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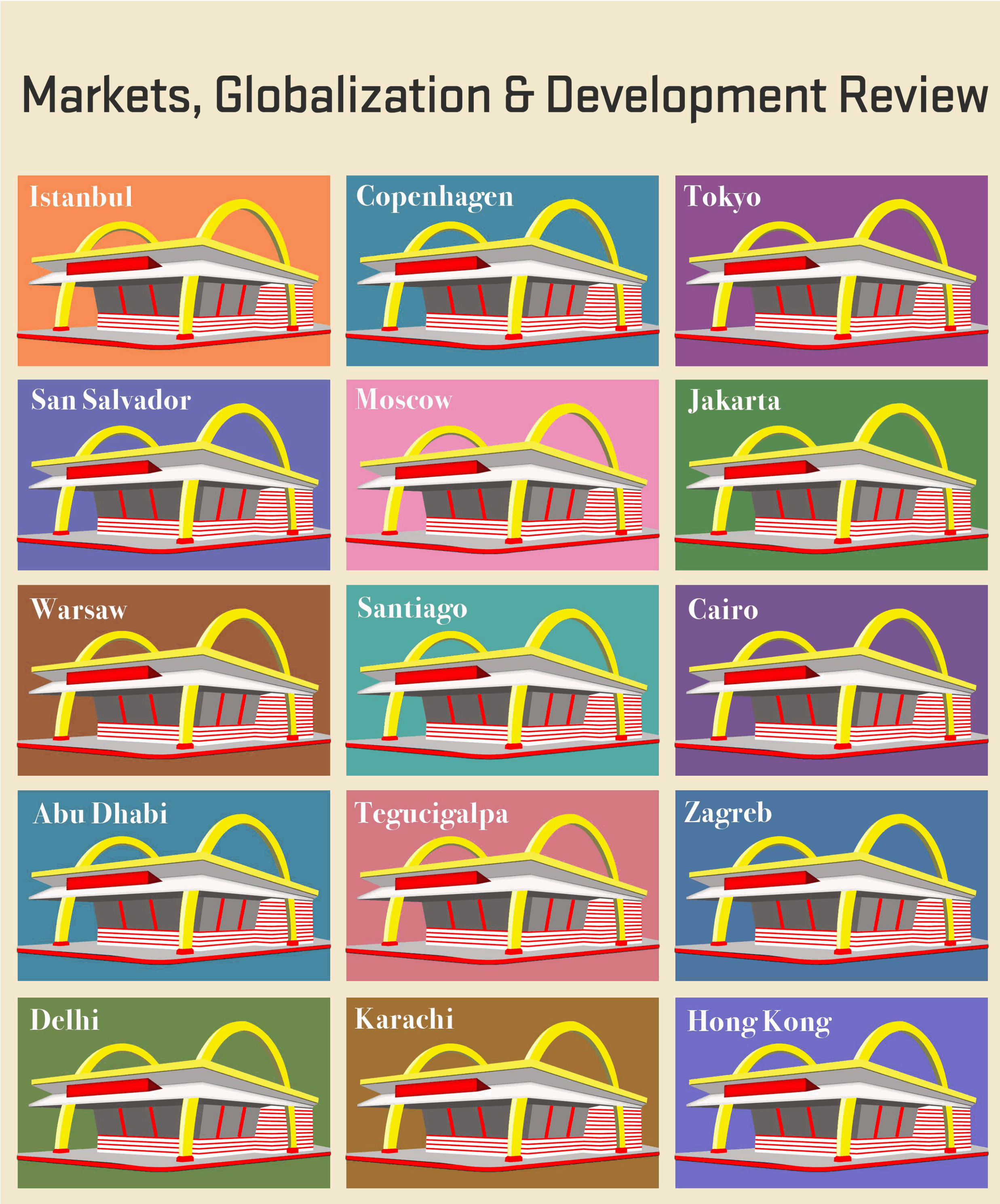

# The Socialist World in the Second Age of Globalization: An Alternative History?

The history of the Second Age of Globalization (from 1945 through to the present) has traditionally been told through the lens of either the industrially advanced First World, or, more critically, the developing countries of the Third World. Following the collapse of the global economy in the depression years of the 1930s and the destruction of WWII, these accounts run, the West, under the leadership of the United States, sought to rebuild global institutions in line with liberal economic principles. This international liberal order that became known as the Bretton Woods system, structured the processes of globalization that would continue even after the system's collapse in 1973. Post-war globalization was an expansive process, in which developing economies in Latin America, Africa and Asia were gradually integrated into economic institutions already rooted in the core economies of North America, Western Europe and Japan.

Such conventional historical accounts of post-war globalization have no place for the Soviet Union and its satellites in Eastern Europe – what this review will term the "socialist world." Not until the collapse of communist regimes over the years 1989-91 and their subsequent transition to market economies, it would seem, were these regions integrated into the global economy. There are two reasons for this absence. First, historians of globalization have tacked closely to a Cold War paradigm that posits a sharp dichotomy between the capitalist and communist worlds. As two historians of globalization note, following 1945 "a deliberate attempt [was] made to establish a better world order according to two competing models in two competing power blocs" (Osterhammel and Petersson 2009, p. 29). From this paradigm it follows that, as post-war globalization was bound up with the liberal institutions of the capitalist West, the socialist world must have pursued a different and rival historical path. This historical perspective is complemented by the views of economists and economic historians who have typically characterized the socialist world as isolated from broader global trends, "cut off from the rest of the world by inward-looking, authoritarian regimes" (Jeffrey Sachs 1999, p.3) and "virtual autarchy" (Maddison 2013, p. 341).

The absence of the socialist world in existing historical accounts of globalization raises an important question: is there a distinct history of *socialist* globalization separate from that of the capitalist west? Two recent books by Oscar Sanchez-Sibony (2014) and Johanna Bockman (2011) suggest that, far from pursuing a separate historical trajectory, the socialist world was closely entangled with the post-WWII global political economy.

Sanchez-Sibony's *Red Globalization: The Political Economy of the Soviet Cold War from Stalin to Khrushchev* is a fascinating revisionist history of the Soviet Union and its place in the global economy. Told from the perspective of the Ministry of Foreign Trade and its longest-serving minister, Anastas Mikoyan, the book disabuses readers of lazy assumptions regarding the supposed autarky of the Soviet economy and the primacy of ideology over economic pragmatism. While its early chapters certainly acknowledge the country's tendency towards autarky during the conditions of the 1930s (a trend that was in keeping with other major economies of the time), the bulk of the book highlights the speed with which Soviet officials sought to open their country to global trade following WWII. While mostly focusing on the country's relations with more developed western markets, the work also provides important insight into Soviet efforts to foster trade with the Third World, and the unexpectedly minor role that ideology played in cultivating relations with anti-colonial states like India, Cuba and Egypt.

Operating in a similar revisionist vein, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, by Johanna Bockman, offers a counter-intuitive history of the role of socialist economists in promoting the global dissemination of market economics. Framed as an intellectual history of neo-classical economics, the book traces the transnational development of market socialist ideas and examines their application in several intriguing case studies: Yugoslavia's self-management reforms of the early 1950s, the Hungarian New Economic Mechanism of 1968, and the work of left- and right-wing economists at the Italian Center for the Study of Economic and Social Problems. While most histories of neoliberalism emphasize the struggle that took place between Keynesians and monetarists in the United States and Western Europe during the 1970s and 1980s, Bockman argues instead for a more nuanced intellectual history of neoliberalism that highlights its emergence from transnational networks of neo-classical economists that spanned both the capitalist West and the socialist East.

Read together, both of these ambitious books demonstrate that, rather than working within a separate and distinct socialist international economy, the Soviet Union and its satellite states in Eastern Europe were subordinate participants in the dominant liberal global order. The story of this entanglement reveals important and unexpected insights into the history of the second age of globalization.

## Communism and the Global Revolution

Ironically, given the absence of the socialist world in conventional historical accounts, one of the first descriptions of modern globalization appeared in Marx and Engels' *Communist Manifesto* of 1848. Identifying what they saw as the historically unique tendency for capitalism to expand and reproduce itself over ever-greater spaces, these two theorists noted the globalizing dynamics of the system: "The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere. The bourgeoisie has through its exploitation of the world-market given a cosmopolitan character to production and consumption in every country" (Tucker 1978, p. 476). The need for growth that was built into capitalist markets collapsed world space and gradually integrated even the most remote parts of the globe into the market system. The global character of capitalism, they concluded, meant that the socialist revolution that would supersede it also had to be global in scope.

The global vision of Marx and Engels carried over into those movements that inherited their tradition, most consequentially the Bolshevik Party that took power during the Russian Revolution of October 1917. For Vladimir Lenin, Leon Trotsky, Nikolai Bukharin and other leaders of the Bolsheviks, the revolution that began in the imperial capital of St. Petersburg had to rapidly expand not just throughout the rest of the Russian Empire, but west into Europe and, eventually, throughout the world. It was especially urgent for the Russian revolutionaries to be joined by their comrades in Central and Western Europe. Russia was, after all, an industrially underdeveloped country, dominated overwhelmingly by inefficient and technologically backwards agriculture. To modernize the country and build socialism, Russia would need the cooperation of the more industrially-advanced economies of the West, in particular Germany. Although uprisings inspired by the Russian Revolution broke out across Central Europe between 1918-1920, with revolutionary movements briefly seizing power in Munich, Budapest and Bratislava, these uprisings collapsed in the face of counter-revolutions. By 1920 the Bolsheviks found themselves in power, but globally isolated.

## From World Revolution to Socialism in One Country

The failure of the Russian Revolution to globalize was of enormous concern for the Bolshevik leadership and they employed two strategies to try to break out of their isolation. The first was to expand their geographical horizons and look for support beyond the West. In September 1920 in the Azerbaijani city of Baku, the Communist International (COMINTERN) brought together hundreds of representatives of nationalist movements across Eurasia. This Congress of the Peoples' of the East called for an alliance of communists and anti-colonial forces against European colonialism in Asia, the Middle East and Africa that would have a powerful influence on national liberation movements in the second half of the twentieth century (Riddell 1993).

But alliances with the colonized world offered no solutions to the immediate problems of economic collapse and industrial underdevelopment in the Soviet Union. To this end the second strategy the Bolsheviks deployed was to actively seek the few opportunities for foreign trade that they could. The priority was to achieve a "technology transfer" through the import of capital goods from Germany, Britain and the U.S., offset through foreign borrowing and exports of primary articles, in particular agricultural goods, timber and minerals. Although the market reforms of the New Economic Policy, which included the introduction of a new gold-backed currency, the *chervonets*, had by 1924 achieved a degree of macroeconomic stabilization, foreign trade lagged (Sanchez-Sibony 2014). The situation further deteriorated as the world economy entered the depression at the end of the decade.

Far from resorting to the Keynesian policy of quantitative easing, which would later become a central tenet for left wing governments in the West, during the years of global depression the Soviets followed orthodox liberal teachings and pursued recessionary policies to maintain gold parity. While historians have typically explained the brutal industrialization and collectivization campaigns of the late 1920s and early 1930s as a result of Joseph Stalin's ideological zealotry, these were, in fact, radical efforts to maintain the country's development strategy of technology transfer. As Sanchez-Sibony argues (2014, p. 53), what is remarkable about the Soviet Union during the 1930s is not its isolation from the world economy, but precisely its continued commitment to the rules of liberal economic orthodoxy: "The surprise was that the Soviet Union, unlike many economically emerging countries during those years, did not default on its debt, preferring to starve the Soviet population instead". It was only in 1935, when the last of the country's foreign debts were paid off and an industrial base had been established, that the Soviets began to adopt more autarkic policies, a move that was, by then, in harmony with both New Deal America and the fascist economies of Italy and Germany.

Even as the first socialist country withdrew from the global economy, however, it was integrated into an increasingly globalized body of knowledge: neoclassical economics. Since the late nineteenth century neoclassical economists such as Léon Walras and Vilfredo Pareto, had acknowledged the mathematical equivalence between competitive market and planned socialist models, meaning that the latter could be a useful analytical tool for reflecting on the former. The socialist experiment that began in Russia, therefore, offered an important avenue of research for neoclassical economics. Although economists within the Soviet Union were isolated from advances in the field in the West, figures like Leonid Kantorovich continued to develop neoclassical methods to optimize state planning (Bockman 2011). Meanwhile, in the West, the Soviet Union served as a useful site for research into the emerging field of comparative economics and young scholars like Abram Bergson, an American student of the Soviet emigre Wassily Leontief, began researching aspects of the Soviet planned economy (Bockman 2011). Precisely because earlier theorists had established the mathematical equivalence of the competitive market and socialist planning models, research into the Soviet system was understood by neoclassical economists to provide insights into Western market economies. The knowledge generated by these early transnational exchanges help forge the discipline that trained many of the experts and advisors that would staff the international financial and trade bodies in the post-war era.

## The Socialist World and the Second Age of Globalization

As noted above, historians of the Second Age of Globalization have tended to adopt the Cold War paradigm of a "bipolar" division of the post-war world. Within this paradigm the capitalist West operated according to principles of liberal trade and multilateralism, while the socialist world pursued autarchic policies and bilateral trade. It follows from this zero-sum perspective, then, that globalization was a process intimately bound up with and restricted to the capitalist world.

Given the degree to which this approach pervades our understanding of post-war globalization, it is counter-intuitive to discover that for much of the post-war period, the Soviet Union tirelessly tried to expand its foreign trade with both the West and the global South, looking for opportunities to restart the technology transfer that guided the country's economic policy in the 1920s. Even more surprisingly, despite scholars typically tracing neoliberal economic doctrines to their roots in the Austrian and Chicago schools, new research points to the key role played by socialist economists from Eastern Europe in promoting anti-planning and market-oriented economic models globally. As this research suggests, the socialist world was intimately bound up in the Second Age of Globalization, despite efforts by the U.S. to marginalize and exclude the Soviets and their satellites. The socialist world did not pursue an "alternative globalization," nor was it a world of "virtual autarky", but rather was shaped by a distinct experience of the global liberal economic order established by the West following WWII.

In the immediate post-war years, the Soviet Union continued to pursue an autarkic agenda, partly owing to the way in which the depression of the 1930s had shaped its institutions and partly owing to Stalin's distrust of the West. The suspicion was mutual and, from 1947 onwards, the U.S. actively sought means to exclude the Soviets and their satellites from the new economic order it was establishing (Sanchez-Sibony 2014). Although the post-war liberal order cannot be reduced to a U.S. empire, the institutions that underpinned the Bretton Woods system reflected Washington's newfound global hegemony (Latham 1997). The pegging of the dollar to gold ensured that control over global money supplies gave the U.S. a certain coercive power and by 1948 the country held two-thirds of the global money reserves (Sanchez-Sibony 2014). In addition, U.S. aid to Europe and Japan, essential for rebuilding their economies, often came with the political demand that these countries actively exclude the Soviets from any post-war settlement in Europe or Eurasia. These efforts quickly bore fruit and subsequent dollar shortages crippled the Soviets' purchasing power. To satisfy its import requirements the country came to play the role of a "barter partner" with several developing states. Bilateral barter and clearing agreements, already in place between the Soviets and their Eastern European satellites, would become an important means of the country's integration into the global economy in the 1950s.

The death of Stalin and rise of the reform-minded Nikita Khrushchev marked a significant shift for the Soviets and their place in the global economy. The years after WWII marked a steady growth in Soviet foreign trade, shooting up from a dismal 500 million rubles in 1938 to a 2.9 billion in 1950 and, five years later, reaching 5.8 billion (Sanchez-Sibony 2014, p. 93). Two factors led to this rapid growth during the late-1950s and early-1960s. First, Khrushchev broke with Stalin's paranoid approach to foreign trade, and pioneered a more open and pragmatic policy, empowering the long-serving Minister of Foreign Trade, Anastas Mikoyan, to reform and expand Soviet trade networks. Second, Khrushchev's rise to power dovetailed with the final stages of economic reconstruction in Western Europe and Japan, giving these states greater autonomy from the U.S. and a willingness to begin to explore trade relations with the Soviets. In Japan, where industrialists hoped to gain access to Siberia's vast natural resources, there was strong domestic pressure to open trade with the Soviets and in December 1957 the two countries signed the first of many trade agreements. Soviet-Japanese trade doubled in the subsequent three years, and grew beyond this after 1960 (Sanchez-Sibony 2014, p. 103). A year later, the controversial director of the Italian state energy sector, Enrico Mattei, eager to break the Anglo-American monopoly on international oil supplies, signed a contract with the Soviets for the delivery of crude oil. The subsequent expansion of this agreement in the 1960s, which became a means for the Soviets to build an advanced pipeline network using Western capital and technology, laid the basis for Western Europe's future reliance on Russian and Central Asian oil and gas resources. The Italian deal was a sign of things to come in Western Europe, and in the following decade East-West trade in Europe grew steadily. The Soviets even managed to make gains in the hold-out state of West Germany, with trade between the two countries reaching 500 million rubles by 1970 (Sanchez-Sibony 2014, p. 190).

The opening up of Japan and Western Europe to Soviet trade helped fuel the rapid growth of the latter's economy, as Sanchez-Sibony (2014 p. 92) notes: "As the Soviet economy grew at already dizzying rates of 8-10 percent during the 1950s, foreign trade grew even faster at an average rate of more than 12 percent for that decade." Increased commercial ties with the capitalist world, however, also exposed the weaknesses of the Soviet command economy. As buyers in the First and Third worlds complained of the poor quality of Soviet goods, jeopardizing future trade deals, Soviet leaders were forced to develop quality controls to keep up with Western producers. Despite the state's revolutionary effort to construct an optimally-planned national economy, the competitive pressures of world markets made themselves felt within Soviet borders. As the Marxist theorist, Tony Cliff, once observed, far from the vision of communism that captured Marx and Engels' imaginations, the Soviet economic system increasingly came to function as a form of state capitalism. Although the productive powers remained firmly in the hands of the state, the need to compete within a global capitalist system subjected the Soviets to the same compulsions of profit accumulation and expansion that characterized capitalist economies (Cliff 1974). As Sanchez-Sibony's work demonstrates, the possibilities of socialist development in the Soviet Union were strictly delimited, and even deformed, by the conditions set by an international economic system that remained capitalist.

The opening up of the socialist world under Khrushchev expanded the space for reform-minded economists across Eastern Europe to rethink the Soviet model and its viability. From the mid-1950s Yugoslav, Hungarian, Polish and Czechoslovak economists began to explore neoclassical methods and to experiment with market socialist ideas. Yugoslavia was the first to break with the Soviet model. Following the country's split with Moscow in 1948, Yugoslav communists sought to craft a decentralized system of socialism that divested power from the central state and integrated the population into the political and economic institutions on a participatory basis. “Worker self-management”, as this system came to be known, transformed the Yugoslav economy, devolving managerial powers to elected workers’ councils and introducing market reforms to determine wages and prices. For Yugoslav reformers, the market offered a means for the Marxist goal of the “withering away of the state” and a viable alternative to the authoritarian, centralized model of Stalinism. The introduction of market mechanisms within the domestic economy, quickly opened the country up to foreign markets and by the mid-1960s Yugoslavia was deeply integrated into global trade and capital flows (Unkovski-Korica 2016).

Although slower-paced, the turn towards market solutions to the problems of socialism gained legitimacy across the more industrialized societies of Eastern Europe in the 1950s and 1960s, promoting a dialogue between western liberals and eastern socialists that centered on the techniques of neoclassical economics. After WWII the U.S.-based economist, Oskar Lange, returned to his native Poland to use his skills in neoclassical analysis, particularly his expertise in general equilibrium theories, to plan the Polish socialist system. In 1954 the rise of the reform-minded Imre Nagy in Hungary, provided support to neoclassical and market socialist economists who pursued market reforms. These reforms reached a peak in 1968 with the introduction of the New Economic Mechanism, which effectively transformed Hungary into a market socialist system similar to Yugoslavia and opened the country up to the global economy (Bockman 2011). These trends in Eastern European economic thinking provided the basis for a dialogue between economists in the capitalist and socialist worlds, often leading to strange bedfellows, from revolutionary socialists to neoliberals. Precisely because market socialists and neoliberals “shared the idea of an optimizing market mechanism” they were able to “develop a neoclassical dialogue about socialism” that reached across what Cold War historians have typically assumed were two rival and self-enclosed economic orders (Bockman 2011, p. 122).

Indeed, neoclassical models of socialism were not restricted to the Eastern bloc. As the socialist world was integrated into the global economy during the 1950s, it established ties with the developing economies of the Third World. By the late-1960s Eastern European economists were regularly being deployed as advisors to developing states, either through bilateral ties or through the global institutions of the Bretton Woods system. During the late-1960s and early-1970s the Hungarian neoclassical economists Andras Brody and Tamos Szentes helped design economic departments at the universities of Lusaka and Dar es Salaam, respectively. Hungarians and Yugoslavs also worked at the World Bank, where they were often appointed to advise developing countries with left wing governments. Yugoslavia also played a key role in promoting neoclassical economics and market socialist models through its leading involvement in the Non-Aligned Movement. Fluency in the language of neoclassical economics allowed Eastern European market socialists to move in the transnational networks that underpinned the global economic order during the Second Age of Globalization.

## Conclusion

What was the experience of the socialist world in the Second Age of Globalization? Bockman and Sanchez-Sibony’s texts provide three general observations. First, and most significantly, this experience was not one of self-isolation and autarky, but of exclusion. Post-war globalization was not characterized by two rival global economic orders – one capitalist, the other socialist – but rather by a single liberal capitalist economic order on the margins of which the Soviets and their East European satellites were forced to operate. Second, their marginal position within this liberal order forced the Soviets to rely on specific strategies, such as bartering and clearing agreements that allowed peripheral economies to conserve their precious dollar reserves. The socialist experience of globalization was one built less through multilateral institutions than through ad hoc bilateral arrangements. This strategy restricted the possibilities open to the socialist economies, in particular limiting access to emerging technologies from the advanced capitalist economies. Finally, and perhaps most unexpectedly, the socialist world was integrated into a dense set of intellectual ties that spanned the three worlds of the Cold War. This was especially the case in the discipline of neoclassical economists, which offered an important site of intellectual exchange between a diverse set of thinkers. The centrality of neoclassical economists to the shaping of the global economy during the post-war era, meant that, even as it was marginal(ized) in global trade, the socialist world was deeply integrated into the intellectual processes that characterized the Second Age of Globalization.

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