that the traditional pattern is not enough. What is at issue between the powers is not so much their place in a given pattern of power, as the pattern itself. Broadly speaking, the United States fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself, belong to another, which is in course of transition to a new form. Each side will, or at least, in reason, should, favour that pattern which tends to keep its side of the balance secure. Obviously, it is of paramount importance to read the meaning of these patterns aright. formation]

The tremendous event of our age is the simultaneous downfall of liberal capitalism, world-revolutionary socialism and racial domination—the three competing forms of universalist societies. Their sudden exit followed upon drastic, ~~unheard-of~~ changes in human affairs, and the beginning of a new era in international politics. World-revolutionary socialism was overcome by 'regional' socialism in the sufferings and glories of the Five Year Plans, the tribulations of the Trials, and the triumph of Stalingrad; liberal capitalism came to an end in the collapse of the gold standard, which left millions of unemployed and unparalleled social deprivation in its wake; Hitler's principle of domination is being crushed on a battlefield co-extensive with the planet he attempted to conquer; and out of the great mutation various forms of ~~inherently~~ limited existence emerge—new forms of socialism, of capitalism, of planned and semi-planned economies—each of them, by their very nature, regional.

This process was an almost exact replica of the establishment of the European states-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the period. In the Middle Ages that society was primarily religious, while in our time it was economic. It is obvious that the break-down of the nineteenth century system of world economy inevitably resulted in the immediate emergence of economic units of limited extent. In terms of the gold standard, that true symbol of universalist economy, this is self-evident since its passing forced every country to look after its own "foreign economy," which had formerly "looked after itself."¹ New organs had to be developed, new institutions had to be set up to cope with the situation. The peoples of the world are now living under these new conditions, which are compelling them to evolve a new way

¹By "foreign economy" we simply mean the movement of goods, loans and payments across the borders of a country.

of life. Their "foreign economy" is the governments' concern; their currency is managed; their foreign trade and foreign loans are controlled. Their domestic institutions may differ widely, but the institutions with the help of which they deal with their "foreign economy" are practically identical. The new permanent pattern of world affairs is one of regional systems co-existing side by side.

There is one notable exception. The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation—a Utopian line since, ultimately, the attempt to restore the pre-1914 world-order, together with its gold standard and manifold sovereignties is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists, the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the T.V.A., have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism had done in Europe up to 1914. The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come.

With a free supply of land, unskilled labour and paper money, a liberal economy functioned in the United States, at least until the period beginning in 1890, without producing the lethal dangers to the fabric of society, to man and soil, which are otherwise inseparable from "self-adjusting" capitalism. That is why Americans still believe in a way of life no longer supported by the common people in the rest of the world, but which nevertheless implies a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries still hope that it is not yet too late for Britain's own system of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue to-day.

It follows that, potentially at least, Great Britain and the Soviet Union, together with other countries, conform to one pattern, the United States to another. The British Commonwealth and the U.S.S.R. form part of a new system of regional powers, while the United States insists on a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries still hope that it is not yet too late for Britain's own system of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue to-day.

II

It is from the regionalism to which she is committed that Russia draws her greatest strength. The victory of Stalinism over Trotskyism meant a change in her foreign policy from a rigid universalism, relying on the hope of a world revolution, to a regionalism bordering on isolationism. Trotsky, in fact, followed the traditional line of revolutionary policy, while Stalin was a daring innovator. By denying these facts, Communists caused hopeless confusion and made it unnecessarily difficult for us to realise the startling novelty of Stalin's policy.

To begin with, there is an entirely new attitude towards the uses of social change. The victorious Russian empire takes its independence for granted, and its dominating interest is durable peace. (Given this, the U.S.S.R. might, by half a dozen Five Year Plans, reach the American level of industrial efficiency and standards of life, and, indeed, surpass it.) As it has excluded universalist solutions on the model of the League of Nations or of World Federation, peace depends merely on the foreign policies of its neighbours. The Russians are determined to have only friendly states on their western borders, but they are loth to extend their frontiers so as to

include those neighbours. The new constitutional changes are designed to assist Russia in this endeavour, since they allow smaller neighbours to harmonize their policies with their own immediate neighbours inside the U.S.S.R., without necessarily having to carry on negotiations with the colossus itself. The U.S.S.R. offers them Slavonic solidarity against German aggression, and assumes that nothing but class interest would induce their rulers to side with Germany against herself. She wants, therefore, to destroy the political influence of the feudal class and "heavy" industrialists in these countries, and intends to use socio-economic means for this purpose, but for this purpose only. In other words, she wishes to put economic radicalism to the service of limited political ends. Such basic reforms as she advocates, in Poland, for example, would not mean socialist revolutions in the usual sense where socialism is an end in itself—but merely popular upheavals aimed at the destruction of the political power of the feudal classes, while eschewing any general transformation of the property system. Such revolutions are far safer than the traditional, unlimited socialist ones which, at least in Eastern Europe, would either provoke a fascist counter-revolution, or else could maintain themselves only with the help of Russian bayonets, which Russia has no intention of providing.

Nothing could be less appealing to the conventional revolutionary than such a prospect. It is no exaggeration to say that he could not approve of it without mental reservations, and might find it difficult even to comprehend. Traditionally, he regards political action as a means of achieving socio-economic ends and to reverse this sequence by using socio-economic means, such as nationalization or agrarian reform, for political ends appears almost unnatural to him. In effect, the Russians themselves justly refuse to call these methods socialist since they are merely designed to safeguard their own security. For all that, they may achieve a democratic socialist transformation more effectively than anything world-revolutionary socialists ever attempted.

From the ideological stratosphere socialism thus parachutes to earth. Our generation has learnt how overwhelmingly the people rally behind policies designed to protect the community from external danger. The Russians promise their neighbours a secure national existence on condition that they rid themselves of incurably reactionary classes and it is to this end that they suggest expropriations and eventually confiscations. No one ought to be surprised if such methods, unpopular elsewhere, should find strong support in communities which see in them the means to national security. It should be remembered that once the Reformation began to involve the secularization of Church property, its scene swiftly changed from the cells of monasteries to the council rooms of the Princes. Similarly, the people may decide with alacrity for socialist measures which deliver the political goods.

It follows that it is precisely the regional character of this socialism which ensures its success and prevents it from becoming a mere introduction to further wars and revolutions. These would necessarily result from the attempt to spread socialism, for its own sake, to neighbouring countries. Socialisation of the new kind is emphatically not an article for export. It is a foundation of national existence.

In Eastern Europe regionalism is also the cure for at least three endemic political diseases—intolerant nationalism, petty sovereignties and economic non-co-operation. All three are inevitable by-products of a market-economy in a region of racially mixed settlements. The virulent nationalism of the nineteenth century was unknown outside the confines of such economies and its geographical extension towards Central Europe, Eastern Europe and Asia coincided with the territories brought under the control of a credit system by autochthonous middle classes. In multi-national areas, like the basins of the Vistula and the Danube, this resulted in hysterically chauvinistic stunts, who, unable to bring order into political chaos, merely infected others with their anarchy. Moreover, to the amazement of the utilitarian free-trader, with his naive outlook bounded by economics, the unresolved racial issues prevented the smooth functioning of markets across the disputed frontiers. The Bolsheviks must soon have found out that this type of nationalism was merely the result of nineteenth century economics in multi-national areas. Indeed, their experience, both within and without their frontiers, taught them that whenever

market methods were discarded for planned trading, intractable chauvinisms lost their viciousness, national sovereignty became less maniacal, and economic co-operation was regarded again as being of mutual help instead of being feared as a threat to the prosperity of the state. In effect, as soon as the credit system is based no longer on 'confidence' but on administration, finance, which rules by panic, is deposed, and sanity can prevail. It must be admitted that any type of economic regionalism—whether socialist or not—any planning—whether democratic or not—might have a similar effect in the racial jig-saw puzzle of the Danube, the Vistula, the Vardar and the Struma. But, as it happened, history offered the chance to the Russians, who naturally took what was proffered to them.

Regionalism is not a panacea. Many old, and perhaps many new, troubles will not yield to its treatment. Nevertheless, it is a remedy for many of the ills of Eastern Europe; and this accounts for the superiority of Russian policies in this region. If the Atlantic Charter really committed us to restore free markets where they have disappeared, we might thereby be opening the door to the reintroduction of a crazy nationalism into regions from which it has disappeared. We should not only be importing unemployment and starvation into the liberated regions simply by 'liberating' the local markets; we should also be burdening ourselves with the responsibility of having thrown back the people into the anarchy out of which, by their own exertions, they had just emerged. Marshal Tito's partisans bid fair to solve the problem of Balkan hatreds simply because they start from the assumption of a system no longer market-ridden and no longer managed by the middle class. This is the key to the Macedonian miracle. To-morrow Europe as a whole may yearn for the Balkan cure, and regionalism will be supreme.

III

Thus it becomes apparent that liberal capitalism is not to day primarily a domestic issue. First and foremost it is a matter of foreign politics, since it is in the international field that the methods of private enterprise have broken down—as shown by the failure of the gold standard; and it is in that field that adherence to such methods constitutes a direct obstacle to practical solutions. Liberal capitalism is based on one simple tenet: foreign buying and selling, lending and borrowing, and the exchange of foreign currencies are carried on between *individuals*, as if they were members of one and the same country. "Foreign economy" is thus an affair of private persons, and the market-mechanism is credited with the almost miraculous power of 'balancing' the foreign economies of all countries *automatically*,—that is, without the intervention of their governments. This Utopian conception failed in practice, as it was bound to do; and the gold standard was destroyed by the unemployment that it caused. In fact, the new methods of "foreign economy" which have superseded the gold standard are incomparably more effective for the purposes of international co-operation. With their help we are able to solve problems which were formerly intractable. Among these are the distribution of raw materials, the stabilizing of prices, and even the ensuring of full employment in all countries. Each of these problems was a permanent source of anarchy under the market system. Whether an even more universal system of marketing might not, after all, have been successful, will never be put to the test, since it would involve the impossible task of first restoring the market system throughout the world. Yet to this task the United States stands self-committed, and she may not realise for a long time that her attempt is doomed to failure. The alternative to the reactionary Utopia of Wall Street is the deliberate development of the new instruments and organs of foreign trading, lending and paying, which constitute the essence of regional planning.

Here lies Britain's chance. "Foreign economy" must necessarily be the pivot of the policies of an island empire dependent upon imports for maintaining a civilized standard of life, and on free co-operation with oversea dominions for the survival of the Commonwealth. Neither full employment, nor a flexible currency, nor continuous imports, are possible for such a country without a planned foreign

economy. With its help, however, Britain would be able to reap the huge economic and political advantages of the new regional organization of the world. She took a decisive step in 1931, when she went off gold, introduced a capital embargo and turned to paper money; another step was taken at Ottawa; still another lay in the establishment of national governments as a semi-permanent institution; and an avalanche of even more incisive changes followed during the war. Great Britain is no longer a free-trading country; she is not on the gold standard; she has been interfering at home with private enterprise in every conceivable manner; she is entirely capable of organising the whole of her external economy on a controlled basis—whoever is eventually put in charge of the controls; and all this has happened without any infringement of vital liberties or of the freedom to shape public opinion. Indeed, public opinion has never been more supreme over government.

Far from being cramped in her national life or frustrated in her imperial existence by breaking the taboo of non-interference with industry, Great Britain has become more healthily united with every year that has passed since she left the atmosphere of liberal capitalism, free competition, the gold standard, and all the other names under which a market-society is hallowed. There is nothing to prevent her from using the new methods of regional economics to abolish unemployment, periodically to adjust currencies, to organise bulk imports, to direct her foreign investments, to arrange for large-scale barter, to finance heavy industrial exports, to conclude long-term contracts of industrial collaboration with other governments and thus to co-ordinate domestic employment and living standards with her trade, shipping, financial and currency policies in such a way as to secure for herself the advantages which accrue in the modern world from a deliberately-established and purposefully-managed national system. Precisely because foreign economy is more liable to control—and more in need of it—than domestic trade, the British Isles in spite of their rigid class-structure, had the good luck to be ahead of the young American continent in adjusting themselves to the requirements of the new economy.

This advantage is now in jeopardy. The freedom which Great Britain purchased at so high a cost in the critical weeks of 1931, when her banks threatened to fail and were saved only at the price of the gold standard, would be endangered by a top-sided policy of Anglo-American co-operation. Instead of securing for Britain the unique advantages of a regionalism, which would enable her to co-operate equally with the U.S.S.R. and the U.S.A.—a co-operation particularly essential in dealing with their sub-continent—it would deprive her of those organs of external trade which she needs for her survival. She would become merely a helpless partner in the old-fashioned system suited to the continental economy of the U.S.A., in which foreign trade plays only a very small part. For the sake of this doubtful privilege she is ^{asked} invited to forego the prospect of a close industrial co-operation on the European Continent with the U.S.S.R., which would secure for her freedom of action, a rising standard of life, and the advent of a constructive peace for a long time to come.

The great symbol of universalism is the gold standard. It may be objected that the pre-1914 gold standard neither will nor can be re-introduced, and that to spread alarm about America's intention of restoring it, is to tilt at windmills. But this is a mere quibble. The *old* standard is, of course, as dead as a doornail; and no one will dream of resuscitating it, even though, till recently, the experts of the League of Nations declared that it was the condition of future prosperity. But, unfortunately, what America is striving for is not the mere shadow or the empty name, but the substance of the gold standard; and this—as well-informed people should know by now—is no other than the balancing of "foreign economy" through automatic movements of trade, i.e., through the undirected trade of private individuals and firms. The battle over the gold standard, which superficially appears to be a mere wrangle about financial technicalities, is in reality a battle for and against regional planning. There was a grim irony in some Russian statements favouring American plans of restoring the gold standard. For as to Russia, since she has no private trading, the question does not concern her. She is a mere onlooker who might be secretly amused by the antics of U.S.A. and Great Britain crushed in the toils of the gold standard.

Britain will, therefore, have to define her policy with regard to the gold standard, whatever form it may take. AMGOT, UNRRA, UFEA, and the others—the letters F and E stand for Foreign Economy—are instruments, mainly American, for re-establishing market methods in the liberated countries. The fact that, under the given conditions of scarcity, the use of such methods must tend to produce starvation and unemployment does not seem to have struck some interpreters of the Atlantic Charter. Even the alleged predilection of these organs of relief and rehabilitation for monarchists and clericals may be doubtful: for what makes them invariably side with the *ancien régime* against the popular forces is not so much their reactionary views as their determination to restore the practices of the free market—and to this determination any popular representative body would necessarily be opposed. It will be interesting to watch the reactions of the ordinary Englishman when he begins to realise that at the heart of world politics there is a universalist conspiracy to make the world safe for the gold standard.

There is indeed grave danger that Britain may miss her chance. An industrially stagnant ruling class is less swayed by economic considerations than by the advantages of birth and education. Whole-hearted co-operation with Russia on the Continent, enormously profitable as a business proposition, might involve the peril of a new equalitarian impulse radiating this time from a Continent which was turned into a home of popular government by Russian influence. Not as if the U.S.S.R. was feared any more as the mother of Soviets; yet she may still prove herself a true daughter of the French Revolution. The cloud on the horizon is not yet bigger than a man's hand. But what if it started to grow and, eventually, in some dire crisis or in some great adventure of progress, fresh forces should spring up and fuse Disraeli's Two Nations into one? Such a consummation is dreaded by those who look more to the past than to the future for their title to leadership. They will hold on to social privilege even at the expense of financial loss. Contrary to national interest, they might attempt to restore universal capitalism, instead of striking out boldly on the paths of regional planning.

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UNIVERSAL CAPITALISM OR REGIONAL PLANNING?

By K. POLANYI

I

Of all the great changes witnessed by our generation, none may prove more incisive than that which is transforming the organisation of international life. Behind the routine of power politics which either serve or, more often, are served by ideologies, we ~~can catch a glimpse of~~ far-flung and meaningful policies which may, albeit incidentally, fulfil the deeply rooted aspirations of the common man. It is probable that the chances of democratic socialism (which most people, even quite recently, would have pronounced to be nil) are greatly improved, although by unexpected paths. But whatever may be the fate of domestic affairs, the political system of the world as a whole has undoubtedly reached a turning point, and, as a consequence of this, Great Britain is ~~now standing~~ at the cross-roads. The event is still too close, and too vast, to be clearly discernible, but the sooner we take our bearings the better.

One comes to realise this when making the attempt to describe more precisely the tendencies underlying the foreign policies of Great Britain, Russia, and America; for here it is quite certain that the traditional pattern is not enough. What is at issue between the powers is not so much their place in a given pattern of power, as the pattern itself. Broadly speaking, the United States fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself, belong to another, which is in course of transition to a new form. Each side will, or at least, in reason, should, favour that pattern which tends to keep its side of the balance secure. Obviously, it is of paramount importance to read the meaning of these patterns aright.

The tremendous event of our age is the simultaneous downfall of liberal capitalism, world-revolutionary socialism and racial domination—the three competing forms of universalist societies. Their sudden exit followed upon drastic, unheard of changes in human affairs, and the beginning of a new era in international politics. World-revolutionary socialism was overcome by 'regional' socialism in the sufferings and glories of the Five Year Plans, the tribulations of the Trials, and the triumph of Stalingrad; liberal capitalism came to an end in the collapse of the gold standard, which left millions of unemployed and unparalleled social deprivation in its wake; Hitler's principle of domination is being crushed on a battlefield co-extensive with the planet he attempted to conquer; and out of the great mutation various forms of inherently limited existence emerge—new forms of socialism, of capitalism, of planned and semi-planned economies—each of them, by their very nature, regional.

This process was an almost exact replica of the establishment of the European states-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the period. In the Middle Ages that society was primarily religious, while in our time it was economic. It is obvious that the break-down of the nineteenth century system of world economy inevitably resulted in the immediate emergence of economic units of limited extent. In terms of the gold standard, that true symbol of universalist economy, this is self-evident since its passing forced every country to look after its own "foreign economy," which had formerly "looked after itself." New organs had to be developed, new institutions had to be set up to cope with the situation. The peoples of the world are now living under these new conditions, which are compelling them to evolve a new way

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of life. Their "foreign economy" is the governments' concern; their currency is managed; their foreign trade and foreign loans are controlled. Their domestic institutions may differ widely, but the institutions with the help of which they deal with their "foreign economy" are practically identical. The new permanent pattern of world affairs is one of regional systems co-existing side by side.

There is one notable exception. The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation—a Utopian line since, ultimately, the attempt to restore the pre-1914 world-order, together with its gold standard and manifold sovereignties is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists, the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the T.V.A., have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism had done in Europe up to 1914. The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come.

With a free supply of land, unskilled labour and paper money, a liberal economy functioned in the United States, at least until the period beginning in 1890, without producing the lethal dangers to the fabric of society, to man and soil, which are otherwise inseparable from "self-adjusting" capitalism. That is why Americans still believe in a way of life no longer supported by the common people in the rest of the world, but which nevertheless implies a universality which commits those who believe in it to reconquer the globe on its behalf. On the crucial issue of foreign economy, America stands for the nineteenth century.

It follows that, potentially at least, Great Britain and the Soviet Union, together with other countries, conform to one pattern, the United States to another. The British Commonwealth and the U.S.S.R. form part of a new system of regional powers, while the United States insists on a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries still hope that it is not yet too late for Britain's own system of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue to-day.

II

It is from the regionalism to which she is committed that Russia draws her greatest strength. The victory of Stalinism over Trotskyism meant a change in her foreign policy from a rigid universalism, relying on the hope of a world revolution, to a regionalism bordering on isolationism. Trotsky, in fact, followed the traditional line of revolutionary policy, while Stalin was a daring innovator. By denying these facts, Communists caused hopeless confusion and made it unnecessarily difficult for us to realise the startling novelty of Stalin's policy.

To begin with, there is an entirely new attitude towards the uses of social change. The victorious Russian empire takes its independence for granted, and its dominating interest is durable peace. (Given this, the U.S.S.R. might, by half a dozen Five Year Plans, reach the American level of industrial efficiency and standards of life, and, indeed, surpass it.) As it has excluded universalist solutions on the model of the League of Nations or of World Federation, peace depends merely on the foreign policies of its neighbours. The Russians are determined to have only friendly states on their western borders, but they are loth to extend their frontiers so as to

include those neighbours. The new constitutional changes are designed to assist Russia in this endeavour, since they allow smaller neighbours to harmonize their policies with their own immediate neighbours inside the U.S.S.R., without necessarily having to carry on negotiations with the colossus itself. The U.S.S.R. offers them Slavonic solidarity against German aggression, and assumes that nothing but class interest would induce their rulers to side with Germany against herself. She wants, therefore, to destroy the political influence of the feudal class and "heavy" industrialists in these countries, and intends to use socio-economic means for this purpose, but for this purpose only. In other words, she wishes to put economic radicalism to the service of limited political ends. Such basic reforms as she advocates, in Poland, for example, would not mean socialist revolutions in the usual sense—where socialism is an end in itself—but merely popular upheavals aimed at the destruction of the political power of the feudal classes, while eschewing any general transformation of the property system. Such revolutions are far safer than the traditional, unlimited socialist ones which, at least in Eastern Europe, would either provoke a fascist counter-revolution, or else could maintain themselves only with the help of Russian bayonets, which Russia has no intention of providing.

Nothing could be less appealing to the conventional revolutionary than such a prospect. It is no exaggeration to say that he could not approve of it without mental reservations, and might find it difficult even to comprehend. Traditionally, he regards political action as a means of achieving socio-economic ends and to reverse this sequence by using socio-economic means, such as nationalization or agrarian reform, for political ends appears almost unnatural to him. In effect, the Russians themselves justly refuse to call these methods socialist since they are merely designed to safeguard their own security. For all that, they may achieve a democratic socialist transformation more effectively than anything world-revolutionary socialists ever attempted.

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In Eastern Europe regionalism is also the cure for at least three endemic political diseases—intolerant nationalism, petty sovereignties and economic non-co-operation. All three are inevitable by-products of a market-economy in a region of racially mixed settlements. The virulent nationalism of the nineteenth century was unknown outside the confines of such economies and its geographical extension towards Central Europe, Eastern Europe and Asia coincided with the territories brought under the control of a credit system by autochthonous middle classes. In multi-national areas, like the basins of the Vistula and the Danube, this resulted in hysterically chauvinistic states, who, unable to bring order into political chaos, merely infected others with their anarchy. Moreover, to the amazement of the utilitarian free-trader, with his naive outlook bounded by economics, the unresolved racial issues prevented the smooth functioning of markets across the disputed frontiers. The Bolsheviks must soon have found out that this type of nationalism was merely the result of nineteenth century economics in multi-national areas. Indeed, their experience, both within and without their frontiers, taught them that whenever

market methods were discarded for planned trading, intractable chauvinism their viciousness, national sovereignty became less maniacal, and economic co-operation was regarded again as being of mutual help instead of being feared as a threat to the prosperity of the state. In effect, as soon as the credit system is based no longer on 'confidence' but on administration, finance, which rules by panic, is deposed, and sanity can prevail. It must be admitted that any type of economic regionalism—whether socialist or not—any planning—whether democratic or not—might have a similar effect in the racial jig-saw puzzle of the Danube, the Vistula, the Vardar and the Struma. But, as it happened, history offered the chance to the Russians, who naturally took what was proffered to them.

Regionalism is not a panacea. Many old, and perhaps many new, troubles will not yield to its treatment. Nevertheless, it is a remedy for many of the ills of Eastern Europe: and this accounts for the superiority of Russian policies in this region. If the Atlantic Charter really committed us to restore free markets where they have disappeared, we might thereby be opening the door to the reintroduction of a crazy nationalism into regions from which it has disappeared. We should not only be importing unemployment and starvation into the liberated regions simply by 'liberating' the local markets; we should also be burdening ourselves with the responsibility of having thrown back the people into the anarchy out of which, by their own exertions, they had just emerged. Marshal Tito's partisans bid fair to solve the problem of Balkan hatreds simply because they start from the assumption of a system no longer market-ridden and no longer managed by the middle class. This is the key to the Macedonian miracle. To-morrow Europe as a whole may yearn for the Balkan cure, and regionalism will be supreme.

III

Thus it becomes apparent that liberal capitalism is not to-day primarily a domestic issue. First and foremost it is a matter of foreign policies, since it is in the international field that the methods of private enterprise have broken down—as shown by the failure of the gold standard; and it is in that field that adherence to such methods constitutes a direct obstacle to practical solutions. Liberal capitalism is based on one simple tenet: foreign buying and selling, lending and borrowing, and the exchange of foreign currencies are carried on between *individuals*, as if they were members of one and the same country. "Foreign economy" is thus an affair of private persons, and the market-mechanism is credited with the almost miraculous power of 'balancing' the foreign economics of all countries *automatically*,—that is, without the intervention of their governments. This Utopian conception failed in practice, as it was bound to do; and the gold standard was destroyed by the unemployment that it caused. In fact, the new methods of "foreign economy" which have superseded the gold standard are incomparably more effective for the purposes of international co-operation. With their help we are able to solve problems which were formerly intractable. Among these are the distribution of raw materials, the stabilizing of prices, and even the ensuring of full employment in all countries. Each of these problems was a permanent source of anarchy under the market system. Whether an even more universal system of marketing might not, after all, have been successful, will never be put to the test, since it would involve the impossible task of first restoring the market system throughout the world. Yet to this task the United States stands self-committed, and she may not realise for a long time that her attempt is doomed to failure. The alternative to the reactionary Utopia of Wall Street is the deliberate development of the new instruments and organs of foreign trading, lending and paying, which constitute the essence of regional planning.

Here lies Britain's chance. "Foreign economy" must necessarily be the pivot of the policies of an island empire dependent upon imports for maintaining a civilized standard of life, and on free co-operation with overseas dominions for the survival of the Commonwealth. Neither full employment, nor a flexible currency, nor continuous imports, are possible for such a country without a planned foreign

economy. With its help, however, Britain would be able to reap the huge economic and political advantages of the new regional organization of the world. She took a decisive step in 1931, when she went off gold, introduced a capital embargo and turned to paper money; another step was taken at Ottawa; still another lay in the establishment of national governments as a semi-permanent institution; and an avalanche of even more incisive changes followed during the war. Great Britain is no longer a free-trading country; she is not on the gold standard; she has been interfering at home with private enterprise in every conceivable manner; she is entirely capable of organising the whole of her external economy on a controlled basis—whichever is eventually put in charge of the controls; and all this has happened without any infringement of vital liberties or of the freedom to shape public opinion. Indeed, public opinion has never been more supreme over government.

Far from being cramped in her national life or frustrated in her imperial existence by breaking the taboo of non-interference with industry, Great Britain has become more healthily united with every year that has passed since she left the atmosphere of liberal capitalism, free competition, the gold standard, and all the other names under which a market-society is hallowed. There is nothing to prevent her from using the new methods of regional economics to abolish unemployment, periodically to adjust currencies, to organise bulk imports, to direct her foreign investments, to arrange for large-scale barter, to finance heavy industrial exports, to conclude long-term contracts of industrial collaboration with other governments and thus to co-ordinate domestic employment and living standards with her trade, shipping, financial and currency policies in such a way as to secure for herself the advantages which accrue in the modern world from a deliberately-established and purposefully-managed national system. Precisely because foreign economy is more liable to control—and more in need of it—than domestic trade, the British Isles in spite of their rigid class-structure, had the good luck to be ahead of the young American continent in adjusting themselves to the requirements of the new economy.

This advantage is now in jeopardy. The freedom which Great Britain purchased at so high a cost in the critical weeks of 1931, when her banks threatened to fail and were saved only at the price of the gold standard, would be endangered by a lop-sided policy of Anglo-American co-operation. Instead of securing for Britain the unique advantages of a regionalism, which would enable her to co-operate equally with the U.S.S.R. and the U.S.A.—a co-operation particularly essential in dealing with their sub-continent—it would deprive her of those organs of external trade which she needs for her survival. She would become merely a helpless partner in the old-fashioned system suited to the continental economy of the U.S.A., in which foreign trade plays only a very small part. For the sake of this doubtful privilege she is invited to forego the prospect of a close industrial co-operation on the European Continent with the U.S.S.R., which would secure for her freedom of action, a rising standard of life, and the adventures of a constructive peace for a long time to come.

The great symbol of universalism is the gold standard. It may be objected that the pre-1914 gold standard neither will nor can be re-introduced, and that to spread alarm about America's intention of restoring it, is to tilt at windmills. But this is a mere quibble. The *old* standard is, of course, as dead as a doornail; and no one will dream of resuscitating it, even though, till recently, the experts of the League of Nations declared that it was *the* condition of future prosperity. But, unfortunately, what America is striving for is not the mere shadow or the empty name, but the substance of the gold standard; and this—as well-informed people should know by now—is no other than the balancing of "foreign economy" through automatic movements of trade, i.e., through the undirected trade of private individuals and firms. The battle over the gold standard, which superficially appears to be a mere wrangle about financial technicalities, is in reality a battle for and against regional planning. There was a grim irony in some Russian statements favouring American plans of restoring the gold standard. For as to Russia, since she has no private trading, the question does not concern her. She is a mere onlooker who might be secretly amused by the antics of U.S.A. and Great Britain enmeshed in the toils of the gold standard.

Britain will, therefore, have to define her policy with regard to the gold standard, whatever form it may take. AMGOT, UNRRA, UFEA, and the others—the letters F and E stand for Foreign Economy—are instruments, mainly American, for re-establishing market methods in the liberated countries. The fact that, under the given conditions of scarcity, the use of such methods must tend to produce starvation and unemployment does not seem to have struck some interpreters of the Atlantic Charter. Even the alleged predilection of these organs of relief and rehabilitation for monarchists and clericals may be doubtful: for what makes them invariably side with the *ancien régime* against the popular forces is not so much their reactionary views as their determination to restore the practices of the free market—and to this determination any popular representative body would necessarily be opposed. It will be interesting to watch the reactions of the ordinary Englishman when he begins to realise that at the heart of world politics there is a universalist conspiracy to make the world safe for the gold standard.

There is indeed grave danger that Britain may miss her chance. An industrially stagnant ruling class is less swayed by economic considerations than by the advantages of birth and education. Whole-hearted co-operation with Russia on the Continent, enormously profitable as a business proposition, might involve the peril of a new equalitarian impulse radiating this time from a Continent which was turned into a home of popular government by Russian influence. Not as if the U.S.S.R. was feared any more as the mother of Soviets; yet she may still prove herself a true daughter of the French Revolution. The cloud on the horizon is not yet bigger than a man's hand. But what if it started to grow and, eventually, in some dire crisis or in some great adventure of progress, fresh forces should spring up and fuse Disraeli's Two Nations into one? Such a consummation is dreaded by those who look more to the past than to the future for their title to leadership. They will hold on to social privilege even at the expense of financial loss. Contrary to national interest, they might attempt to restore universal capitalism, instead of striking out boldly on the paths of regional planning.

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Foreign Economy and Foreign Policy

by Karl Polanyi.

Perhaps the most incisive event of our age is the eclipse of the traditional pattern in international affairs. This is the result of the simultaneous downfall of liberal capitalism and world-revolutionary socialism, ~~the two opposite and competing forms of universalistic ideals~~. ^{the two} Theirs was a dramatic exit. Liberal capitalism came to an end in the collapse of the gold standard, which left tens of millions of unemployed in its wake; world-revolutionary socialism was overcome by 'regional' socialism in the peripeties of the Five Year Plans, the tribulations of the Moscow trials, and the triumphs of Stalingrad. Out of the great change-over various limited forms of existence ~~emerged~~ ^{are emerging} - new forms of socialism, of capitalism, of planned and semi-planned economies, yet, each of them, by their very nature, regional.

One comes to realise this when attempting to describe the tendencies underlying the foreign policies of Great Britain, Russia, and the U.S.A. in our day. Broadly speaking, the U.S.A. fit into the old universalistic pattern, while all other powers, including Britain herself, fit in with the new. Each country will, or at least, in reason should, favour the pattern which tends to keep its end of the balance of power secure. Obviously, it is important to read the meaning of the contending patterns aright. ~~Though the vast change is still too near to be clearly discernible, the sooner we take our bearings the better.~~

I.

Regionalism versus universalism

The birth of regionalism is reminiscent of the establishment of the European state-system about the end of the 15th century. In both cases the change sprang from the collapse of the universal society of the time. In the Middle Ages that society was primarily religious, while in our age it was economic. When the Christian commonwealth ~~faded away~~ ^{dissolved}, the ~~previously~~ shadowy nations of Europe consoli-

dated into independent units of power. Similarly, the break-down of the nineteenth century system of a world economy resulted in the emergence of independent economic units of limited area. In terms of the gold standard, that true symbol of universalist economy, this should be self-evident, since its passing, in the early 'Thirties forced ~~many~~ countries to look after their own 'foreign economy', which formerly had looked after itself'. Almost overnight new organs had to be developed to regulate the movement of goods, loans, and payments across the political borders of countries. Except for the immensely rich U.S.A., the 'foreign economy' of states was now the government's concern; their currency was managed; their foreign trade and foreign loans were controlled. The institutions with the help of

Whether liberal Belgium, fascist Germany or socialist Russia or New Zealand were concerned.
 Of their domestic institutions, ~~rather~~ ^{(the opposite was true. That we in}

~~dislike some of them intensely should not blind us to the great variety of new forms. Indeed, Free trade and gold currency had resulted in a veritable standardisation of the lives of the nations.~~ ^{International trade} ~~Trade~~ could not be carried on unless a people 'conformed to the requirements of business'. Since business was not transacted between governments but

between private individuals, ^{and firms!} the need was for ~~the~~ ensuring of ~~the~~ approved behaviour on ~~the~~ ^{such} part of ~~these~~ ^{and firms.} individuals.

In the nature of things, such guarantees could be sought only in their domestic institutions such as stock exchanges, banks of issue, free professions, commercial codes as well as other rules and customs concerning the use of property ^{approved} ~~and accepted~~ by the community at large. Unwittingly, a ^{similar} pressure towards conformity went with

the counterpart of liberal capitalism, world-revolutionary socialism.

Socialism
 This, also, conceived of itself as a planetary system. Outside Russia it remained, of course, mainly a creed of working-class movements, to which fulfillment in governmental action was ^{mostly} denied. Even so it

made for a remarkable degree of levelling among labour all over the globe. ~~In truth,~~ ^{Neither} capitalism nor socialism ever envisaged a ~~man~~ world, in which the peoples ~~were~~ ^{would be} free to shape the forms of ~~their~~ industry and politics according to ~~their~~ national genius. Regionalism implies ~~that~~ ^{narrow and} the false internationalism of the nineteenth century. ~~was~~ ^{The new}

~~being~~ ^{abandoned} ~~and~~ ^{of} international cooperation are being created. ~~Economic co-operation is of the essence of regionalism.~~ ^A ~~The~~ ^{Instead,} ~~much~~ ^{new, incomparably more effective forms of} ~~vaunted~~ commercial treaties, most-favoured-nation clauses, and other expedients of liberal capitalism meant very little, if anything at all, when concluded by governments ~~swearing~~ ^{talk} by the principle of non-intervention in business. To ~~speak~~ of industrial co-operation between countries practicing a liberal economy is a mere abuse of terms.

Free trade at its best was a ~~passive means~~ ^{blind method} of indiscriminate business contacts which ~~blindly connected~~ ^{connecting in a haphazard fashion} spots and patches on different sides of ~~the~~ frontiers. No purposeful joining up of economic ~~areas~~ was possible in this manner. Only when loaning, trading and paying is done in ~~the~~ ^{its} name ~~of the collectivity~~ ^{whole} can the ~~population~~ of a territory fuse its economic endeavours with ~~that~~ ^{those of the population} of another territory. Such an ~~active~~

~~integration~~ ^{geographical linking} of ~~land~~ ^{in the landscape} efforts on geographical lines - not of random patches but of ~~whole~~ ^{whole} territories - makes regionalism so superior to the ~~passive and helpless~~ ^{passive and helpless} ~~universalist~~ methods. Whether the territories in question are contiguous or not; whether their domestic economies are planned or not; ~~whether they are grouped in exclusive zones or not~~ is inessential (though there is decidedly an affinity in ~~that~~ ^{this} direction). The point is, the ~~facility~~ ^{facility} with which ~~whole~~ ^{thus} peoples can ~~now stand~~ ^{thus} together for productive purposes. ~~Out of the catastrophe of the~~ ^{more flexible and less} ~~old world system~~ ^{old world system} ~~will~~ ^{emerge} the outlines of a new ~~one~~ ^{one} emerge for all participants.

With one notable exception. The United States has remained the home of liberal capitalism, and is powerful enough to pursue ~~man~~ alone the utopian line of policy involved in such a ~~large~~ dispensation - a utopian line, since, ultimately, the attempt to restore the

Combine the resources of their regions

without having to stand same way domestic institutions

pre 1914 universalist order with its gold standard, and absolute sovereignties of small states is inherently impossible. But the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition - though not altogether with classical laissez-faire. This is what democracy means to them, rich and poor alike, involving, as it does, social equality for the vast majority of the population. The Great Depression of the early Thirties left this predilection unimpaired, and merely dimmed the aura of ~~the~~ adulation which surrounded laissez-faire economics. Except for a few socialists, mainly of the world revolutionary type, and perhaps a somewhat greater number of conscious fascists the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organised society. Factory legislation, social insurance, tariffs, trade unions, and experiments in public services, even on the scale of the T.V.A., have affected the ~~pos~~ position of liberal capitalism as little as similar departures ~~made~~ towards interventionism and socialism did in Europe before 1914. The ~~the~~ New Deal may well prove the starting point of an independent - American - solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come. On the crucial issue of foreign economy America stands with uncompromising determination for the nineteenth century.

It follows that, potentially at least, Great Britain and the Soviet Union, together with other countries, conform to one pattern, in the United States to another. The ~~British~~ Commonwealth and the U.S.S. form part of a ^{new} ~~magnum~~ system of regional powers, while the United States insists on a universalist conception of world affairs which tallies with her antiquated liberal economy. But reactionaries in this country still hope that it is not yet too late for Britain's own system

of foreign economy to be changed back so that it may fall in line with that of America. This is the real issue today.

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One comes to realize this when attempting to describe the tendencies underlying the foreign policies of Great Britain, Russia, and the U.S.A. in our day. Broadly speaking, the U.S.A. fit into the old universalistic pattern, while all other powers, including Britain herself, fit in with the new. Each country will, or at least, in reason should, favour the pattern which tends to keep its end of the balance of power secure. Obviously, it is important to read the meaning of the contending patterns aright. ~~Though the vast change is still too near to be clearly discernible, the sooner we take our bearings the better.~~

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dated into independent units of power. Similarly, the break-down of the nineteenth century system of a world economy resulted in the emergence of ~~independent~~ ^{economic} units of limited area. In terms of the gold standard, that true symbol of universalist economy this should be self-evident, since its passing, in the early 'Thirties ~~forced numerous~~ ^{compelled} countries to look after their own 'foreign economy' which formerly 'had looked after itself'. Almost overnight new organs had to be developed to regulate the movement of goods, loans, and payments across the ~~political~~ borders of countries. ~~Except for the~~ ~~immensely rich U.S.A.,~~ The 'foreign economy' of states was now the government's concern; their currency was managed; their foreign trade and foreign loans were controlled. ^{Incidentally, the} ~~The~~ institutions with the help of which they ~~dealt with~~ ^{controlled} their 'foreign economy' were strikingly similar. Of their domestic institutions rather the opposite was true. That we dislike some of them intensely should not blind us to the great variety of new forms. Indeed, free trade and gold currency had resulted in a veritable standardisation of the lives of the nations. Trade could not be carried on unless a people 'conformed to the requirements of business'. Since business was not transacted between governments but between private individuals, the need was for the ensuring of the approved behaviour on ~~the part of~~ the part of these individuals. In the nature of things, such guarantees could be sought only in their domestic institutions such as stock exchanges, banks of issue, free professions, commercial codes as well as other rules and customs concerning the use of property and accepted by the community at large. Unwittingly, a pressure towards conformity went with ^{also} the counterpart of liberal capitalism, world-revolutionary socialism. ~~It~~ This, ^{too} ~~also~~, conceived of itself as a planetary system. Outside Russia it remained, of course, mainly a creed of working-class movements, to which fulfillment in governmental action was denied. Even so it

*Similar effect in America and Britain's ⁹ evolution
differentiation started*

A general crisis of the international system followed. The nineteenth century had established an international order within which the balancing of a large number of absolutely sovereign states, large and small, managed to avert universal wars. The key to this almost miraculous achievement lay in the existence of a world economy which generated a powerful peace interest. This time also provided an instrument with which but also provided attaining its end. ~~It was provided~~ it with the means of ~~achieving its end~~

The ~~new~~ economic units ~~into which the~~ old sovereign states were ~~now~~ formed over night were utterly unsuited to this purpose. Under the 19th century world economy the state was not an economic unit; it was essentially a political entity the citizens of which formed part of a world community of traders. ~~Suddenly all this was changed~~

Only by chance would the old national territories with their trend towards self sufficiency. ~~rise out~~ the requirements of ~~the~~ national economies. ~~Some~~ Many states were obviously too small, ~~some~~ too large for this purpose, while still other regions like India, found themselves faced with ~~unexpected~~ problems in view of the need for an new political and economic integration of its peoples. in their controlled foreign economy ~~now~~

§ However/the ~~units~~ ~~possessed~~ an ~~organ~~ national ~~instrument~~ of the highest potency which ~~offered~~ as the supreme instrument of reconstruction. for the task of reconstruction. It allows the building up of ~~large~~ political units which are articulated. into national economies. ~~may be evolving towards~~

That the U.S.S.R. or even the British Commonwealth ~~devolution on a large scale~~ in order to meet the requirements of the national economies which ~~sum~~ they comprise politically, ~~may be the result of the same process~~ which makes so many small countries look towards the protection of their big and powerful neighbours bours without wishing in any way to ~~relinquish~~ the freedom of fashioning their domestic life. The principle which governs the effective linking up of territorial economies in large political units ~~is the~~ essence of regionalism.