# INTERNATIONAL POLITICAL ECONOMY

## The Struggle for Power and Wealth

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# PREFACE

The writing of this textbook was motivated by the concern that students often find the study of international political economy a formidable task. Because the subject lies at the intersection of economics and political science, students face the daunting prospect of mastering and integrating two complex fields. Despite the merits of existing international political economy textbooks, we think they underestimate the challenges facing both students and instructors. Such textbooks do not explain basic economic concepts; do not provide a well-rounded integration of history, theory, and policy; and are not written in an accessible style.

We, therefore, set out to write a textbook that is clear and readable and that does not sacrifice sophistication and rigor. We also wanted to produce a book accessible enough to be used as a supplement in an introductory international relations course but challenging enough to be assigned as a main textbook for upper-level courses.

In addition to clarity and readability, we have included several features that set this book apart. Throughout the text, we depict the international political economy as a realm of both struggle and cooperation. We show how these contrary imperatives coexist and how the mix between the two varies over time, across countries, and with issues. In pursuing this theme, we weave together theory, concepts, and arguments throughout and tie these ideas closely to the topics under discussion.

Several chapters are particularly distinguishable in comparison with other texts. Chapter 2 clearly explains economic concepts and terms important to the field of international political economy. Chapter 3 traces the development of the world economy during the nineteenth and early twentieth centuries. This historical background allows students to appreciate the enormous swings

n important comparative study of the relationship between economic and ilitary power.

rles Kindlebeger, *The World in Depression*, Berkeley: University of California Press, 1973.
he best single source for understanding the world economy during the epression years of the 1930s.

id Landes, *The Unbound Prometheus*, Cambridge University Press: 1969.
he classic study of technological and economic change over the past two enturies.

rles Maier, *Recasting Bourgeois Europe*, Princeton: Princeton University ress, 1974.
he most important examination of the interaction of European interest roups, domestic politics, and the world economy in the 1920s.

1 Milward and S.B. Saul, *The Economic Development of Continental Europe 780–1870*, London: Allen and Unwin, 1979.

ıey Pollard, *Peaceful Conquest: The Industrialization of Europe, 1760–1970*, )xford: Oxford University Press, 1982.
wo important studies of industrial change in Europe.

t Rostow, *The World Economy*, Austin: University of Texas Press, 1978.
very rich source of data on the history of the world economy.

CHAPTER 4

# THE POLITICAL ECONOMY OF AMERICAN HEGEMONY: 1938–1973

The years following World War II produced dramatic, even epoch-making, changes in the world economy. Unprecedented prosperity, the development of new international economic institutions, an explosion in world trade, and an extraordinary expansion in international cooperation were the key elements in this new international economic order. This chapter will describe these developments and the political structures that supported them, along with providing a detailed examination of the reasons for these events. How and why did these changes in the world economy occur? A considerable portion of the answer to this question rests with the actions of the United States. We have seen that prior to 1940 the United States was unwilling to commit any substantial resources to stabilizing either the world economy or the international political system. The consequence was a catastrophic depression and, ultimately, war. But during and after the war, the United States moved assertively to reconstruct the world economy. Understanding the political sources of this change and the consequences of this activity occupies the greatest part of this chapter.

This thirty-five–year period offers a rich set of events for understanding international political economy. Several of the most important empirical issues and theoretical questions are linked to this era. The first part of the chapter provides a detailed discussion of the essential features of the postwar international economic order, in particular the patterns of economic growth and the basic institutions created to manage the system. These include the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). The second part of the chapter examines the very important question of how political power affects economic outcomes. What was the nature and significance of U.S. leadership in producing

e postwar international economic order? What were the motives for U.S. :ions? Could the United States design the system alone? Who benefitted m this system? The third part of the chapter considers several crucial velopments that emerge from the era of U.S. hegemony: the growth of ıltinational corporations, the political economy of U.S. foreign policy, and e emergence of economic integration in Europe. Finally, the last part of the apter examines the two events that marked a change in the world economy: e collapse of fixed exchange rates and the end of cheap oil, both of which ok place between 1971 and 1973.

## TRUCTURES AND TRENDS IN THE OSTWAR WORLD ECONOMY

### Growth of the World Economy

:ernational trade and investment grew more quickly between 1938 and 73 than in any other period after 1815.

ABLE 4.1

**World Exports — 1938–1974**
***(Current Value in Billions of U.S. Dollars)***

| YEAR | VALUE |
|---|---|
| 1938 | 21.1 |
| 1948 | 53.9 |
| 1958 | 96.0 |
| 1960 | 107.8 |
| 1965 | 156.5 |
| 1970 | 265.7 |
| 1972 | 355.3 |
| 1974 | 729.2 |

IRCE: Robert A. Pastor, *Congress and the Politics of U.S. Foreign Economic Policy*, Berkeley: iversity of California Press, 1980, 99.

ımparison of the rates of GNP change for the pre- and postwar eras show substantial acceleration of growth after 1950. Most industrial countries



experienced a near doubling of the rates of growth between 1950 and 1960 as compared with 1913–1950.[1] International trade was a key ingredient in this growth, with world trade in manufacturing expanding faster than world manufacturing output by a ratio of 1.4:1 between 1950 and 1970.[2]

The importance of the United States to this process is evident from Table 4.2:

TABLE 4.2

**U.S. Trade and World Trade — 1949–1973**
***(Exports at Current Value in Billions of U.S. Dollars)***

| YEAR | U.S. | INDUSTRIAL NATIONS | WORLD EXPORTS | U.S. AS % OF INDUSTRIAL NATIONS | U.S. AS % OF WORLD |
|---|---|---|---|---|---|
| 1949 | 12.1 | 33.8 | 55.2 | 35.8 | 21.9 |
| 1960 | 20.6 | 78.8 | 114.6 | 26.1 | 17.5 |
| 1970 | 43.2 | 208.3 | 283.7 | 20.7 | 15.2 |
| 1973 | 71.3 | 376.8 | 524.2 | 18.9 | 13.6 |

SOURCE: International Monetary Fund, *International Financial Statistics Yearbook, 1979*, 62–67.

The recovery of Western Europe and Japan was also a driving force in this economic growth. The surge in exports of industrial nations is a measure of this process. The expansion in world trade was in many ways generated by declining tariff levels, convertible currencies, and more openness. The near-elimination of U.S. tariffs shown in Table 4.3 is also found in tariff levels for other advanced capitalist states who participated equally in the general reductions.

Also contributing to this process of economic growth was the availability of oil at stable prices. Inexpensive imported oil became the primary energy source supporting the dramatic increases in economic output.

[1] W.M. Scammell, *The International Economy Since 1945*, Second Edition, New York: St. Martin's Press, 1983, 53.

[2] Scammell, *The International. . .* , 127. Scammell notes that between 1876 and 1913 the ratio of manufacturing trade and manufacturing output was less than one. Walt Rostow, *The World Economy*, Austin: University of Texas Press, 1978, 67, provides a comparison of growth rates in world trade and in manufacturing from 1720 to 1971. David Landes, *The Unbound Prometheus*, Cambridge: Cambridge University Press, 1969, 512, provides data on growth rates in world trade from 1890 to 1960.

BLE 4.3

**Average U.S. Tariffs**

| YEAR | AVERAGE TARIFF |
|---|---|
| 1940 | 36% |
| 1946 | 25% |
| 1950 | 13% |
| 1960 | 12% |
| 1970 | 10% |
| 1975 | 6% |
| 1984 | 5% |

E: *Statistical Abstract of the United States.* For comparative data on tariffs see United Nations, *l Economic Survey,* New York, 1991, 52.

BLE 4.4

**World Energy Consumption by Source — 1950–1972 (*Percentage Shares*)**

| SOURCE | 1950 | 1960 | 1965 | 1970 | 1972 |
|---|---|---|---|---|---|
| Coal | 55.7 | 44.2 | 39.0 | 31.2 | 28.7 |
| Oil | 28.9 | 35.8 | 39.4 | 44.5 | 46.0 |
| Natural Gas | 8.9 | 13.5 | 15.5 | 17.8 | 18.4 |
| Electricity | 6.5 | 6.4 | 6.2 | 6.5 | 6.9 |

:E: Joel Darmstadter and Hans H. Landsberg, *"The Crisis,"* in Raymond Vernon, ed. *The Oil* ;, New York: Norton, 1976, 19.

shift from reliance on coal to imported oil occurred principally in Europe Japan. Between 1950 and 1970, Western Europe increased its dependence oil for total energy needs from 14.3 percent to 55.6 percent while Japan eased from 5 percent to 68.8 percent. From 1962 to 1972, combined West opean and Japanese imports of oil rose from 6.17 to 18.84 million barrels day.[3]

## International Institutions

growth of the world economy took place within a context created by eral new international institutions conceived of and established near the

[3] mstadter and Landsberg, "The Crisis," 20–21.



end of World War II. These include the International Monetary Fund, the International Bank for Reconstruction and Development (commonly known as the World Bank), and the General Agreement on Tariffs and Trade (GATT). The IMF was designed to manage exchange rates and payments imbalances among nations, the World Bank to supplement private capital for international investment, and GATT to serve as a negotiating forum for the reduction of tariffs and other barriers to trade.

One of the most distinctive and important features of the post-1945 world economy was this set of formal and informal institutions for managing the economic relations among nations. During the 1920s, a significant array of mostly informal institutions had been created to deal with the new complexity of economic ties among nations.[4] Those designed and established between 1942 and 1948 were framed by certain principles of international economic relations. These included a preference for convertible currencies, a lowering of trade barriers, a system of fixed exchange rates, and generally the promotion of a multilateral system of trade and payments.

The desire for fixed exchange rates was the result of a deeply felt need for stability in international transactions, a sentiment reinforced by the negative experience of floating exchange rates in the 1930s and memories of the "golden age" of fixed rates under the nineteenth century gold standard. The United States possessed the vast majority of the world's gold in 1945, and this was used as the basis for establishing fixed rates.[5] The dollar was fixed in value to gold at $35 per ounce, while other governments fixed their currencies to the dollar and pledged to intervene in foreign exchange markets to keep values within a narrow band around the fixed rate. All this came within the basic rules of operation of the International Monetary Fund (IMF), which itself was established through payments of gold and national currencies from member states. The United States provided the lion's share of the IMF's resources, 31 percent, and consequently received the largest share of voting power.

The primary purpose of the IMF was to provide short-term loans to countries experiencing a current account deficit in their balance of payments. The loans would typically be used to support the fixed value of the country's currency and were usually contingent on adoption of a national policy designed to reverse the deficit. This often meant some combination of cutting government spending and restricting the money supply. This "belt tightening" would produce an economic downturn, higher unemployment, and

[4] See Michael Hogan, *Informal Entente, The Private Structure of Cooperation in Anglo-American Economic Diplomacy, 1918–1928,* Columbia: University of Missouri Press, 1977. The most formal institution and the predecessor to the IMF was the Bank for International Settlements, established in 1929. See Frank Costigliola, "The Other Side of Isolationism: The Establishment of the First World Bank, 1929–1930," *Journal of American History,* 59, December 1972, 602–620.

[5] Cohen reports the level at 75 percent while Calleo sets the figure at 60 percent. Benjamin Cohen, *Organizing the World's Money,* New York: Basic Books, 1977, 95; David Calleo, *Beyond American Hegemony,* New York: Basic Books, 1987, 227.

ɔwer inflation, which was expected to lead to higher exports and lower mports.[6] The IMF became the enforcer of the views of a conservative U.S. inancial community, where trade deficits were seen as an indicator of domesic profligacy, and adjustments were expected to come in the domestic econmy so as to make it more competitive internationally.[7]

If the current account deficit were serious enough — that is, if it were tructural and not just temporary — the IMF would permit an alteration of he exchange rate (called a devaluation when the rate falls against other curren ies). The British devaluation of the pound from $2.80 to $2.40 in 1967 is an xample of this process. Burdened by an uncompetitive manufacturing sector, ritain faced an expanding current account deficit whenever the economy xpanded. Because of the importance of the pound to the world economy, the Jnited States and the IMF were ready to provide financial aid to help support ne currency. Eventually, the British government concluded that only a devalution would produce a current account surplus and stay the need for addiional borrowing. This decision was made in conjunction with the IMF.

The International Bank for Reconstruction and Development, or World ank, was also established at Bretton Woods. Eventually, the Bank was alloated $10 billion in capital with the ability to borrow funds in capital markets. )ver its first decade, the World Bank played only a marginal role in the actual ostwar reconstruction process. But in the late 1950s and early 1960s, an inreasing interest in the Third World prompted lending at the rate of well over 1 billion annually in new loans.[8] In Chapter Nine we will consider in more etail the role of the World Bank in providing aid to developing states.

The mechanisms for managing international trade had a somewhat more heckered history. Originally, the United States hoped to create an internaonal organization for this purpose but found the goals of other states incomatible with its own. Concurrent negotiations in 1947 and 1948 produced first

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Remember, a recession should cause some decline (or at least a lower rate of increase) in the rices of domestically produced goods. This should make the country's goods more competitive broad and also cause a fall in imports.

This somewhat harsh policy applied more to Third World nations than to economically adanced nations. But the tension over the importance of domestic adjustment to international equirements presents a classic case of a conflict of interests between debtors and creditors. his was present in the negotiation of the Bretton Woods agreements, especially between the nited States and Great Britain. See Alfred E. Eckes, *A Search for Solvency: Bretton Woods and e International Monetary System, 1941–1971*, Austin: University of Texas Press, 1975; and Fred lock, *The Origins of International Economic Disorder*, Berkeley: University of California Press, 974. The discussion that follows, of the actual functioning of Bretton Woods, will emphasize e arrangements of "embedded liberalism," in which efforts were made to establish a working ompromise between forcing domestic adjustment and permitting efforts to achieve high levels f economic growth. See John Gerard Ruggie, "International Regimes, Transactions, and Change: mbedded Liberalism in the Postwar Economic Order," *International Organization*, 36.2, Spring 982, 379–415.

A detailed discussion of the origins and development of the World Bank is found in Edward Mason and Robert Asher, *The World Bank Since Bretton Woods*, Washington, D.C.: The Brookgs Institution, 1973.



a General Agreement on Tariffs and Trade and an International Trade Organization. But the U.S. government was dissatisfied with the ITO because it placed restrictions on the United States while creating exceptions for other nations, and the president refused to submit the treaty to the Senate for ratification.[9] GATT was acceptable and has served for over forty years as the chief international organization for trade. It has provided a forum for negotiating reductions in tariffs and some other barriers to trade. In a series of meetings beginning with the sessions in 1947 and continuing with various "rounds" through 1992, GATT has produced a substantial drop in world tariff levels.[10] In the period from 1890 to 1935, U.S. tariff levels fluctuated between 30 percent and 45 percent of dutiable imports. By 1955 these had been cut to 15 percent and by 1970 to 12 percent.[11] This helps illustrate a key fact about GATT and U.S. postwar trade objectives. American leaders were strongly in favor of lowering tariffs and other barriers to trade, that is, in freer trade; they were really not interested, in spite of much rhetoric to the contrary, in *free* trade. But GATT did embody a commitment by its members to establish a schedule of tariff rates and a set of trade principles designed to produce uniformity and predictability in international commercial relations. Although tariff barriers on manufactured goods fell substantially, trade in agriculture and services remained largely outside GATT (as did the Communist bloc and many Third World nations). Beginning with the Tokyo Round, negotiations moved on to tackle non-tariff barriers to trade, and the Uruguay Round took up these matters, along with the areas of agriculture and services.

The growth and dynamism of the world economy, along with the new set of international institutions, produced an epochal change in international economic relations. How this came about, in particular the role of the United States in it, is the subject of the next section.

## U.S. HEGEMONY AND THE WORLD ECONOMY

■ A common characteristic of all the social sciences, especially one as new as international political economy, is disputation over the most basic of theoretical and empirical relationships. Perhaps the most important question for this emerging field, and the topic producing the greatest discussion, is the relationship of politics and power to the creation and management of the world economy. Scholars have sought to trace the emergence of a liberal

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[9] Robert Pastor, *Congress and the Politics of Foreign Economic Policy*, Berkeley: University of California Press, 1980, 96–98.

[10] The GATT rounds include: 1947, Geneva; 1949, Annecy; 1950–1951, Torquay; 1955–1956, Geneva; 1959–1962, Geneva (Dillon Round); 1963–1967, Geneva (Kennedy Round); 1973–1979, Tokyo Round; 1986–1992, Uruguay Round.

[11] Pastor, *Congress. . .* , 78.

ernational economic order to the presence of a single dominant power in ꞉ international system. The "hegemonic stability" theory holds that such a tion has the opportunity to construct an open and stable international ɔnomic system. Because it possesses a preponderance of military and eco- mic power, this hegemonic state is in a position to convince other nations enter into a system of relatively free trade and regular procedures for ɔnetary relations. That is, the hegemon has the power and the reasons "to ıke and enforce the rules for the world political economy."[12]

Application of these ideas to understanding the period after World War has produced a set of important insights but also several points of intellec- ıl conflict. What follows is a consideration of these issues in terms of posing d answering five basic questions. First, what was the nature of U.S. leader- ip? Over what issues or problems was U.S. power the key element? Second, ıat were the aims of the United States? Was it primarily interested in acting ꞉ the benefit of all states in providing international peace and prosperity, was it more concerned with designing a system to benefit itself even to ꞉ point of turning a profit? Third, what factors motivated the United States assume the responsibilities of world leadership? What mixture of domestic ꞉erests and external political, military, and economic concerns provided the ꞉entives for these actions? Fourth, how important was U.S. leadership to ꞉ernational cooperation and political and economic stability? What were the tent and limits to U.S. power in engineering and/or coercing these out- mes? Fifth, what were the consequences of U.S. hegemony, particularly the ꞉tribution of benefits? These are broad and complex questions, and the swers are sometimes not yet clear. But they point out the basic elements international political economy for the postwar world.

## Economic Consequences of World War II

me historical background about the Second World War and its political d economic impact is helpful in providing a context for answering these ıestions. First and foremost was the importance of productivity in fighting d winning the war. World War II was essentially a contest of physical pabilities, with victory going to the side best able to amass the implements d manpower of war. Events from 1939 to 1945 both revealed and accentu- ꞉d the productive advantages of the U.S. economy. Not only did the United

ꞁobert Keohane, *After Hegemony*, Princeton: Princeton University Press, 1984, 37. Other works ɔmoting the hegemonic stability theory are Stephen Krasner, "State Power and the Structure International Trade," *World Politics*, 27, April 1975, 314–347; Charles Kindleberger, *The World Depression*, Berkeley: University of California Press, 1973; Robert Gilpin, *U.S. Power and the ıltinational Corporation*, New York: Basic Books, 1975; Robert Gilpin, *War and Change in World ꞉itics*, Cambridge: Cambridge University Press, 1981; and Robert Keohane, "The Theory of ꞉gemonic Stability and Changes in International Regimes, 1967–1977," in Ole Holsti et al., ꞉. *Change in the International System*, Boulder: Westview Press, 1980.



States possess the greatest concentration of productive resources, but its productivity — output per unit of input, usually labor — was far higher than any other nation. By 1944, the United States was producing 40 percent of the world's armaments, and its productivity was twice that of Germany and five times that of Japan.[13] The result was that U.S. Gross National Product increased, in real terms, from $88.6 billion in 1939 to $135.0 billion in 1944.[14]

The war had equally profound effects on patterns of international trade and finance. The United States supplied vast quantities of Allied war material and financed this through Lend Lease. In spite of this largess, Britain liquidated its foreign reserves and large portions of its overseas investments to pay for imports from the United States. By the war's end, the pattern of British trade deficits financed by U.S. capital was firmly established. In addition, the rupture created by military operations made reestablishing prewar trade practices difficult. This was most evident in central and eastern Europe, where Soviet control served to remove this area from its traditional role in European trade. Added to this was the physical destruction of the war, which represented approximately 13 percent of the prewar capital stock in Germany and 8 percent in France.[15] The result was a high demand for imports, significant barriers to exports, and a substantial payments imbalance between Europe and the United States.

The war and depression of the 1930s also had psychological and political consequences that influenced economic choices. The fear of recurrent depression helped reinforce affirmative government action in guaranteeing domestic prosperity. The depression left a legacy of significant barriers to trade and a memory of the dangers of economic warfare. More ominous were the German and Japanese experiences of military and economic organization designed to obtain secure access to the resources needed for autarchy. Finally, the military outcome not only disrupted traditional European trade but brought a politically and economically alienated great power — the Soviet Union — into the heart of Europe.

## The United States and World Order

Now, what are the main issues in which U.S. power played the key role in defining the postwar international order? We will emphasize four: trade and

[13] Alan Milward, *War, Economy and Society, 1939–1945*, Berkeley: University of California Press, 1977, 67. The sources of this advantage came from economies of scale, new capital investment, and incentives in winning the war. Much of the new investment was financed by the government. U.S. productivity was so great, it was able to increase war production on a vast scale without reducing civilian consumption below the levels of 1939. See Milward, *War*. . . , 63–68.

[14] Milward, *War*. . . , 63.

[15] Milward, *War*. . . , 333. He reports that the gross value of U.S. Lend Lease aid to the British was about $30 billion. See pages 351, and 345–352, 359–360. Also useful is Scammell, *The International*. . . , 24–25.

finance, international security, vital resources, and international and domestic politics.[16] First, the United States was consistently the central actor in establishing and managing a framework of rules for international trade and finance and also made the system work by providing financial support. We have seen earlier how the Bretton Woods institutions and GATT were created largely through political initiatives from the United States. At the same time, these institutions confronted striking imbalances in the world economy measurable in terms of the sizable current account deficits between Europe and the United States.[17] Continuing the policy established under Lend Lease, in 1946 the United States provided additional funds to Britain and France to make up the payments gap. When this proved insufficient, the leadership in the United States moved to supply even more funds so the recovery of Europe could continue. The Marshall Plan provided the financing needed to cover this imbalance. This can be seen in Table 4.5.

TABLE 4.5

**World Payments Imbalances — 1946–1949**
***(Billions of U.S. Dollars)***

| | 1946 | 1947 | 1948 | 1949 |
|---|---|---|---|---|
| U.S. Current Account Balance | +7.8 | +11.5 | +6.8 | +6.3 |
| Financed by: | | | | |
| U.S. Government | −4.9 | −5.8 | −5.1 | −5.9 |
| Private loans and gifts | −1.1 | −1.5 | −1.6 | −1.1 |
| IMF and World Bank | 0.0 | −0.8 | −0.4 | −0.1 |
| Liquidating foreign assets | −1.9 | −4.5 | −0.8 | 0.0 |
| Errors and omissions | +0.1 | +1.1 | +1.1 | +0.9 |
| Total | −7.8 | −11.5 | −6.8 | −6.3 |

SOURCE: W.M. Scammell, *The International. . .* , 21.

Over the first four years after the war, the U.S. government and private sources supplied $28.0 billion to finance the payments imbalance with the rest of the world. This pattern continued with Marshall Plan aid in 1950–1951

[16] This list builds on and extends similar lists proposed by Robert Keohane, *After. . .* , 139, and Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization*, 41.4, Autumn 1987, 565.

[17] Remember, the main reason for the imbalance was the war itself. U.S. productivity, European destruction, disruption of traditional trading patterns, and the political importance of making a strong economic recovery all contributed to the difficulties in the 1945–1948 period.



and largely with military aid thereafter. The chief consequence of these actions was to ensure European recovery and to enshrine the dollar as the key international currency. That is, the dollar became the primary medium of international payment and the currency serving as the store of value for all others participating in the system.

Beyond these immediate economic issues lay a set of political and security matters that cried out for U.S. attention. Further, the ability to persuade the leadership of many nations to participate in the new liberal world order depended on their confidence in the United States and its willingness to ensure their security. The recent war had demonstrated the vulnerability of many parts of the world to a determined and aggressive state. Much of the leadership in Europe considering joining the U.S.-defined system was deeply worried about the political effects of Soviet military power in the heart of Europe. Thus, when events such as the Soviet-inspired coup in Czechoslovakia or the Soviet blockade of Berlin intensified these fears, the United States felt compelled to act. The result, by 1949, was the North Atlantic Treaty Organization (NATO), which represented a standing U.S. commitment to defend Western Europe. U.S. international leadership depended on the ability to use its superior power to reassure allies and contain the Soviet Union. Especially critical was preventing Soviet actions from undermining confidence in and encouraging challenges to the United States. Many in the U.S government concluded that the success of the postwar system rested on the image of U.S. power in Europe and on preventing the use or threat of force from affecting the shape of international politics.

A related set of political and security issues was defined by relations among states in the emerging western system. The United States played a crucial role in encouraging cooperation, including convincing some — like the French — that their security would be ensured even as the German economy was being revived. A U.S.-imposed requirement for receiving Marshall Plan aid was European cooperation in establishing the scope of their economic problems and in administration of the funds. Much of the impetus for European unity came from constant encouragement by the United States. The occupations of Germany (a collective enterprise with the British and French)[18] and Japan (entirely by the United States) produced substantial efforts to change the domestic politics of these nations.

A final and equally important element of U.S. hegemony was ensuring access to vital resources through the normal course of market relationships. Nations should not feel the need to use military force to gain a special position on these resources. Perhaps the most important of these was oil. The principal agents of control of this resource were the large American, British,

[18] The Soviet Union, of course, occupied the eastern third of Germany. But the failure of joint occupation in May 1947 moved the United States to reorganize its plans and press forward with the Marshall Plan and unification of the three western zones.

and Dutch multinational oil corporations, but U.S. political and military power in the Middle East was an equally important ingredient.[19] This was especially evident in the U.S. effort to force the Soviets out of Iran in 1946, in the intervention in Iran in 1953, and in the close relationship with Saudi Arabia. The consequence was to ensure plentiful supplies at relatively cheap and stable prices.

## U.S. Purposes?

Although we can identify the main issues of international order in which U.S. hegemony played an essential role, scholars have disagreed about the basic aims of U.S. policy. Some have seen U.S. actions in trade, money, politics, security, and resources as an effort to provide many nations with the generalized benefits of peace and prosperity, sacrificing its short term interests for the good of the world community. In this case, the United States was involved in providing what are called collective or public goods. Thought of very precisely, collective goods refer to identifiable benefits that are available to all who participate in the system (even if they don't pay part of the cost), and consumption of the good by one does not diminish consumption by others. In one version of hegemonic stability theory, collective goods, such as security and prosperity, will emerge only if the most powerful nation accepts the costs of providing them and defers its benefits to the future. This country, in effect, must be willing to think in terms of benefits to a wide set of nations.[20]

A second perspective proposes that the collective benefits of international order will only be supplied if the dominant state can extract a disproportionate amount of the benefits. This view sees the United States able to use its leverage to gain special privileges or compel member states to make contributions to the costs of world order, so as to make providing international order a profitable venture.[21] A third approach rejects the collective goods concept of international order and suggests instead that hegemonic power produced a substantial array of private benefits to the United States.[22]

[19]Lawrence Frank, "The First Oil Regime," *World Politics*, 37.4, July 1985, 586; Keohane, *After. . .* , 150–181; John Blair, *The Control of Oil*, New York: Pantheon Books, 1976.
[20]Kindleberger, *The World. . .* , is a good example of this viewpoint.
[21]Gilpin, *U.S. Power. . .* , and Krasner, "State Power. . . ," promote this position.
[22]Bruce Russett, "The Mysterious Case of Vanishing Hegemony; or, Is Mark Twain Really Dead?" *International Organization*, 39.2, Spring 1985, 207–231 is the sole proponent of this position. Additional discussion of the importance of collective goods theory in understanding hegemony is found in Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization*, 39, Autumn 1985, 579–614; John Conybeare, "Public Goods, Prisoners' Dilemmas, and the International Political Economy," *International Studies Quarterly*, 28, March 1984, 5–22; and Fred Hirsch and Michael W. Doyle, *Alternatives to Monetary Disorder*, New York: McGraw-Hill, 1977, 11–64.



As is often the case, the actual situation contains a complex mixture of all three perspectives. In terms of bearing the costs of international order, the United States was clearly the only state capable of providing capital and guaranteeing the security of nations. The proportion of GNP spent on defense by the United States was much higher than for other states in the "free world," and U.S. troops did a disproportionate share of the fighting and dying in wars for international stability. At the same time, free trade can provide great benefits to the most productive and low-cost nations since their exports are likely to expand relative to others. Further, the nation with the world's key currency receives special benefits by avoiding the need to adjust its domestic economy to payments deficits. Because the dollar functioned as a key currency and other nations accepted it as payment for goods, the United States was able to force these nations to bear some of the costs of its international operations.[23] At the same time, peace and prosperity in the postwar period was general, at least for developed nations.[24]

But the real key to understanding U.S. motives in promoting international stability lies with the perceptions of U.S. leaders about the military and political costs that would come from dissolution of world order. The experience of depression and war convinced many key government officials that U.S. prosperity and security depended on prosperity abroad and on eliminating or blocking the acts of hostile and aggressive states. Should the United States not act to ensure these outcomes, international economic conflict would doom any chance for full employment and free enterprise in the United States, while control of the resources of Europe and Asia by a hostile power would certainly force a garrison state in the United States and another world war.[25] In an important sense, the benefits of a liberal world order derived from the unacceptable costs that could be foregone with its presence.

## Power and Outcomes

Should we conclude from this discussion that U.S. power was so dominant it could get whatever it wanted? The answer is certainly no, but for reasons that may not be obvious. Two critical examples help illustrate the point. Throughout the war, in negotiations leading to Lend Lease, in the discussions

[23]Allies like Germany and France accepted dollars in payment for a U.S. current account deficit, resulting in expansion of their money supply and inflation rates. The matter of a key currency and its benefits and costs is the subject of more discussion later in this chapter.
[24]Because nations could be excluded from the GATT and IMF systems and from the benefits of U.S. aid, the system of liberal world order does not qualify precisely as a collective good.
[25]These arguments, linking politics and economics together in ways not always recognized by scholars in international political economy, can be found in Waldo Heinrichs, *Threshold of War: Franklin D. Roosevelt and American Entry into World War II*, New York: Oxford University Press, 1988; and John Gaddis, *Strategies of Containment*, New York: Oxford University Press, 1982; and Gaddis, *The Long Peace*, New York: Oxford University Press, 1987.

of the Bretton Woods institutions, and in the agreements for the British loan in 1945–1946, the United States pressed the British very hard to dismantle the Imperial Preference System. This was the trade and monetary bloc created by Britain among past and present colonial areas to cope with the depression and the war. The U.S. position was consistent with a multilateral and open world order and would have eliminated the various mechanisms used to protect British trade.[26] The British grudgingly gave verbal assurances and, as a first step in 1947, moved to make the pound fully convertible. The result was to expose the weaknesses in the British economic position as they were forced to use most of the $3.75 billion loan to support the pound. After a six week trial, the idea of convertibility was shelved.

The U.S. objective of European political unity, a key element of Marshall Plan aid, suffered a similar fate. The idea was to create a stronger and more prosperous Europe through political and economic integration, and the expectation was for rapid movement toward this goal. One important consequence would be to establish an offsetting system of power in Europe and thereby reduce U.S. responsibilities. The other would be to move more rapidly toward a multilateral trading system based on convertible currencies. This plan ran headlong into British resistance. They genuinely feared the economic and political effects of integration into Europe. British leaders worried about ties to Commonwealth nations, about the loss of political and economic independence, about the economic consequences of competition with the United States and the rapid swings in the U.S. business cycle, and about their status as a world power. Other countries also feared the consequences of a single integrated market in Europe.[27]

Despite its overwhelming power advantages and the apparent leverage created by the importance of Marshall Plan aid to Europe, the United States could not always obtain its objectives.[28] Three factors contributed to this result. First was the audacity of the proposal; bringing Europe — an area of intense political conflict for centuries — toward political and economic integration within a few years was probably unrealistic. Moving Britain and Europe toward a liberal system had to wait until their economies could compete with the United States. Second, and more interesting, was the effect of European and British weakness. The importance of bringing these nations

[26] Similar actions were taken against the French bloc as part of a U.S. effort to break down the structure of colonialism built up in the nineteenth century.

[27] Stafford Cripps, the British chancellor of the Exchequer, asserted in November 1949 that "trade liberalization had gone far enough," and that the American proposal for European integration "amounted to a 'fifty-year programme.'" This quote and information on the U.S.–British dispute on European union are from Michael Hogan, *The Marshall Plan*, Cambridge: Cambridge University Press, 1987, 291. For evidence that Cripps had the timetable about right, see the discussion of Europe and 1992 in Chapter Five.

[28] A very useful discussion of these questions along with a detailed historical analysis is found in G. John Ikenberry, "Rethinking the Origins of American Hegemony," *Political Science Quarterly*, 104.3, 1989, 375–400.



into a western political and economic bloc meant that overt intimidation and coercion was likely to prove counterproductive. At the very least, adopting the U.S. vision of an unbridled multilateral world would have proved devastating to the economies of Europe. Pushing too hard would have produced either collapse of U.S.-oriented political elites or cooperation without actual consent. Finally, the very nature of U.S. hegemony placed sharp limits on the ability to achieve U.S. demands. From the U.S. standpoint, world stability required a collective and collaborative effort to contain the Soviet Union and create a more liberal international system. Achieving a genuinely cooperative arrangement among western nations forced the United States to make many compromises. U.S. hegemony was based mostly on leadership and not on coercion.[29]

## The Consequences of U.S. Hegemony

Understanding the overall effects of U.S. hegemony is a very difficult problem, and much of the rest of the book can be seen as an extended answer to such a question. One major consequence of this hegemony was an extraordinary level of peace and prosperity, certainly with disproportionate benefits accruing to developed states but also with some previously poor states gaining in economic strength. The rapid recovery of West Germany, most of Europe, and Japan owed much to U.S. aid, investment, and a favorable political and security climate. The Third World as a whole did not fare as well, losing in share of world trade and total output. Much of this came as a result of a relative decline in the importance of primary products and food and an increase in the importance of manufactured goods. After the mid-1960s, some Third World states were able to break into the world market for manufactures. (See Chapters Eight and Twelve for more discussion of this process.) For the United States, many special benefits flowed from hegemony — the foreign policy benefits from having the key currency and the advantages to its corporations operating on a world scale are two examples — but it too experienced a relative decline in world product and trade. After 1971, U.S. policy took on a much more unilateral cast in trying to manipulate the world economy to its advantage. The Vietnam War experience from 1961 to 1973 also prompted the United States to become much more resentful of the military costs of hegemony and led to pressures on allies to share more of the burdens.

[29] The last point relating to the nature of hegemony is not the same as the second point, relating to weakness. U.S. leadership needed to be based primarily on persuasion even, and perhaps especially, had Europe and Japan been strong. The United States needed a commitment of political, economic, and military resources from its allies that was based on a belief in the justice of their cause. Under these circumstances, neither weak nor strong states could be coerced into this position.

Unquestionably, U.S. economic, military and political power defined the shape of the post-1945 world economy. Examining in more detail the costs and benefits of that system for industrial states is the subject of the next section.

# THE HEYDAY OF U.S. HEGEMONY: 1958–1970

■ Although the United States commanded great power resources after World War II, it was not until 1958–1959 that its vision of a multilateral and liberal world economy began to be realized. The ten years from 1948 to 1958 produced several new and significant features in the world economy, most importantly the development of new institutions for economic cooperation, dramatic economic growth in Europe, rising U.S. military spending, foreign aid in the Third World by the United States, and the emergence of U.S.-based multinational corporations. These factors helped to generate the stability and prosperity that gave nations the confidence to participate in this liberal system. But each also contributed to an outflow of dollars, and this ultimately brought the Bretton Woods system down. In this section we will briefly consider these developments and then turn to the problems they created.

## The European Economic Community

Perhaps the most important event during these ten years came in March 1957 with the signing of the Treaty of Rome. This treaty, signed by France, the Federal Republic of Germany (West Germany), Belgium, Luxembourg, Italy, and the Netherlands, called for the creation of the European Economic Community (EEC) beginning on January 1, 1958.[30] Several steps had preceded this decision. Marshall Plan aid had been made contingent on European cooperation, and the United States pressed hard for much greater levels of economic and political unity.[31] But in Europe, leadership for integration was supplied by the French, who were initially motivated by the need to bring German industrial power under international supervision and later by a recognition of the importance of creating a European system capable of dealing with the United States and the Soviet Union on equal terms. Under the U.S.

[30]Continuing its reluctance to join in European economic integration, Great Britain was not a member of the EEC. Instead, the British helped organize the European Free Trade Area (EFTA) along with Norway, Switzerland, Austria, Sweden, Denmark, and Portugal in 1960. The main difference with the EEC was that the EFTA did not have a common external tariff.

[31]In response, the Organization for European Economic Cooperation (OEEC) was set up in 1948 to coordinate Marshall Plan aid and reconstruction efforts.



concept of world leadership, this notion of independent power centers was actually encouraged, and the tariff discrimination and political independence that almost inevitably followed was tolerated. Further, the United States wanted German power accommodated to its other European partners and available to deal with the Soviets. First, in 1948, Belgium, Luxembourg, and the Netherlands had established a customs union,[32] and in 1950 the European Coal and Steel Community was created to manage and control German industrial power.[33] In 1955, negotiations began for a broader customs union, which reached fruition in the 1957 Rome treaty.

The basic purpose of the agreement was to establish a schedule for reducing tariffs and quantitative restrictions on trade. On the whole, the timetable was met or exceeded, with tariffs slashed dramatically and quotas eliminated entirely.[34] Shortly after the inauguration of the EEC — late 1958 and early 1959 — fourteen European nations, including Great Britain, moved to accept full convertibility of their currencies.[35] The same economic growth in the 1950s that made the EEC possible also gave these and other nations the financial strength to close their payments gap and accumulate the reserves needed to support a currency at a fixed price against the dollar. This also coincided with expansion of the resources at the IMF and a more liberal lending policy, both of which facilitated convertibility.[36]

## Military Keynesianism and Foreign Aid

The 1950s also witnessed important developments in U.S. political economy, in particular the increasing role of military spending, the rise of foreign aid, and a persistent balance of payments deficit. The combination of a Soviet atomic bomb in 1949 and the outbreak of the Korean War in 1950 produced a militarization of the Cold War and a consequent rise in U.S. military spending. Actual spending increased more than threefold by 1952 and stood at more than 10 percent of GNP by 1953. The legacy of Keynesianism of the 1930s, the postwar commitment to high levels of employment, and the need for high military spending merged to form a relatively coherent national policy. Keynes' idea was to use increases in government spending during periods of economic recession to stimulate the economy. From a political

[32]Basically, a customs union acts to reduce tariffs and other trade barriers within the particular set of nations and also works to establish a common trade policy with outside states.

[33]1950 also produced the European Payments Union, designed to manage payments imbalances within Europe.

[34]Scammell, *The International Economy*. . . , 137–138.

[35]Convertibility, in the 1958–1971 period, occurred when a currency could be freely traded for gold or for a foreign currency. The economic dislocations from the war led most countries to place substantial restrictions on convertibility until 1958. After 1971, gold was no longer an element of convertibility.

[36]Eckes, *A Search*. . . , 231–233; Scammell, *The International Economy*. . . , 109–116.

standpoint, the easiest way to raise spending was for the military requirements of the Cold War. By the early 1960s, the new Kennedy Administration had added the notion of reducing taxes while increasing spending so as to provide an extra boost to the economy.

A key element in U.S. postwar aims was dismantling the nineteenth century colonial system established by the European powers. The late 1940s and 1950s produced a wave of new nations as this process came to fruition. However, the Soviet Union moved to take advantage of this development and increased its political and economic activities in what emerged as the Third World. The U.S. response was to utilize its military capabilities to engage in selective intervention and increase its aid — economic and military — so as to reinforce its political and military position in the Third World. Castro's victory in Cuba and his swing toward the Soviet Union in 1959–1960 gave strong incentives to accelerate this trend. The Third World and its economic and military orientation in the Cold War became important enough to warrant much more attention and resources.

## Dollar Glut

The revival and integration of Western Europe and the growing demands of the Cold War came against the backdrop of troubling trends in the U.S. international economic situation. The 1950s, which began with a dollar shortage, ended with the United States wanting to reverse a persistent balance of payments deficit. In the early part of the decade, a payments deficit was created through military and economic aid; this was desirable since it helped close the dollar gap with the still economically weak Europeans. By the late 1950s Europe had recovered, and the deficit presented new problems. Although the United States enjoyed a substantial surplus in its goods and services and investment income accounts, this was more than offset by foreign aid, military expenditures abroad, and private overseas investment.[37] The sudden shrinkage in the surplus accounts in 1958–1959 produced a much wider payments deficit and instability in the dollar.

Remember that under the Bretton Woods system the dollar was fixed in terms of gold at $35 an ounce. This meant the U.S. government was required to redeem dollars held by foreigners at that price, a commitment that served as the core of the fixed exchange rate system. The likelihood of exercising this option was based on the ratio of dollars held by foreigners to the gold held by the United States. If the amount of dollars abroad surpassed the amount of U.S. gold, all claimants could not be paid unless the United States changed the price of gold. Raising the price of gold in terms of dollars — in

[37] The late 1950s are discussed in Robert Pollard and Samuel F. Wells, Jr. "1945–1960: The Era of American Economic Hegemony," in William H. Becker and Samuel F. Wells, Jr. *Economics and World Power*, New York: Columbia University Press, 1984, 379–381.



effect devaluing the dollar — automatically increased the dollar quantity of gold. Speculators in foreign exchange and others who feared this possibility would anticipate such an action and convert their dollars for gold — producing a "run" on the dollar and contributing to the very outcome they wanted to avoid or profit from. Since confidence in the dollar was a key element of the Bretton Woods system, and this confidence meant persuading those holding dollars to continue doing so, the U.S. balance of payments became a prime indicator of the stability of the system. A larger payments deficit meant more dollars abroad and more potential claimants on U.S. gold.

## Political Economy and Hegemony

It was this problem which dominated international monetary management in the 1960s and ultimately led to the demise of the Bretton Woods system. In a sense, the requirements of hegemony — as expressed in U.S. foreign and economic policies from 1961 to 1969 — undermined a major pillar of that system. Kennedy and Johnson are the clearest examples of presidents whose policies were not only guided by the political, military, and economic demands of hegemony but who also point out the costs and contradictions of such policies. President Kennedy was determined to marshal U.S. power in order to contain the Soviet Union and Communism on a global scale. Expansion of military power and foreign aid were the chief means to this end. Kennedy was also concerned about the economic performance of the United States at home and abroad. He expected rapid domestic economic growth — the result of a fiscal policy based on military Keynesianism — to ameliorate the costs of the military buildup. Coupled with accelerating the liberalization of world trade, the improved productivity from growth was also expected to solve the balance of payments problem.

Links between domestic and international economies were more tightly drawn in the 1960s. Expectations about economic growth were driven by the requirements of competition with the Soviet Union. Moreover, the U.S. position in the world economy, as measured by the balance of payments, became a serious concern of the new president and his successor. One important advisor warned that "[we] will not be able to sustain in the 1960s a world position without solving the balance of payments problem."[38] But the harder the United States tried to meet its global responsibilities, the more it damaged the balance of payments and undermined its ability to act as hegemon. This behavior also began to prompt a backlash from allies who came to resent the

[38] The quote by Walt Rostow, Special Assistant to the President for National Security, is from William S. Borden, "Defending Hegemony: American Foreign Economic Policy," in Thomas G. Paterson, ed. *Kennedy's Quest for Victory: American Foreign Policy, 1961–1963*, New York: Oxford University Press, 1989, 63.

privileges and consequences of the dollar as key currency. Their chief complaint was that the unrelenting U.S. payments deficit — a product of U.S. foreign operations — presented a major policy dilemma. They were forced either to hold dollars and expand their money supply and inflation or exchange the dollars for gold and undermine the value of the dollars remaining in foreign hands. The French were especially critical, arguing that they and others were being required to pay part of the costs of a mistaken U.S. policy in Southeast Asia.

Over the decade, the U.S. response was to reject the option of devaluation and instead devise a variety of mechanisms to cope with a hopefully short-run balance of payments problem. These included efforts to have Europeans use their gold and currencies to support the dollar, voluntary and mandatory measures to restrict the movement of U.S. private capital abroad, and defending the value of the pound as the first line in defense of the dollar. The most lasting result of the efforts to salvage the dollar-gold connection was the establishment of a new form of international money. The Special Drawing Rights (SDR) established in the International Monetary Fund was a checking account that central banks could use to supplement their international reserves. Nations in deficit could use this overdraft privilege to settle international accounts with other central banks. The hope was that the liquidity role of the dollar could be eased by SDRs. But the small size of SDR allocations and reluctance to rely on "fiat" money limited their usefulness.[39]

On a more fundamental level, the United States pushed for additional liberalization of world trade. Congress passed the Trade Expansion Act in 1962, giving the president broadened powers to negotiate lower tariffs. In large part, this act was a response to the challenges presented by the new European Economic Community. The EEC created a common external tariff on goods from outside the six members while reducing tariffs within the group. This threatened to hurt U.S. trade and further weaken the balance of payments. The resulting Kennedy Round of GATT lasted from 1963 to 1967 and produced significant tariff reductions over a broad range of goods.[40] But, as we shall see, the U.S. trade balance, and with it the balance of payments, did not improve.

## The Emergence of Multinational Corporations

The efforts to cope with the EEC and payments difficulties also affected another very important development in the U.S. and the world economy: the rise of the multinational corporation and new international capital markets.

[39]Moffitt, *The World's*. . . , 33; Eckes, *A Search*. . . , 256–257.
[40]Pastor, *Congress and*. . . , 104–120; Borden, "Defending Hegemony. . . ," 69–80.



The combination of the EEC and convertibility helped spur U.S. corporations to invest in Europe after 1958. The fear of tariff walls around the EEC provided the incentive, and the ability to convert profits back into dollars offered large U.S. corporations the opportunity to establish production facilities in Europe.[41] Multinational corporations (MNCs) — those with production and/or marketing facilities in at least two countries — have given rise to a new language for the analysis of international relations. Scholars now speak of the internationalization of production, the integration of national economies, global calculations of market relations, and the power of transnational actors in relation to nations themselves. These are matters we will take up in subsequent chapters. For now, our concern is with understanding the political consequences of MNCs and the economic motivations behind their expansion abroad.

A key feature of multinational corporations is direct investment abroad designed to establish and control a production and/or distribution unit.[42] The levels of direct foreign investment and its geographic and business direction can be seen in Tables 4.6 and 4.7.

**TABLE 4.6**

**U.S. Direct Foreign Investment: 1950–1970 (*Book Value in Billions of U.S. Dollars*)**

| | TOTAL | MANUFACTURING | PETROLEUM & MINING | TRADE & PUBLIC UTILITIES |
|---|---|---|---|---|
| 1950 | 11.79 | 3.83 | 4.52 | 2.18 |
| 1960 | 31.82 | 11.05 | 13.76 | 4.95 |
| 1970 | 78.18 | 32.26 | 27.88 | 9.42 |

SOURCE: Adapted from Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*, Cambridge: Harvard University Press, 1974, 330.

Clearly, expansion abroad is substantial in all categories but especially in manufacturing. Table 4.7 shows the geographic distribution of foreign direct investment in manufacturing.

[41]Gilpin, *The Political Economy*. . . , 233. An additional factor in the growth of MNCs was transportation and communication innovations, in the form of regular jet travel and the telex.
[42]This process of direct foreign investment can be distinguished from portfolio investment, which seeks merely to provide a non-controlling form of equity or debt to a foreign firm in the hopes of receiving returns in the future. Portfolio investment was characteristic of the British foreign investment in the nineteenth century and is discussed in Chapter Three. See Robert Gilpin, *U.S. Power*. . . , 9–11.

**TABLE 4.7**

**U.S. Direct Foreign Investment in Manufacturing, 1955–1970 (*Book Value in Billions of U.S. Dollars*)**

| | EEC | U.K. | EUROPE OTHER | CANADA | LATIN AMERICA | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|
| 1955 | 0.6 | 0.9 | 0.1 | 2.8 | 1.4 | 0.5 | 6.3 |
| 1960 | 1.4 | 2.2 | 0.3 | 4.8 | 1.5 | 0.9 | 11.1 |
| 1965 | 3.7 | 3.3 | 0.6 | 6.9 | 2.9 | 1.9 | 19.3 |
| 1970 | 7.2 | 5.0 | 1.5 | 10.1 | 4.6 | 3.9 | 32.3 |

SOURCE: This is adapted from Wilkins, *The Maturing. . .*, 331.

Several areas of the world received U.S. direct investment but especially Canada, the EEC, and Asia.

The process of direct foreign investment was overwhelmingly an American phenomenon. By the early 1970s, the book value of U.S. investments was $86.0 billion, which represented 52 percent of all direct foreign investment for all market economies. Even more impressive is the fact that U.S. companies produced $172.0 billion worth of goods and services abroad. This is compared to $43.5 billion worth of goods produced within the United States for export. That is, production abroad by U.S. firms was almost four times as great as all U.S. exports.[43]

The growth of multinational corporations in the period from 1958 to 1970 was the consequence of a complex mixture of political and economic factors. In political terms, the interests of the United States and the Europeans were accommodated, and this created the climate within which U.S. MNCs in Europe could flourish. Specifically, this meant acceptance by the United States of the EEC and its discriminatory and competitive effects on American trade, and in return, the Europeans (especially the Germans) agreed to finance the U.S. balance of payments deficit by holding dollars. This would permit operations such as stationing U.S. troops in Europe to continue and helped make other major actions, such as in Vietnam, possible. As part of this process, the United States persuaded the Europeans to give U.S. MNCs access to the EEC and treat them as if they were a European company.[44]

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[43] Gilpin, *U.S. Power. . .*, 15. The propensity of U.S. firms to invest and produce abroad is indicated by the fact that only two other countries — Great Britain and Switzerland — produced more abroad than at home for export. And neither country did so to the same degree.

[44] This argument is found in Gilpin, *U.S. Power. . .*, 107–108, 154–155. Gilpin (124–125) points out the importance of the dollar as key currency, especially as the balance of payments deficit



Thought of only in economic terms, multinational corporations had a somewhat cloudy set of benefits for the United States. In 1971, U.S. MNCs engaged in $4.8 billion in direct foreign investment (remember, this is a negative item in the balance of payments) while generating $9.0 billion in investment income (a positive item).[45] More difficult to measure is the loss of jobs in the United States to overseas production, the transfer of technology abroad, and the exports back to the United States (our imports) of goods produced elsewhere by U.S. MNCs. But in terms of the immediate political needs of generating a positive return in the balance of payments, multinational corporations represented a support system for U.S. international responsibilities.[46]

From the standpoint of the multinationals themselves, the political climate created by U.S. hegemony and the economic climate of stability and opportunity intersected with a set of more specifically economic motivations. Several somewhat complementary explanations have been offered for the expansion of multinationals, each of which begins with the fact that these are typically firms operating in an oligopolistic environment that are seeking to maintain or extend their competitive advantages.[47] Since market share is an important asset for oligopolistic companies, these firms may expand operations abroad simply to make certain they are positioned to participate in any new or expanding market. Or, a giant firm that enjoys some special competitive advantage may look to production in foreign markets to exploit this advantage. Finally, the firm may be at a particular point in the evolution of its products so that foreign production becomes an economic necessity. Initially, the combination of a large home market and technological advantages make production for export a profitable strategy. But as the technology of the product and its production processes become more commonplace and available, the company may be forced to move abroad to take advantage of lower costs and/or to compete with a foreign producer. This "product cycle" theory may be especially relevant to U.S. firms in the 1950s and 1960s who faced rising European firms moving into markets U.S. firms had pioneered in the preceding ten to fifteen years.[48]

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persisted and made the dollar overvalued. U.S. firms could use an overvalued dollar to purchase European assets and establish European branches without having to earn this currency through a balance of payments surplus.

[45] United Nations, "Multinational Corporations in World Development," in George Modelski, ed. *Transnational Corporations and World Order*, San Francisco: W.H. Freeman, 1979, 25.

[46] See Gilpin, *U.S. Power. . .*, 156–157.

[47] An oligopoly means the number of firms in the industry is very small, with each controlling a significant portion of the market. The size of the firm in relation to the market and to the economy permits it to influence the price of the good. That is, the firm is powerful enough to affect, in some significant way, the competitive environment in which it operates.

[48] This discussion relies on Gilpin, *U.S. Power. . .*, 115–125; and Gilpin, *The Political Economy. . .*, 232–238. Also see Charles Kindleberger, "The Monopolistic Theory of Direct Foreign Investment," in Modelski, ed. *Transnational. . .*, 91–107; along with Raymond Vernon, "The Product Cycle Model," in Modelski, ed. *Transnational. . .*, 108–117.

Lagging somewhat behind multinational corporations were U.S. banks, who began in the mid-1960s to expand substantially their foreign operations. Once again, several factors were at work. The dollar as key currency, acceptable for most international transactions, and the U.S. payments imbalance must be judged as critical ingredients. The transition from a dollar shortage to a dollar surplus in 1957–1958 resulted in the accumulation of dollars in foreign banks. London bankers, an ingenious lot, decided to begin lending these dollars rather than returning them to the United States. Thus was born the Eurodollar or Eurocurrency (since some other currencies were also involved) market, essentially an unregulated international money supply. When the U.S. government acted in 1963 to stem the dollar outflow for loans through the Interest Equalization Tax, many U.S. banks established operations abroad to continue their foreign lending and thereby took advantage of the Eurodollar process. The rise of the Eurodollar market, the expansion of U.S. international banking, and the growth of U.S. multinational firms were linked together throughout the 1960s.

Beyond this relationship, the Eurocurrency system became a phenomenon in its own right. Because no single state could regulate it effectively and because of the unceasing U.S. payments deficits, a Euromarket system developed consisting of the dollar and other currencies, a system of bank credit, and a Eurobond market (bonds denominated in dollars but floated outside the United States). A massive volume of funds emerged that, without much restriction, could move across borders in search of the highest yields available on a global basis (discounting for risk). By 1970, this market approached $70 billion and would triple in size in the next three years.[49]

The 1958–1970 period produced an extraordinarily complex set of developments for the world economy. It was simultaneously a time of American dominance and decline. Bearing the burdens of military competition and Vietnam, the United States was acutely aware of the continued importance of preserving global security and stability. The United States also encouraged the establishment of the EEC and the economic revitalization of Japan, both to marshal its assets against the Soviets and to facilitate the multilateral economic order sought since the 1940s. U.S. resources flowed abroad to preserve a liberal world order even as allies improved their competetive position in the world economy. But neither planned nor entirely desired was the acceleration of U.S. private investment abroad. As we shall see, this combination of events led to the breakdown of the Bretton Woods system so important to the United States and contributed to dramatic changes in the control of oil.

[49]See Jeffry A. Frieden, *Banking on the World: The Politics of American International Finance*, New York: Harper and Row, 1987, 79–85; Benjamin J. Cohen, *In Whose Interest? International Banking and American Foreign Policy*, New Haven: Yale University Press, 1986, 19–33; Michael Moffitt, *The World's Money*, New York: Simon and Schuster, 1983, 43–55.



## MONEY AND OIL, 1971–1973

■ Between 1970 and 1973, two of the pillars of U.S. hegemony — fixed exchange rates and control of oil — came under pressure and eventually disintegrated, only to be replaced by new relationships. Several basic weaknesses of the Bretton Woods system were exposed by the continuing U.S. payments deficit and growing international financial interdependence, and between 1971 and 1973 the system largely collapsed. The ability of the United States to guarantee ample oil supplies at low prices ran aground on imbalances of supply and demand and growing nationalism in those Third World nations where the oil was located. Notwithstanding the collapse of these arrangements, U.S. power remained sufficient to organize new mechanisms for money and oil. But these new regimes required even greater coordination, cooperation, and compromise and cast doubt on the future of the world economy.

### The End of Bretton Woods

The economic growth of Western Europe and Japan, a weakening position in the U.S. balance of trade, and the growth of international capital markets spelled doom for the Bretton Woods system of fixed exchange rates based on a fixed dollar-gold exchange rate. As early as 1960, the liabilities created by foreign-held dollars exceeded the U.S. supply of gold. In that same year, the price of gold in private markets rose to $40 an ounce. Over the next decade and more, the situation deteriorated.[50]

TABLE 4.8

**Proportion of World Exports**
***(Billions of U.S. Dollars with % of World Totals)***

| | 1960 | % | 1965 | % | 1970 | % | 1971 | % | 1972 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| U. S. | 20.6 | 18.0 | 27.5 | 16.5 | 43.2 | 15.2 | 44.1 | 13.9 | 49.8 | 13.2 |
| Great Britain | 10.6 | 9.3 | 13.8 | 8.2 | 19.6 | 6.9 | 22.6 | 7.1 | 24.7 | 6.6 |
| W. Germany | 11.4 | 9.9 | 17.9 | 10.7 | 34.2 | 12.1 | 39.1 | 12.3 | 46.7 | 12.4 |
| France | 6.9 | 6.0 | 10.2 | 6.1 | 18.1 | 6.4 | 20.8 | 6.6 | 26.5 | 7.0 |
| Japan | 4.1 | 3.6 | 8.5 | 5.1 | 19.3 | 6.8 | 24.1 | 7.6 | 29.1 | 7.7 |
| World Exports | 114.6 | | 167.1 | | 283.7 | | 317.4 | | 376.8 | |

SOURCE: The figures are calculated from International Monetary Fund, *International Financial Statistics Yearbook*, 1979, 62–63.

[50]John Odell, *U.S. International Monetary Policy*, Princeton: Princeton University Press, 1982, 85–87.

This can be seen in several ways but especially in the growing importance of several countries in world trade and in the U.S. balance of payments. Table 4.8 shows a steady decline in the world proportion of home-based exports by the United States. (Remember the jump in U.S. MNC production abroad.) The same was true for Great Britain. At the same time, West Germany, France, and especially Japan made steady relative gains. U.S. exports rose throughout the period but not as fast as those of the world or of its industrial competitors. By 1972 West Germany had nearly equalled the United States in dollar volume of exports.

A close examination of the U.S. balance of payments for this period reveals some important refinements for our understanding of the U.S. problem.[51]

TABLE 4.9

**U.S. Balance of Payments, 1960–1972**
***(Billions of Dollars)***

| YEAR | EXPORTS | IMPORTS | NET | MILITARY | INVEST INC. | CURRENT ACCOUNT BALANCE | CAPITAL ACCOUNT BALANCE | ERROR | NET LIQUIDITY BALANCE |
|---|---|---|---|---|---|---|---|---|---|
| 1960 | 19.7 | −14.8 | 4.9 | −2.8 | 2.8 | 1.8 | −3.0 | −1.1 | −3.7 |
| 1965 | 26.5 | −21.5 | 5.0 | −2.1 | 5.3 | 4.3 | −6.1 | −0.5 | −2.5 |
| 1967 | 30.7 | −26.9 | 3.8 | −3.1 | 5.8 | 2.1 | −5.5 | −0.9 | −4.7 |
| 1968 | 33.6 | −33.0 | 0.6 | −3.1 | 6.2 | −0.4 | −3.4 | −0.4 | −1.6 |
| 1969 | 36.4 | −35.8 | 0.6 | −3.3 | 6.0 | −1.1 | −2.0 | −2.4 | −6.1 |
| 1970 | 42.0 | −39.8 | 2.2 | −3.4 | 6.4 | 0.4 | −3.4 | −1.2 | −3.9 |
| 1971 | 42.8 | −45.5 | −2.7 | −2.9 | 8.9 | −2.8 | −6.8 | −10.8 | −22.0 |
| 1972 | 48.8 | −55.7 | −6.9 | −3.6 | 9.8 | −8.4 | −1.5 | −3.1 | −13.9 |

NOTE: some items in the balance of payments have been omitted. The result is that only net exports/imports adds across.

SOURCE: The table is reconstructed from data in Odell, *U.S. International. . .*, 203–205.

Several points stand out in the data shown in Table 4.9. Perhaps most important is the slow growth of exports relative to imports, especially after 1967, and the development of a trade deficit in 1971. Although investment income (remember MNC direct investments) grew steadily and the capital account and military spending abroad were mostly under control, the U.S deficit

[51]The use of different sources for trade and balance of payments produces a slight variation in the export totals.



persisted and grew much worse from the deteriorating trade balance.[52] Another perspective on this process is revealed from data on exports and imports of manufactured goods.

TABLE 4.10

**U.S. Trade in Manufactured Goods, 1960–1971**

| | 1960 | 1965 | 1970 | 1971 |
|---|---|---|---|---|
| Low technology goods | | | | |
| Exports | 3.573 | 4.409 | 6.778 | 6.262 |
| Imports | 4.494 | 7.350 | 12.928 | 14.550 |
| Balance | −.921 | −2.941 | −6.150 | −8.288 |
| High technology goods | | | | |
| Exports | 9.010 | 13.030 | 22.565 | 24.187 |
| Imports | 2.369 | 3.895 | 12.978 | 15.898 |
| Balance | 6.641 | 9.135 | 9.587 | 8.289 |

SOURCE: This data is taken from Gilpin, *U.S. Power. . .*, 193.

Two points are notable from this evidence. First, imports of both low and high technology manufactures were growing more rapidly than exports of these goods. Second, by 1971 the deficit in low-tech goods equalled the surplus in high-tech goods.

The difficulties in the U.S. trade and payments balances can be traced in substantial part to the interaction of domestic and foreign policy in the mid-1960s. The decision to escalate U.S. involvement in the Vietnam War in 1965 came in the context of substantial increases in domestic spending for new poverty and welfare programs and was followed by the decision not to raise taxes. In many ways this combination of choices was consistent with the Keynesian notions of fiscal policy except that they came at a time of near full employment and a booming economy. Over the period from 1965 to 1973, the inflation rate rose (as measured by the Consumer Price Index), and the budget deficit widened.

In simple terms, the budget deficit contributed greatly to the rise in inflation, both by overstimulating the economy and from increases in the money supply encouraged by the Federal Reserve to help finance the deficit. The rising price of U.S. goods encouraged imports and discouraged exports.

[52]The large "Error" item in 1971–72, Table 4.9, reflects the substantial volume of speculation against the dollar discussed below.

In 1968–69, policy changed with a tax increase and tighter money. The result of this "belt tightening" was a budget surplus, an improvement in the balance of trade, and a stronger dollar. But the economy also went into recession even as inflation remained high. Later, in 1970, economic policy shifted back to stimulation.[53]

TABLE 4.11

**Budget Deficits and Inflation**

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|---|---|---|
| CPI % | 1.7 | 2.9 | 2.9 | 4.2 | 5.4 | 5.9 | 4.3 | 3.3 | 6.2 |
| Budget Deficit $ | −1.6 | −3.8 | −8.7 | −25.2 | +3.2 | −2.8 | −23.0 | −23.4 | −14.8 |

SOURCE: The data on the Consumer Price Index is taken from David Calleo, *The Imperious Economy*, Cambridge: Harvard University Press, 1982, 201. The data on the budget deficit is taken from Calleo, *Beyond. . .* , 243.

The overall trade deficit in 1971 represented the culmination of several years of deterioration and, combined with the deficit in military and capital accounts, produced a major international monetary crisis. With pressure mounting against the dollar, on August 15, 1971 President Nixon announced a new policy. The United States suspended indefinitely the commitment to redeem gold for dollars, imposed domestic wage and price controls, demanded depreciation of the dollar, and placed a 10 percent tariff surcharge on U.S. imports. These actions amounted to a unilateral rejection of the basic rules of international monetary behavior and a demand for adjustment by U.S. military and economic allies.

What followed was more than eighteen months of coercion and pressure, resistance, seemingly solid agreements, and continued market instability. At issue was the future of the dollar-gold link, fixed exchange rates, the rate of exchange, and which countries would be forced to make the adjustments and trade concessions. The United States wanted substantial revaluations of major currencies, elimination of "unfair" restrictions on trade, and greater sharing of the costs of keeping U.S. forces abroad. The French and the Japanese resisted the most strongly, with the French refusing to alter the franc-gold price and the Japanese arguing that the United States should change its domestic economic system. Only after National Security Adviser Henry Kissinger became concerned about the damage this was doing to the alliance system did the United States accept the need for concessions. In December 1971, at

[53]Discussions of the links between domestic and foreign economic policy are found in Calleo, *The Imperious. . .* , 25–61; and Odell, *U.S. International. . .* , 110–111.



the Smithsonian Institution in Washington, a compromise agreement was reached. The United States devalued the dollar in terms of gold (but made no commitment to redeem dollars for gold) and dropped the import surcharge. The other major capitalist states revalued their currencies against the dollar by an average of 8 percent (Japan's was 16.9 percent against the dollar) and adjusted their currencies against each other. Trade issues were postponed. The result was a temporary return to fixed rates.[54]

This system held together through 1972 in spite of continuing U.S. trade deficits. But in February 1973, renewed selling of the dollar produced another currency crisis and a U.S. decision to devalue the dollar 10 percent (without consultation) accompanied by the threat to devalue another 10 percent unless the Japanese and the West Europeans agreed to float their currencies against the dollar. Acceptance of this arrangement led not to stability but to further selling of the dollar and the complete collapse of fixed exchange rates in March 1973.[55]

Two main reasons can be identified for the decline and fall of the Bretton Woods system. First, the system was inherently unstable because the mechanisms for adjustment of exchange rates were so inflexible. This was especially true for the United States where the value of the dollar also became the measure of the stability of the world economy, especially in the minds of U.S. leaders. The economic relations that developed after 1948 were structured by these fixed values even as the shift from U.S. surplus to deficit increasingly demanded adjustment of exchanges rates. The world of 1971 was significantly different from the world of 1945–1950, but the Bretton Woods system made few accommodations to that reality.

Second, and perhaps most reflective of those changes, was the massive growth of the market power of international capital and its impact on fixed rates. This is reflected in the emergence of transnational actors — multinational corporations and international banks — and the vast Eurocurrency market over the years from 1958–1973. As late as 1966, the Eurocurrency market and U.S. international reserves were of approximately equal size. But by 1973 the Eurocurrency market was almost nine times bigger than U.S. reserves.[56] Such an immense collection of resources was capable of overwhelming even concerted government action. Between 1971 and 1973, these new transnational actors collectively lost confidence in the system of fixed exchange rates and the ability of governments to establish any viable system. Eventually, in March 1973, the governments of the capitalist world were

[54]The best detailed discussion of these events is in Odell, *U.S. International. . .* , 188–291.

[55]Odell, *U.S. International. . .* , 292–326.

[56]Calleo, *The Imperious. . .* , 208. Additional measures can be found in Robert Keohane and Joseph Nye, *Power and Interdependence*, Second Edition, Glenview: Scott Foresman, 1989, 81–82; Eckes, *A Search. . .* , 240–241.

forced to accept the immense market power of these actors and adopt a new system of floating exchange rates.[57]

## Loss of Control Over Oil

Concurrent with these dramatic changes in the international monetary order was an equally significant structural transformation of the international oil market. Several basic forces converged in the early 1970s that led to an overturning of the control of oil. These included changes in the political and military relationship of the United States and Great Britain in the Middle East, shifts in supply and demand for oil, increasing political control over oil exercised by Third World countries, and the 1973 Yom Kippur War. U.S. domination of the international oil market, operating through large multinational oil companies, came to an end as the price for oil skyrocketed and an embargo created shortages in the United States.

Between 1968 and 1971, Great Britain withdrew from its military commitments in the Middle East, leaving a political and military vacuum that it had filled for more than a century. During this time the United States was mired in the Vietnam War, which greatly hampered its ability to use military force anywhere else in the world. These developments damaged the ability of the West to defend its interests in cheap and plentiful oil.[58]

The early 1970s also provided the culmination of the trends of the preceding fifteen years during which the world became increasingly dependent on oil from the Middle East. From 1957 to 1972, the proportion of world oil produced in the United States declined from 43.1 percent to 21.1 percent, while the Middle East raised its proportion from 19.4 percent to 41.0 percent. Over the same period, U.S. oil imports rose from 11 percent of consumption to 35.5 percent.[59] Rapid increases in world production were linked to even more rapid increases in demand for oil. However, by the early 1970s world supplies of oil failed to match increases in demand, primarily due to flat U.S. production growth. This combination created the potential for substantial prices increases.[60]

Accompanying these trends was a growing boldness by the countries where the oil was located to challenge control over production and pricing

[57]Once again, Odell has the best discussion of this matter. See Odell, *U.S. International. . .* , 299–305. The arrangement adopted was a managed or "dirty" float in which governments periodically intervened to keep rate fluctuations within some acceptable bounds.

[58]The story of the oil crisis of the early 1970s is ably told in Daniel Yergin, *The Prize: The Quest for Oil, Money and Power*, New York: Simon and Schuster, 1991, 563–652.

[59]Darmstadter and Landsberg, "The Economic. . . ," 31–33.

[60]Rostow, *The World. . .* , 257, reports that U.S. growth in oil consumption outstripped production throughout the postwar era. U.S. production peaked in 1970 and fell each year from 1971 to 1975.



decisions by the great oil multinationals. Beginning with Libya in 1970 ar soon spreading to other states, governments used various forms of intimid tion to increase their take, their level of participation in ownership of the o and even in the price charged. The tightening supply situation helped accele ate this process as countries began leapfrogging each other in terms of pri and control. The devaluations of the dollar in 1971 and 1973 also prompt price increases since oil was denominated in dollars. When the United Stat was forced to lift import quotas for oil in April 1973, the signal was giv for a new round of negotiations.[61]

It was in this context of growing dependence on Middle East oil th Anwar Sadat, President of Egypt, launched an attack on Israel to begin t Yom Kippur War. U.S. support of Israel led several members of the Organiz tion of Petroleum Exporting Countries (OPEC) to push prices up dramatical (from $3.01 to $5.12 per barrel) and impose an embargo. This consisted reductions in overall production and a ban on shipments to the United Stat (and the Netherlands). By January 1974, prices had risen to $11.65 a barr and the United States was confronted with a shift in power relations that, the words of Henry Kissinger, "altered irrevocably the world as it had grov up in the postwar period."[62]

## CONCLUSIONS

■ In 1941, Henry Luce, publisher of *Life* magazine, wrote effusively of "T American Century." In many ways he was right; the United States was t key player in determining the outcome of World War II and in the shape the postwar world. American money and military might provided the ba for projecting a vision of a liberal world order of peace and prosperi Confrontation with the Soviet Union pushed the United States beyond original plans and led to a major effort to organize the political and econon resources of the industrial world for containment. Out of this process car a new set of international institutions, new forms of cooperation, and unprecedented expansion of international trade, capital transfer, and wo economic growth. Seen against the record of the preceding century, the ye after 1945 were truly epochal.

The economic relationships of the American Century did not last as lo as the political and military relationships. The United States largely retain its ability to foster military security but in the process lost many of economic advantages. The effort to rebuild Europe and Japan as econon

[61]For more detail, see Edith Penrose, "The Development of Crisis," in Vernon, *The Oil Cri* New York: Norton, 1976, 39–57; and Yergin, *The Prize. . .* , 577–587.

[62]Quoted in Yergin, *The Prize. . .* , 588.

powers capable of resisting Soviet pressure worked very well. In the meantime, military spending, foreign aid, and direct investment — the *sine qua non* of U.S. hegemony — kept the balance of payments in deficit and undermined the dollar-gold link that stabilized the international monetary system. When America's political and economic allies took advantage of the liberal system of international trade and greatly expanded their exports in the 1960s, the United States found itself unable to maintain a favorable trade balance. Further, when the growth of the world economy and demand for oil expanded in the 1960s and early 1970s, the United States was unable to prevent Western loss of control over oil production and pricing.

Nevertheless, the United States retained great strength; it was by far the largest economy in the world, the predominant source of capital, the biggest export market, and continued as the guarantor of Western security. But in important ways, the game of international political economy had changed. In the first decade or so after the war, the Europeans and Japanese gained their leverage in negotiating with the United States from weakness; and the United States accepted the necessity for sharply limiting any use of coercion to bring about actions it favored. Instead, providing aid and accepting and even promoting discriminatory arrangements such as the EEC were common fare. By the 1970s, increasing European and Japanese economic strength tilted the bargaining relationship. Now adjustments had to come from them, and the United States sometimes found it necessary to coerce these concessions. A much more complex system emerged in which the major capitalist states found that their economic interdependence created a new balance of opposing and conflicting interests. Even parts of the Third World, long simply an arena of military and economic struggle with the Soviets, gained the capacity for independent action. The trick to international order changed from one of U.S. dominance to one of bargaining over the terms for creating and recreating a framework within which economic competition on a global scale could take place. This extraordinary process is the subject of the next two chapters.

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CHAPTER 5

# COOPERATION AMONG ADVANCED INDUSTRIAL STATES

We have just seen how important the dollar and oil were to the w economy of the 1950s and 1960s. It might be reasonable to pr based upon the collapse of Bretton Woods in 1971 and loss of We control over oil production and prices by 1973, that a fatal blow had struck to the world economy. But rather than a downward spiral of trad finance in the years after 1973, we have experienced instead an even g expansion and deepening of global economic relationships. The nationalization of finance, spurred by the oil crises and massive de quirements of the 1970s and 1980s, has grown to immense proportions financial markets of individual nations — for equity, debt, and fo exchange — have been linked together on a 24-hour basis and frequ move in conjunction with each other. Trade levels, even though punct by two significant world recessions, have also increased dramatically. A side these largely positive events has been the development of serious i ances in the world economy. The shift of resources produced by price inc for oil contributed to global inflation and the growth of debt in the World. Large tax cuts and the resulting budget deficits in the United helped spark high interest rates, substantial increases in the exchange ra the dollar, a whopping trade deficit, and accumulating debt for the U States. The trade deficits and debt growth were mirrored by large Jap and German trade surpluses and by investment in the United States by

The scale and intensity of trade and financial flows have produced efforts at cooperation and coordination, along with an accentuation of in tional competition. Nations and corporations frequently have found interests bound together by the need to manage the burgeoning syst interdependence and thereby continue to reap the mutual benefits o