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Author(s): G. John Ikenberry
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A world economy restored: expert consensus and the Anglo-American postwar settlement

G. John Ikenberry

Even in the darkening days of World War II, British and American officials debated ideas about postwar order. Some proposals emphasized regional groupings, others sought to reinvigorate colonial empire, and still other proposals, championed by American officials, called for the building of an open international economy based on principles of liberal multilateralism. The most important differences in perspective over postwar order were those between American officials at the State Department, who wanted to reconstruct an open trading system, and British officials in the wartime cabinet, who wanted to ensure full employment and economic stability and were thus contemplating the continuation of the imperial preference system and bilateral trading. One vision was of a nondiscriminatory, multilateral trading system; the other, although not fully articulated, was of preferential economic groupings.

Despite their differences, Britain and the United States were able to reach watershed trade and monetary agreements during and after World War II, thereby setting the terms for the reestablishment of an open world economy—an accomplishment that was a bit astonishing given the ravages and dislocations of war and the multiple visions of postwar order. But the new system was different than anything that the capitalist world had seen before. The Anglo-American agreements established rules for a relatively open and multilateral system of trade and payments, but they did so in a way that would reconcile openness and trade expansion with the commitments of national governments to full employment and economic stabilization. Despite rapidly

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shifting global power capabilities, rising national economic vulnerabilities, and divergent and competing agendas within and between Britain and the United States, an innovative postwar agreement was engineered. Not surprisingly, the leading scholar of Anglo-American economic diplomacy characterized the postwar settlement as a “political miracle.”¹

Miracles aside, how do we explain this watershed agreement? Was the postwar settlement a straightforward expression of the prevailing distribution of power and interests at the end of the war, or do we need to dig more deeply into the political and intellectual foundations of the system? In its broadest outlines, the postwar settlement does reflect the interests and the overwhelming position of the United States after the war. If we are attempting to account for the fact that the postwar system was “open” rather than “closed,” the structural variables are probably adequate. The distribution of power and interests within and among the United States, Britain, and countries in continental Europe set the broad limits on the shape of the postwar international economic order.

This structural explanation, however, leaves several issues unresolved. First, there was a range of postwar “orders” that were surely compatible with an American interest in an open world economy.² Indeed, a variety of designs for postwar order were advanced by officials within the American government. Why did the system take on the features it did, rather than a different set of features? To ask this question is really to ask why interests were defined the way they were by officials at the highest level of government. If the postwar order was a hegemonic system, why was it hegemony by consent (open but reciprocal and agreed upon rather than imposed)?³ If American officials sought to build a postwar economic order that was deemed legitimate by other governments, how did this objective influence the choices they made?⁴ More specifically, why did an American government with a State Department that

1. Richard N. Gardner, “Sterling-Dollar Diplomacy in Current Perspective,” *International Affairs* 62 (Winter 1985–86), p. 21.

2. See Charles P. Kindleberger, “U.S. Foreign Economic Policy, 1776–1976,” *Foreign Affairs* 55 (January 1977), pp. 395–417.

3. Maier argues that to understand the exercise of American power after World War II, it is necessary to appreciate power not only in terms of the ability to exert control over other countries’ decisions but also in terms of the ability to create or sustain order. Power “usefully refers to the capacity to construct a higher degree, or alternative form, of political ‘order’ than would have existed in its absence.” It is this form of American power, according to Maier, that is underappreciated in the postwar era. See Charles Maier, “An American Empire? Formative Moments of the United States Ascendancy After World War II,” paper presented at the Shelby Cullom David Seminar, History Department, Princeton University, Princeton, N.J., November 1988, p. 2.

4. The ability of a hegemonic nation to generate shared beliefs in the acceptability or legitimacy of a particular international order—that is, the ability to forge a consensus among national elites on the normative underpinnings of order—is an important if elusive dimension of hegemonic power. See G. John Ikenberry and Charles A. Kupchan, “Socialization and Hegemonic Power,” *International Organization* 44 (Summer 1990), pp. 283–315.

championed *laissez-faire* and free trade end up backing a system more concerned with safeguarding welfare capitalism?

Second, how did a transatlantic coalition in support of the Anglo-American settlement get cobbled together? The alternative to the settlement after World War II might not have been just another trade and monetary order; it might instead have been stalemate and disorder, which, after all, were the results of the attempt at a settlement after World War I. Agreement at Bretton Woods might have failed or gone the way of the Treaty of Versailles, a well-intentioned international agreement that fell prey to diverging national interests. How was agreement achieved amid the divergent and conflicting national and bureaucratic positions? What was the “glue” that kept the Anglo-American coalition—and the postwar settlement—together?

Answers to these questions will not emerge from an exclusive focus on the underlying conditions of power and interest. I argue that the policy ideas inspired by Keynesianism and embraced by a group of well-placed British and American economists and policy specialists were crucial in defining government conceptions of postwar interests, building coalitions in support of the postwar settlement, and legitimating the exercise of American power. By shifting the focus from trade issues, which were highly contentious, to monetary issues, about which there was an emerging “middle ground” created by Keynesian ideas, these experts helped overcome political stalemate both within and between the two governments. Put simply, this group of British and American experts intervened at a particularly fluid moment in history to help the British and American political establishments identify their interests, thereby creating the bases of postwar economic cooperation.

This argument contains a series of propositions (both historical and theoretical) about how and why these experts mattered in forging a postwar agreement.

(1) As deliberations on postwar order began during the war, divergent views within and between the British and American political establishments posed obstacles to agreement. The most important differences were between the British wartime cabinet’s search for arrangements to secure postwar full employment and economic stabilization and the U.S. State Department’s unalloyed free trade position.

(2) A community of policy specialists and economists assembled within and outside the British and American governments during the war articulated a set of ideas about monetary order and the organization of the postwar world economy that cut through these differences and moved their governments toward agreement. In effect, these experts identified a set of normative and technical positions that were later embraced by wartime British and American leaders.

(3) The Anglo-American monetary experts were a collection of professional economists and policy specialists who shared a set of normative and technical views which concerned “sensible” and “progressive” arrangements for the

postwar world economy and which distilled contemporary economic thought and lessons of recent economic history. In their commitments, assumptions, and expectations, these experts articulated a more or less coherent governing philosophy of postwar economic order: the philosophy that it should be a managed multilateral order, with monetary and trade practices subject to international agreement, and that the overall system would work to facilitate Keynesian economic policy and social welfare goals. The policy ideas of these experts were anchored in a common professional orientation, but they were not a set of causal scientific tenets or a simple economic doctrine.

(4) The British and American policy specialists came to form a loose transnational and transgovernmental “alliance” during wartime negotiations, and this alliance proved important in altering the sequence of Anglo-American negotiations. Initial negotiations on the postwar economic order, led by the State Department, dealt with trade arrangements and deadlocked without agreement. British and American Treasury Department officials shifted the negotiations to monetary arrangements, a less contentious issue, and agreement was eventually reached, undercutting the U.S. State Department’s more conventional but also controversial free trade position.

(5) In the broader political setting, the ideas articulated by the community of experts played an important role in defining a “middle ground” between the old political divisions. In addition to offering an alternative to the old and contentious policies of laissez-faire and interventionism, the ideas on monetary order advanced by the British and American experts had the political virtue of opening up new possibilities for coalition building. What ultimately mattered in the ratification of the Bretton Woods agreement was not that it was based on the policy ideas advanced by an expert community but, rather, that the policy ideas resonated with the larger political environment. The ideas of the experts ultimately carried the day because they created the conditions for larger political coalitions within and between governments—coalitions which themselves reflected a more general postwar reworking of the sociopolitical order in Western capitalist democracies.

(6) The favorable reception of postwar economic “new thinking” within wider political circles was influenced by the long-term interwar evolution of mainstream public views about the role and obligations of governments in national economies and the proper goals of foreign policy. The Keynesian revolution and the reconstruction of internationalist thinking in American foreign policy were particularly consequential in creating a diffuse public “demand” for innovative postwar economic arrangements.

(7) Finally, the larger structural and historical setting in which the Anglo-American experts operated was important in that it simultaneously constrained and empowered them. The overwhelming position of the United States and the economic vulnerability of Britain together served to rule out postwar designs that each government might have found attractive. While the experts operated within very real political and economic limits, the larger structural setting also

served to give them unusual room for maneuver. The war provided a “breakpoint” that made it necessary for governments to get into the business of developing new rules of international economic and political order. This meant that decisions would need to be reached. At the same time, political leaders in both countries were generally dissatisfied with past monetary and trade arrangements. This dissatisfaction as well as uncertainty over future conditions elevated the role of the experts.

The group of economists and policy specialists involved in the postwar settlement, however, did not fully constitute an epistemic community, nor did the manner in which these experts influenced the terms of the settlement conform to the strict logic of epistemic community influence that is proposed elsewhere in this volume. First, the community of experts in this case was not an independently existing scientific community; rather, it was a community created by the process of Anglo-American negotiations. The economists and policy specialists who eventually formed this transnational and transgovernmental community of experts were brought into government by policymakers such as Secretary of the Treasury Henry Morgenthau. The expert community emerged during the process of expert negotiations, and its members then worked backed into their respective governments.

Second, the policy ideas that these experts shared—ideas concerning monetary arrangements and the larger international economic order—were anchored in a common professional orientation, but they were not a set of causal scientific tenets or a common economic doctrine. Along this dimension, the Anglo-American experts were, at best, a primitive epistemic community, a collection of professional economists and policy specialists who shared a set of general and technical views which concerned the proper functioning of the world economy and distilled contemporary economic thought and lessons of recent economic history.

Third, while policymakers defer to experts in some cases because the experts are seen to possess indisputable scientific and technical knowledge, policymakers deferred in this case primarily because the ideas of the experts resonated with the political needs of the moment and provided opportunities to bridge old political divisions and build new coalitions. In the widest of political circles, the influence of the experts was also strengthened because the economic issues—particularly the monetary issues—were complex. It was difficult for many politicians and groups to identify and articulate their interests during the political debate. British and American experts were at an advantage in framing the issues and resolving the disputes, and in this sense their shared professional competence and knowledge mattered. But it was the political resonance of their policy ideas that ultimately carried the negotiations to agreement.

The crux of the argument is that a transatlantic group of economists and policy specialists, united by a common set of policy ideas and a shared view that past economic failures could be avoided by innovative proposals, led their governments toward agreement by identifying a set of common Anglo-

American interests that were not clearly discernible to others.⁵ Structures of power and interests always matter. But at critical turning points, such as the end of a major war, uncertainties about power structures and unhappiness with past or current definitions of interests provide openings for rethinking. Moreover, at such moments, elites are interested in building institutions that have a measure of legitimacy, and this reinforces the value of authoritative policy ideas. For these reasons, it is necessary to search for the connections between policy expertise and underlying forces of power and interests.

I begin by sketching the characteristics of the Anglo-American postwar settlement and discussing the range of factors that are involved in any attempt at explanation. After identifying the group of experts that was active in shaping the monetary agreement, I situate the role of these specialists and their policy ideas within the larger structural setting. In subsequent sections, I trace the course of Anglo-American negotiations from early stalemate over postwar trade arrangements to the Bretton Woods settlement. Finally, I discuss the central ways that policy expertise mattered in shaping the Anglo-American agreement.

Explaining the Anglo-American settlement

The Anglo-American agreement on an international economic order, organized around a set of monetary and trade schemes, embodied a unique blend of laissez-faire and interventionism—of liberal multilateralism and the welfare state.⁶ It allowed the operation of a relatively open system of trade and payments as well as arrangements to support domestic full employment and social welfare. This evolving synthesis of liberal economic and social welfare goals is captured in John Ruggie's notion of "embedded liberalism."⁷ The international economic regimes of the postwar period were built on an historic political compromise: "Unlike the economic nationalism of the thirties, the

5. This argument would be undermined if it were established that British and American political leaders already had well-developed notions of postwar economic organization and simply called upon policy experts with similar views to refine and implement these views or if it were established that British and American leaders would have arrived at roughly the same settlement in the absence of the activities of the expert community. Empirical analyses of this sort require close attention to the sequence of events ("process tracing"), the use of counterfactuals, and, where possible, comparisons with similar historical episodes (in this case, the post-World War I settlement).

6. In this article, the specific outcome I am seeking to explain is the agreement signed at Bretton Woods in 1944. There was, of course, an entire sequence of "outcomes" that could be the object of explanation: the Anglo-American "Joint Statement of Principles," the agreement signed at Bretton Woods, the actual accord ratified by Congress and Parliament, the eventual monetary regime itself, and the larger set of political compromises. I focus on the Bretton Woods agreement because it provided the critical blueprint for the larger postwar economic order.

7. John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," in Stephen D. Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983), pp. 195–231.

international economic order would be multilateral in character; but unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism.”⁸

The forces that shaped this postwar settlement were obviously many and complex. A “first cut” would focus on the underlying structures of power capabilities.⁹ According to this view, the postwar economic order reflected the efforts of the United States, as an ascending hegemonic power and victor in war, to build a system congenial with its interests. The most fundamental dynamic at work in the economic diplomacy of the 1940s, therefore, really involved attempts by the United States to break down the barriers to global economic openness, making compromises where necessary. As Charles Maier argues, “The central conflict defining international political economy from World War I until about 1950 was not that between American and Soviet alternatives, between capitalism and communism. . . . Viewed over the whole half century, the American international economic effort of the era of stabilization centered on overcoming British, Japanese, and especially German alternatives to a pluralist, market-economy liberalism.”¹⁰

On the one hand, the commanding position of the United States and the resources available to it set the basic terms of the negotiations with Britain and influenced the direction of policy change in other countries. American efforts to recast the political and economic institutions of Japan and Germany after the war—efforts that in the years to follow had profound consequences for the stable functioning of a liberal multilateral order—perhaps reflected the ultimate exercise of hegemonic power.¹¹ On the other hand, hegemonic power has limitations as an explanation for the emergence of liberal multilateralism after the war.¹² American efforts to overcome European obstacles and induce acceptance of a liberal order in fact required a series of compromises and

8. See John Gerard Ruggie, “Embedded Liberalism Revisited: Institutions and Progress in International Economic Relations,” in Emanuel Adler and Beverly Crawford, eds., *Progress in International Relations* (New York: Columbia University Press, 1991). For an excellent discussion of these political compromises and the economic lessons that informed them, see Richard Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: Columbia University Press, 1968).

9. Gilpin provides perhaps the most powerful and parsimonious explanation for the organization and reworking of international order. A prevailing international order is the reflection of the underlying distribution of material capabilities of states within the system. The distribution of power shifts over time, leading to ruptures in the system, hegemonic war, and an eventual reorganization of the international order that reflects the new underlying power capabilities. See Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981).

10. Charles Maier, “The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe,” in Charles Maier, ed., *In Search of Stability: Explorations in Historical Political Economy* (New York: Cambridge University Press, 1987), p. 183.

11. See Ikenberry and Kupchan, “Socialization and Hegemonic Power.”

12. See John S. Odell, “From London to Bretton Woods: Sources of Change in Bargaining Strategies and Outcomes,” *Journal of Public Policy*, vol. 8, 1989, pp. 294–95. For a critique of hegemony as an explanation for U.S. postwar behavior, see John Gerard Ruggie, “Multilateralism in Theory and Practice,” in John Gerard Ruggie, ed., *Multilateralism: The Anatomy of an Institution* (New York: Columbia University Press, forthcoming).

delays in the implementation of agreements, largely because of the economic and political vulnerabilities of a war-ravaged Britain and continental Europe.¹³ Coercive efforts, such as those involved in the case of the British Loan, were less successful than often thought. Moreover, as discussed below, Britain and the United States together shaped the substantive content of the postwar system in ways that cannot be explained in terms of power considerations alone.¹⁴

In addition to focusing on hegemonic power, explanations might also trace the Anglo-American agreement to convergent shifts in underlying national economic interests. As I argue in a later section, there were underlying economic interests in both Britain and the United States that pointed in the direction of a relatively open system, particularly if protections and safeguards could be provided. What is missing in this explanation, however, is an account of how these structural conditions manifested themselves. This is particularly important because in both countries as economic planning and negotiations got under way during the war, there were substantial obstacles to agreement on even the most general outlines for postwar economic order.

Agreement on postwar monetary arrangements was fostered by a momentary community of experts who were engaged in negotiations and who, despite their many other differences, did share a view about the desirable organization of monetary relations and world economic order. As Alvin Hansen, a leading American economist in this postwar planning group argued, “Among the many contrasts between World War I and World War II nothing is more remarkable than the profound change in economic thinking.” After World War I, the main purpose of postwar economic policy was to “reconstitute as rapidly as possible the automatic forces in economic life. The drive all around was a return, in the broad essentials, to *laissez-faire*.”¹⁵ By the late-1930s, Hansen argued, all of this had changed. A new social purpose infused postwar planning the second time around. Understanding how this “new thinking” got established and shaped government policy and the Anglo-American agreement is our task.

Postwar economic planners as a community of experts

Agreement between Britain and the United States on the shape of a postwar monetary system was fostered by the work of British and American policy

13. On the bargain struck between the United States and Europe after World War II over multilateralism and regional integration, see Benjamin J. Cohen, “The Revolution in Atlantic Economic Relations: The Bargain Comes Unstuck,” in Wolfram Hanreider, ed., *The United States and Western Europe: Political, Economic and Strategic Perspectives* (Cambridge, Mass.: Winthrop, 1974), pp. 106–33.

14. For further elaboration of these arguments, see G. John Ikenberry, “Rethinking the Origins of American Hegemony,” *Political Science Quarterly* 104 (Fall 1989), pp. 375–400.

15. Alvin Hansen, “Stability and Expansion,” in Paul T. Homan and Fritz Machlup, eds., *Financing American Prosperity: A Symposium of Economists* (New York: The Twentieth Century Fund, 1945), p. 199.

specialists who shared a set of technical and normative views about the world economy and who were given remarkable discretion in developing policy proposals and negotiating on behalf of their governments. Although these experts shared a set of economic beliefs, it was only in the process of planning and negotiation that they came to possess a common identity and purpose. We can trace the contours of this assemblage of experts and situate it within the larger institutions of British and American government.

The Bretton Woods agreement is often seen as the result of the ideas and diplomacy of John Maynard Keynes and Harry Dexter White.¹⁶ Indeed, these economists were pivotal figures in devising monetary plans, and they led their delegations in the celebrated Anglo-American negotiations during the war. But they were also part of a larger collection of economists and policy specialists who were located in the British and American Treasury Departments, in other government offices, and in universities and policy institutions. While many of the beliefs held by this loose community of specialists reflected the evolving views of professional economists, the community itself was given form by the demands of British and American governments to deliberate on postwar economic matters. The process of postwar planning on both sides of the Atlantic served to organize and stimulate the activities of these policy specialists.

In both Britain and the United States, most of the ideas that made their way into the Bretton Woods agreement were widely shared among what could be called liberal-minded international economists, whose views, more than anything else, reflected the lessons learned from recent historical experience as well as the ongoing evolution in professional economic thought. Among the group were many Keynesians, but group consensus was less the reflection of the common acceptance of a specific economic doctrine or theory than it was of a broader professional reaction to the recent upheavals and malaise in the world economy. Out of this reaction grew agreement on three aspects of a desirable postwar economy and the general policies and institutions that would sustain it.

First, the British and American experts held a common belief in the desirability of currency stability and the convertibility of currencies. Convertibil-

16. The definitive history of negotiations leading to the agreement remains Richard Gardner's *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade* (Oxford: Clarendon Press, 1956). In interpreting the events, Gardner places much more emphasis than I do on the differences between the American and British plans as they were advanced, respectively, by White and Keynes. While Gardner sees the Anglo-American negotiations more as a clash between officials representing different national interests, I see the expert negotiators as finding common cause in devising a plan that would reflect their economic thinking while also being capable of ratification by the American Congress. For a sophisticated political history of the events that also stresses the role of experts in promoting agreement, see Alfred E. Eckes, Jr., *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971* (Austin: University of Texas Press, 1975). For a fairly straightforward and detailed history of the negotiations that relies primarily on British documents, see Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: Macmillan, 1978).

ity would be ensured by the abolition of exchange controls and restrictions. Disagreement could be found on the role of gold and other mechanisms for establishing stability in exchange relations, but currency exchange adjustments, when necessary to correct payments imbalances, were to be subject to international agreement. Behind the thinking of these specialists was the view that monetary arrangements must seek to avoid the political and economic instability of the interwar period. "In the interval between the wars," Keynes argued in an early draft of his monetary proposals, "the world explored in rapid succession almost, as it were, in an intensive laboratory experiment all the alternative false approaches to the solution."¹⁷ The painful adjustments of the gold standard ruled out policy ideas of this sort. The currency fluctuations, exchange controls, and discriminatory policies of the 1930s also discredited ideas associated with floating exchange rates.¹⁸

Second, the British and American experts agreed that an international stabilization fund should be established to assist governments on a short-term basis and allow them to pursue multilateral and expansionary solutions to capital and trade imbalances.¹⁹ As discussed below, while the experts disagreed over how generous this fund should be and over the obligations of creditor and deficit nations, these disagreements emerged more from divergent domestic circumstances than from divergent professional judgments.

Third, and most generally, the Anglo-American experts, some of whom were inspired by Keynes's pioneering work, agreed that new techniques of international economic management should be devised to reconcile the movement of capital and trade with policies that promote stable and full employment economies. Thus, although these experts generally favored an open world economy, it was also to be a managed world economy with new levels of international supervision of national monetary and trade policies. In this sense, the views of the experts differed from those of the State Department, which favored free trade. This difference was articulated by White in 1942: "The theoretical basis for the belief still so widely held, that interference with trade and with capital and gold movements, etc., are harmful, are hangovers from a nineteenth century creed, which held that international economic adjustments, if left alone, would work themselves out toward an 'equilibrium' with a minimum of harm to world trade and prosperity. It is doubtful whether that belief was ever sound."²⁰

In short, rather than agreeing with Cordell Hull and the State Department, the experts agreed with White that international investment, capital movements,

17. John Maynard Keynes, "Post-War Currency Policy," in *The Collected Writings of John Maynard Keynes* (London: Cambridge University Press, 1980), vol. 25, p. 22.

18. Odell, "From London to Bretton Woods," p. 299.

19. Eckes, *A Search for Solvency*.

20. Harry Dexter White, March 1942 draft of the White plan, Mudd Library, Princeton University, Princeton, N.J.

exchange rate parities, and commodity prices were all potentially legitimate means for solving economic problems. An important purpose of the international stabilization fund and the other proposed postwar institutions was to separate legitimate from illegitimate economic practices.²¹

These views shared by British and American specialists reflected changing economic thinking, largely stimulated by the turmoil of the 1930s. But they also reflected a broader confluence of intellectual and political thought. The Keynesian policy revolution was still spreading in British and American policy circles, but its political consequences had already taken hold: politicians and government officials, equipped with modern tools of economic policy, were increasingly capable of managing national economies. As a consequence, they would need to attend, more than ever before, to policies that promoted full employment and social welfare—a responsibility formally accepted by the British government in May 1944 with the publication of the White Paper on Employment Policy.²² Although innovations in economic and social policy allowed politicians to promise more to the electorate, the politicians encountered problems in delivering the socioeconomic goods.²³ The new socioeconomic goals of government were at odds with the deflationary discipline of the gold standard: contraction and unemployment were not a satisfactory solution for deficit nations. “Even if this policy [of gold standard discipline] had its advantages,” Keynes wrote in 1944, “it is surely obviously out of the question and might easily mean the downfall of our present system of democratic government.”²⁴

The ideas of British and American monetary planners also resonated with the revival of American internationalism in the late 1930s, a process that involved the slow reorientation of American foreign policy. One benchmark of the earlier thinking came in the first year of Franklin Roosevelt’s presidency. During the London economic conference of 1933, when Roosevelt declared that the “sound internal economic system of a nation is a greater factor in its well-being than the price of its currency,” the message was that the United States would take little responsibility for developments within the world economy.²⁵ By the time the United States joined the war, official thinking had changed, and Roosevelt advanced the claim at the Bretton Woods conference in 1944 that “the economic health of every country is a proper matter of

21. *Ibid.*

22. See William H. Beveridge, *Full Employment in a Free Society* (London: Allen & Unwin, 1944).

23. See Robert Skidelsky, “The Political Meaning of the Keynesian Revolution,” in Robert Skidelsky, ed., *The End of the Keynesian Era: Essays on the Disintegration of the Keynesian Political Economy* (London: Macmillan, 1977), pp. 33–40.

24. Keynes, “Memo to Sir Wilfred Eady and Richard Hopkins, 28 March 1944,” in *The Collected Writings of John Maynard Keynes*, vol. 27, pp. 373–74.

25. Franklin Roosevelt, cited by Charles Kindleberger in *The World in Depression, 1929–1939*, rev. ed. (Berkeley: University of California Press, 1986), p. 216.

concern to all its neighbors, near and distant.”²⁶ The change in Roosevelt’s views reflected the renewal of internationalist thinking in American foreign economic policy.

The rise of Keynesianism and American internationalism, still under way as Anglo-American postwar planning began, provided a stimulus to that planning as well as a ready audience. As Jacob Viner, a leading American economist and postwar planner, stressed in 1942, the views held at this time contrasted sharply with those held after World War I: “There is wide agreement today that major depressions, mass unemployment, are social evils, and that it is the obligation of governments . . . to prevent them.” Moreover, there is “wide agreement that it is extraordinarily difficult, if not outright impossible, for any country to cope alone with the problems of cyclical booms and depressions, . . . while there is good prospect that with international cooperation . . . the problem of the business cycle and of mass unemployment can be largely solved.”²⁷ A remarkable sense of economic possibility and social purpose infused the thinking of Viner and the other American and British planners.

In the mid-1930s, under the leadership of Morgenthau, a group of international economists had been assembled within the Treasury Department to work on exchange rate stabilization. Viner and White had been leading members of this group,²⁸ and their early efforts had culminated in the 1936 Tripartite Stabilization Agreement, which established at least the principle of international monetary cooperation.²⁹ By 1941, White had risen in the Treasury Department to take overall responsibility for foreign economic policy. Soon thereafter, in December 1941, Morgenthau directed White to prepare a memorandum on the establishment of an inter-Allied stabilization fund—a fund that would “provide the basis for postwar international monetary arrangements.”³⁰

Although the origins of the proposals contained in the plan prepared by White are unclear, the ideas were ones generally shared by many of White’s professional and departmental colleagues. In the late 1930s, newly trained economists, mostly from Harvard University and embracing Keynesian ideas, had begun to find places in the U.S. government.³¹ The process of recruitment had been set in motion by several key officials in the Roosevelt administration,

26. Roosevelt, “Opening Message to the Bretton Woods Conference, 1 July 1944,” in U.S. Department of State, *Proceedings and Documents of United Nations Monetary and Financial Conference* (Washington, D.C.: Government Printing Office, 1948), vol. 1, p. 71.

27. Jacob Viner, “Objectives of Post-War International Economic Reconstruction,” in William McKee and Louis J. Wiesen, eds., *American Economic Objectives* (New Wilmington, Penn.: The Economic and Business Foundation, 1942), p. 168.

28. David Rees, *Harry Dexter White: A Study in Paradox* (New York: Coward, McCann & Geoghegan, 1973), p. 62.

29. John Morton Blum, *From the Morgenthau Diaries: Years of Crisis, 1928–1938* (Boston: Houghton Mifflin, 1959), pp. 131–34.

30. John Morton Blum, *From the Morgenthau Diaries: Years of War, 1941–1945* (Boston: Houghton Mifflin, 1967), pp. 228–29.

31. John Kenneth Galbraith, “How Keynes Came to America,” in Andrea D. Williams, ed., *Economics, Peace and Laughter* (Boston: Houghton Mifflin, 1971), pp. 43–59.

including Marriner Eccles, who was chairman of the Federal Reserve Bank, and Lauchlin Currie, a Harvard economist whom Eccles had attracted to the Federal Reserve. Currie, in turn, had become an important conduit for the recruitment of Keynesian economists into the federal bureaucracy.³² By the start of the war, Keynesians had come to occupy positions in the Bureau of the Budget, the Commerce Department, and the Treasury Department. During the war, they also assumed positions at the Office of Price Administration and on the National Resources Planning Board, which was also involved in postwar planning.³³ Although Morgenthau was not a Keynesian, other key posts within the Treasury Department came to be occupied by those who were.³⁴ When the department's work on postwar monetary proposals began, the experts surrounding White shared his basic views concerning the need for far-reaching and innovative economic proposals. After the White plan was drafted, interdepartmental technical discussions, primarily involving economists and lawyers (rather than business executives and bankers), provided a vehicle for expert deliberations within the government.³⁵

This community of experts extended outside of government as well. Most of the important ideas that found their way into the White proposal were also discussed during the war at a series of expert planning sessions sponsored by the Council on Foreign Relations and attended by members of the Economic and Financial Group. This group, working under the auspices of the Council's War and Peace Studies Project and led by Alvin Hansen and Jacob Viner, provided an extraordinary vehicle for the concentration of expertise and planning.³⁶ The Economic and Financial Group also provided an important forum for discussions with British economists after monetary planning got under way in 1941.³⁷

32. See Walter S. Salant, "The Spread of Keynesian Doctrines and Practice in the United States," in Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton, N.J.: Princeton University Press, 1989), p. 40. See also Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969); Alan Sweezy, "The Keynesians and Government Policy, 1933–1939," *American Economic Review* 62 (May 1972), pp. 116–24; and Dean L. May, *From New Deal to New Economics: The American Liberal Response to the Recession of 1937* (New York: Garland Publishing, 1981).

33. See Margaret Weir, "Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States," in Hall, *The Political Power of Economic Ideas*, p. 56. See also Marion Clawson, *New Deal Planning: The National Resources Planning Board* (Baltimore, Md.: Johns Hopkins University Press, 1981).

34. Fred Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977), p. 39.

35. Eckes, *A Search for Solvency*, p. 60.

36. Domhoff argues that the Bretton Woods proposals had their origin in the deliberations of the Council's War and Peace Studies Project and the Economic and Financial Group. See G. William Domhoff, *The Power Elite and the State* (New York: Aldine De Gruyter, 1990), chap. 6. For an earlier argument along these lines, see Laurence H. Shoup, "Shaping the Postwar World: The Council on Foreign Relations and United States War Aims During World War II," *The Insurgent Sociologist* 5 (Spring 1975), pp. 9–52.

37. Interview with William Diebold, Jr., New York, 14 August 1990. Diebold was research secretary for the Economic and Financial Group in 1941 and 1942.

Most of the experts who worked on postwar monetary planning, whether inside or outside of the Treasury Department, were associated in one way or another with the Economic and Financial Group. Viner played a key role in developing the rationale for the White plan, and Hansen, a leading Keynesian economist, was involved in revising the proposals.³⁸ The group also commissioned its own studies dealing with various dimensions of postwar reconstruction and international economic relations. In both the specific ideas related to monetary stabilization and the broader discussions of postwar economic reconstruction, the planners elaborated a vision of British and American cooperation.

The British community of economic experts concerned with postwar monetary planning was overshadowed by Keynes.³⁹ After World War I, Keynes had written a well known polemic, *The Economic Consequences of the Peace*, which harshly criticized the terms of the postwar settlement and forecast destructive trade and monetary policies and the eventual collapse of the European economy.⁴⁰ Two decades later, the prophetic nature of Keynes's views, along with the success of his own pioneering theory, left Keynes in a commanding position to influence British postwar policy. During the war, Keynes was given an office at the Treasury to work on wartime economic administration and financial negotiations.⁴¹ As postwar planning began, other economists of a Keynesian persuasion, such as Lionel Robbins and James Meade, were actively involved in the deliberations.⁴²

The British officials involved in planning, like the American economists in the Treasury Department, believed that currency stability must be anchored in international agreement. "Exchange depreciation," Keynes wrote to Viner in 1943, "is nothing like as fashionable as it use to be, and experience has taught many countries what a futile expedient it is except in quite special circumstances."⁴³ Yet the single most striking lesson that the British economists working on postwar monetary arrangements had learned was that currency exchange commitments must not undermine expansionary domestic policies. British economists (and many politicians as well) had by the mid-1930s come to believe that the return to the gold standard in 1925 had brought economic

38. See Domhoff, *The Power Elite and the State*, chap. 6.

39. See Hans Singer, "The Vision of Keynes: The Bretton Woods Institutions," in Erik Jensen and Thomas Fisher, eds., *The United Kingdom and the United Nations* (London: Macmillan, 1990), pp. 235–45.

40. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace, & Howe, 1920).

41. As discussed later in my article, however, Keynes's first negotiations with the American government during the war dealt with lend-lease and postwar trade relations.

42. See Weir, "Ideas and Politics," p. 55. See also Richard Gardner, "The Political Setting," in A. L. K. Acheson, J. F. Chant, and M. F. J. Prachowny, eds., *Bretton Woods Revisited* (Toronto: University of Toronto Press, 1972), p. 24; and Susan Howson and Donald Moggridge, eds., *The Wartime Diaries of Lionel Robbins and James Meade, 1943–45* (London: Macmillan, 1990).

43. Keynes, "Letter to Jacob Viner, 9 June 1943," in *The Collected Writings of John Maynard Keynes*, vol. 25, p. 323.

misery to the domestic economy and that the departure from this standard in 1931 had been associated with recovery.⁴⁴ The overriding view of the British economists in government during the war was that social welfare and economic management must dictate postwar international economic plans, rather than the other way around.

While planning experts formed independent communities in Britain and the United States, they also were connected as a transnational community. Interaction between British and American experts had several dimensions. First, White and Keynes and their associates were involved in official discussions held between 1942 and the Bretton Woods conference. Many of these discussions were technical in nature and took place after the British and American plans had been drafted.⁴⁵ The expert-oriented nature of the talks was anticipated by White in a July 1942 discussion with a British official who later related White's thoughts to Keynes:

White talked at length but not very clearly on the necessity of getting agreement between experts on the objectives of Article VII before trying to bring in policy-makers. *If agreement could be reached between experts he would be fairly optimistic on the possibility of influencing the respective administrations*, but he was not so optimistic about the possibility of influencing Congress, although in this respect the chances would be better during the war than after it. At the expert level White thought that there should be no need to bargain because the long-term interests of the major countries are the same. He himself would hold no cards below the table and would hope that other experts would be in the same position. The long-term interest of each country lies in multilateralism.⁴⁶

This captures White's views on the primacy of expert discussions, the common perspectives that these experts shared, and their role in shaping the views of the British and American governments.

Second, there were many informal discussions among the relevant British and American economists, several of which took place under the auspices of the Council's Economic and Financial Group. In these and other settings, it appears that Viner and Hansen played a vital role in facilitating cooperation. Viner was a close friend of Lionel Robbins, a British economist who was an associate of Keynes and was also involved in postwar planning.⁴⁷ Hansen made an important visit to Britain in the autumn of 1941, presenting proposals for Anglo-American economic cooperation that differed markedly from those

44. See Stephen Clarke, "The Influence of Economists on the Tripartite Agreement of September 1936," *European Economic Review* 10 (December 1977), pp. 375–89. See also Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), pp. 49–50.

45. See Eckes, *A Search for Solvency*, chap. 4.

46. Cable from the British Embassy, Washington, D.C., to Keynes, 3 July 1942, T247/11, Public Records Office, London; emphasis added.

47. Interview with Diebold, New York, 14 August 1990.

being advanced by the State Department.⁴⁸ The discussions between British economists and members of the Economic and Financial Group, which were carried out in 1941 and 1942, provided useful communication between planners. In discussing British thinking on postwar economic problems, one member of the Economic and Financial Group noted in July 1942 that “economists in England are discussing things very similar to those which have formed the agenda of the Economic and Financial Group, and for the most part look toward similar solutions.”⁴⁹

There were monetary specialists who were not part of the expert community. American bankers, for example, were supportive of more traditional plans than those being fashioned in the American and British Treasury Departments. One of their proposals was for ad hoc stabilization agreements tied to gold, while another proposal, advanced by Professor John Williams, involved what amounted to an extension of the 1936 Tripartite Stabilization Agreement.⁵⁰ Regardless of their technical merit, specialists wielding proposals of this sort tended to be vulnerable within the Roosevelt administration, whose New Dealers were distrustful of the conservative banking community. It is revealing that these more conventional policy specialists were not part of the loop. Morgenthau’s recruits to the Treasury Department were not just specialists; they were specialists with a New Deal planning orientation. Morgenthau did not like Keynesian fiscal thinking, but he had an even stronger dislike for the banking community. These considerations helped shape the character of the experts who were positioned close to the centers of policymaking within the Roosevelt administration.⁵¹

Unlike an epistemic community, the community of British and American economic planners that emerged during the war did not really stand alone outside of government. The efforts of government officials in Britain and the United States to get postwar planning started helped stimulate the thinking and give organizational form to the experts. The colonizing of parts of the British and American bureaucracies by Keynesian economists also strengthened the sense of community among these experts. Many of the views that the Anglo-American experts held, particularly those concerning past monetary experience, were also shared by a larger international community of economists and policymakers.⁵² As discussed below, there were some differences of

48. See R. F. Harrod, *The Life of John Maynard Keynes*, pp. 527–28.

49. Minutes of the Thirty-Second Meeting of the Economic and Financial Group, 13 July 1942, p. 8, Council on Foreign Relations, New York.

50. For unofficial proposals, see J. Keith Horsefield, *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation* (Washington, D.C.: International Monetary Fund, 1969), vol. 1, pp. 16–18.

51. Interview with Diebold, New York, 14 August 1990. According to Diebold, John Williams was initially involved in the discussions of the Economic and Financial Group at the Council on Foreign Relations, but, perhaps reflecting his absence of agreement with the “new thinking,” he soon dropped out.

52. See League of Nations, *International Currency Experience* (New York: League of Nations, 1944).

view among the British and American monetary planners, but these differences did not always cut along national lines. On the basic issues of postwar monetary order, the community of economic planners shared a core set of beliefs.

Situating the role of expert consensus

To locate a role for the community of experts that guided British and American negotiations during the war, it is important to appreciate the wide-ranging and frequently antithetical views on postwar order that spilled across the British and American political establishments. In the United States, the views ranged from those of the State Department, which favored the free flow of trade and capital, to those of the group of New Deal planners, which favored expanded government management of the economy. Lurking behind American wartime debates was a domestically minded and tightfisted Congress. In Britain, where the virtues of a liberal multilateral system were less apparent, the splits were even more profound. Conservatives were reluctant to abandon the imperial preference system, and many on the left saw an open economy to be a dangerous threat to economic planning and social welfare policies. Situated between these groups were the economic advisers to the wartime government. Although the advisers were not eager to return to bilateral trade and the preference system, they thought that such an option might be necessary to protect Britain's postwar payments balance and, in any event, might be used to extract concessions from the United States. In short, pursuing this option might make the United States agree to a more forgiving and expansionary system, which was precisely the "new thinking" that Keynes and his American counterparts were seeking to develop.

Before we examine these competing views and the initial deadlock in negotiations that they produced, it is important to establish a point made earlier: the underlying structures of power and interests set the broad parameters around which an agreement could be built, but they were not imperatives that inevitably produced the agreement.

The United States did have a basic and increasingly robust interest in an open system, and key American economic and political elites recognized this fact. In the 1930s, with the apparent collapse of the international economy and the emergence of German and Japanese regional economic blocs, American policymakers and intellectuals debated the plausibility of regional alternatives to an open world economy. Doctrines of this sort were long associated with German geopolitical thinkers such as Friedrich List and Friedrich Ratzel and were more recently associated with Karl Haushofer.⁵³ In the United States, as

53. See Andreas Dorpalan, ed., *The World of General Haushofer: Geopolitics in Action* (New York: Farrar & Rinehart, 1942). In particular, see the discussion of Gunther Scholders and Walter Vogel's *Economics and Space* in the Dorpalan volume.

in Germany, the question concerned the size of an area that a nation would need to encompass or have access to in order to ensure industrial strength and meet the resource requirements for economic and military viability.⁵⁴ This question grew in importance in the early 1940s as political elites debated whether the United States should get involved in the war. Could the United States remain a going concern within a Western hemispheric bloc? The academic culmination of this debate came with the work of Nicholas Spykman, who articulated what was to become the conventional wisdom: a hemispheric bloc would not be sufficient to protect American economic and geopolitical interests.⁵⁵ Military planners in the War and Navy Departments during the war also began to conceive of postwar American strategic interests in global terms.⁵⁶ In 1941, similar views emerged among economic and political experts involved in the Council on Foreign Relations discussions concerning the nature of the Grand Area—that is, the core regions on which the United States depended for its economic viability.⁵⁷ The attack on Pearl Harbor only strengthened the evolving view that the United States would need to work with Britain to reintegrate as much of the world economy as possible. Moreover, in the two decades between the world wars, the internationally oriented sectors of the American economy had expanded considerably, increasing the nation's stakes in a wider capitalist world order.⁵⁸ These economic and national security debates and underlying economic shifts all pointed in the same direction and reinforced liberal international thinking among political elites.⁵⁹

The underlying British interests are more difficult to specify. Fred Block argues that British participation in an American-sponsored system was not inevitable. According to Block, “national capitalism” was the central alternative to liberal multilateralism: “There is good reason to believe that after the war, there might have been substantial experiments with national capitalism among the developed capitalist countries.” Nevertheless, he continues, this idea was not pursued, since “it became a central aim of United States foreign policy to prevent the emergence of national capitalist experiments and to gain widespread cooperation in the restoration of an open world economy.”⁶⁰

54. Brooks Emeny, *The Strategy of Raw Materials* (New York: Macmillan, 1934).

55. Nicholas John Spykman, *America's Strategy in the World: The United States and the Balance of Power* (New York: Harcourt, Brace, 1942).

56. See Melvyn P. Leffler, “The American Conception of National Security and the Beginning of the Cold War, 1945–48,” *American Historical Review* 89 (April 1984), pp. 346–81.

57. See Council on Foreign Relations, “Methods of Economic Collaboration: The Role of the Grand Area in American Economic Policy,” in *Studies of American Interests in the War and Peace*, 24 July 1941, E-B34, Council on Foreign Relations, New York.

58. See Jeff Frieden, “Sectoral Conflict and U.S. Foreign Economic Policy, 1914–1940,” *International Organization* 42 (Winter 1988), pp. 59–90.

59. For a recent discussion of American international liberalism during this period, see Thomas J. McCormick, *America's Half-Century: United States Foreign Policy in the Cold War* (Baltimore, Md.: Johns Hopkins University Press, 1989), chap. 2.

60. Block, *The Origins of International Economic Disorder*, p. 9.

This view is invoked by those who argue that Britain and other European nations had political values and economic interests which might have led to alternative postwar arrangements if not for the hegemonic power of the United States. There remains an historical dispute on this matter, but the strong version of the argument, which states that Britain could have remained within its Commonwealth and imperial system, is probably incorrect.⁶¹ On the one hand, it is true that the United States did confront considerable resistance to liberal multilateralism in Europe.⁶² Indeed, reservations about a liberal economic order were part of the broader differences between the United States and the European countries over such matters as empire, spheres of influence, and regionalism.⁶³ On the other hand, it is less clear that the European countries had viable alternatives to participation in an American-sponsored system. For example, it would have been extremely difficult and costly for the British to have constructed an alternative system organized around bilateral trade and the imperial preference system, as the British Foreign Office admitted in a memorandum written in 1942: "Any attempt by the United Kingdom to make the British Empire a closed trading area, economically self-sufficient, will be stoutly opposed by the Dominions, if not also by India. Those countries are reaching economic and political maturity at the precise moment at which it is becoming clear to them that the United Kingdom has not the strength to defend them under modern conditions. It is in the highest degree unlikely that they will consent for long to be held within the narrow limits of an Empire trading and political order."⁶⁴

British political elites were of divided opinion, but they had little choice but to cooperate with the United States. For those British officials who held this view, their tasks were to use what intellectual and political capacities that Britain had to shape the agreement in ways that served their socioeconomic goals and to find ways to secure that agreement within a conflictual and fragmented political landscape.

Underlying structures of power and interest provide enough information to explain the fact that the postwar system was more or less open. But this information is not enough to explain the character of that open system. Nor is it enough to explain, even if we agree that Britain and the United States had

61. See the contrasting views of Skidelsky and Rowland in Benjamin Rowland's *Balance of Power or Hegemony: The Interwar Monetary System* (New York: New York University Press, 1976).

62. See David Watt, "Perceptions of the United States in Europe, 1945–83," in Lawrence Freedman, ed., *The Troubled Alliance: Atlantic Relations in the 1980s* (New York: St. Martin's Press, 1983), pp. 28–43.

63. This is a theme of Charles Maier in "The Two Postwar Eras and the Conditions of Stability in Twentieth-Century Western Europe." On the British case, see William Roger Louis, *Imperialism at Bay: The United States and the Decolonialization of the British Empire, 1941–45* (New York: Oxford University Press, 1978).

64. British Foreign Office, "Cooperation Between Great Britain and the United States," memorandum, 1942, F0371/30685, Public Records Office, London.

common “objective” interests in a liberal multilateral system, how the many conflicting political positions were reconciled in reaching an agreement. It is useful to sketch these conflicting positions within and between the British and American governments and then trace the evolution of agreement between Keynes and the American negotiators.

Competing Anglo-American plans for postwar order

Economic and foreign policy elites in both countries ranged widely in their views about postwar economic order. The crucial antagonists in the debates were American officials, mostly in the State Department, who were intent on constructing an open and nondiscriminatory trading system, and British government officials, who for reasons of political expediency and economic vulnerability resisted the abandonment of the imperial preference system and the sterling bloc. The debates during the war were really a continuation of controversies that had emerged in the 1930s when the British government experimented with imperial trade and currency blocs and other governments experimented with regional blocs.⁶⁵

Within the Roosevelt administration, the most vocal advocates of a system of free trade and multilateralism came from the State Department, led by Secretary Cordell Hull and his assistant, Leo Pasvolosky, and from the Division of Commercial Policy and Trade Agreements, headed by Harry Hawkins.⁶⁶ Throughout the Roosevelt presidency, Hull and other State Department officials consistently held the conviction that an open international trading system was central to American economic and security interests and was also fundamental to the maintenance of peace. This conviction was well anchored in American history and was given expression in the Atlantic Charter, signed by Roosevelt and Churchill during the war. The consistency of the State Department position could also be found in its ongoing opposition to the British imperial preference system. The 1932 Ottawa agreements, according to Hull, represented “the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life.”⁶⁷ Hull believed that the bilateralism and economic blocs of the 1930s, practiced not only by Britain but also by Germany and Japan, were a root cause of the instability of the

65. Regarding this dispute in the 1930s, Rowland notes that “whether the blocs were a good in themselves, an unqualified ‘bad,’ or only a useful expedient on the way to recovery were questions on which there was little agreement either within the leading countries or among them.” See Benjamin Rowland, “Preparing the American Ascendancy: The Transfer of Economic Power from Britain to the United States, 1933–1944,” in Rowland, *Balance of Power or Hegemony*, p. 200.

66. Penrose, *Economic Planning for the Peace* (Princeton, N.J.: Princeton University Press, 1953), p. 15.

67. Cordell Hull, cited by Van Dormael in *Bretton Woods: Birth of a Monetary System*, p. 25.

period and the onset of war.⁶⁸ Charged with responsibility for commercial policy, the State Department championed tariff reduction agreements, most prominently in the 1934 Reciprocal Trade Agreement Act and the 1938 U.S.–British trade agreement.⁶⁹

Another camp within the Roosevelt administration was composed of economic planners and New Dealers, including Harry Hopkins, Vice President Henry Wallace, and numerous Keynesian economists within the National Resources Planning Board. The officials in this group were interested in an expanded government role in managing the economy to promote full employment and social welfare. As Block argues, they had little sympathy with the State Department's multilateral vision: "They favored a world system made up of national capitalisms because of the priority they gave to the pursuit of full employment. They believed that the maintenance of high levels of employment and the development of national planning throughout the world should take precedence over the opening of economies to the free flow of investment and trade."⁷⁰ At the same time, these officials were not isolationists.⁷¹ They favored international arrangements to foster expansionary domestic economic policies and institutions to channel capital to underdeveloped areas.⁷²

In October 1942, the British ambassador to the United States summarized the ideas of the competing camps in the Roosevelt administration as follows:

Two kinds of general economic frameworks have been outlined by Administration with respect to international post war organization, one more clearly and persistently by the Hull group, other more vaguely and sporadically by

68. See Robert A. Pollard, *Economic Security and the Origins of the Cold War, 1945–1950* (New York: Columbia University Press, 1985), pp. 11–12.

69. Herbert Feis, the State Department's economic adviser, noted the continuity of the department's position when he argued during the war that "the extension of the Open Door remains a sound American aim." See Herbert Feis, "Economics and Peace," *Foreign Policy Reports* 30 (April 1944), pp. 14–19; cited by Lloyd Gardner in *Economic Aspects of New Deal Diplomacy* (Madison: University of Wisconsin Press, 1964), p. 263.

70. Block, *The Origins of International Economic Disorder*, pp. 36–37.

71. In *ibid.*, p. 32, Block argues that the Treasury Department planners were "national capitalist" in orientation and favored increased government planning and social spending, while the State Department planners were "business internationalists" and favored unfettered free trade and an open world economy. According to Block, "It is one of the stranger ironies of international monetary history" that the Treasury Department planners began with national capitalist assumptions but ended up with plans that supported the business internationalists. I do not think this view can be sustained. Although White and his colleagues had a disdain for nineteenth-century laissez-faire ideas, the "new thinking" that they and Keynes were developing was clearly seen as an attempt to construct an open world economy, one that was built around a more sophisticated set of policies and institutions. The British and American architects of the Bretton Woods agreement were either allied or unalloyed internationalists. See Gardner, *Sterling-Dollar Diplomacy*, p. 15; and Eckes, *A Search for Solvency*, p. 4.

72. On the limits of the redistribution and expansionary dimensions of the Bretton Woods agreement, see Craig Murphy, *The Emergence of the NIEO Ideology* (Boulder, Colo.: Westview Press, 1984), chap. 1.

Vice-President and Milo Perkins group. . . . Cleavage on economic side is counterpart of well-known division between planners and their opponents in domestic affairs. Hull group believe that positive measures of Government control or guidance internally do not necessarily involve planning on grandiose scale advocated by planners nor do they believe that grandiose planning at home or internationally is necessary to attain a large measure of international collaboration. . . . This difference in outlook on planning will persist and will produce clashes on specific proposals in international sphere.⁷³

These differences were perhaps understandable. Roosevelt's New Deal lacked an ideological core and consisted instead of a mixture of policy orientations.⁷⁴ It was also Roosevelt's management style to encourage bureaucratic and individual competition. The result, as characterized by Charles Maier, was a "stalemate of forces."⁷⁵ As described below, the split was eventually resolved when the sequence of negotiations was altered. After the Treasury Department group succeeded in reaching an agreement with the British on postwar monetary arrangements, the State Department group found its nineteenth-century style trade proposals essentially incompatible with these agreements.

Before World War II, British attitudes toward the imperial preference system split largely along party lines.⁷⁶ The core of the Conservative party favored the maintenance of empire and the continuation of the Ottawa preference system. As Ernest Penrose argues, they "valued the system of preferential duties on Empire goods as a force making for solidarity within the British Commonwealth of Nations."⁷⁷ The individuals in this group stressed the importance of Commonwealth ties and viewed them as a symbol of Britain's great power status. With respect to dismantling the preference system, Roy Harrod notes that "some resented the idea mainly on sentimental grounds that we should be asked to abrogate this valuable symbol of Commonwealth and Empire unity."⁷⁸ Moreover, it was the Commonwealth nations, such as Canada, Australia, and New Zealand, that had risen in support of a beleaguered Britain during the war. While the conservatives tended to identify British interests with

73. Memorandum from Ambassador Halifax to the British Foreign Office, 20 October 1942, F0371/31512, Public Records Office, London.

74. See Alan Brinkley, "The New Deal and the Idea of the State," in Steve Fraser and Gary Gerstle, eds., *The Rise and Fall of the New Deal Order* (Princeton, N.J.: Princeton University Press, 1989), pp. 85–112.

75. Charles Maier, "The Politics of Productivity," in Peter J. Katzenstein, ed., *Between Power and Plenty: The Foreign Economic Policies of Advanced Industrial States* (Ithaca, N.Y.: Cornell University Press, 1978), p. 28.

76. On the general schools of thought among British foreign policy elites, see D. Cameron Watt, *Succeeding John Bull: America in Britain's Place, 1900–1975* (Cambridge: Cambridge University Press, 1984), pp. 16–17.

77. Penrose, *Economic Planning for the Peace*, p. 19.

78. Harrod, *The Life of John Maynard Keynes*, p. 515.

those of the Commonwealth,⁷⁹ Churchill and his followers were sympathetic with the free trade position. According to Penrose, although Churchill “acquiesced in a certain degree of protectionism as a *fait accompli*, he still thought there was a general presumption on the side of free trade and felt no enthusiasm for the system of Empire preferences adopted at Ottawa.”⁸⁰ His major consideration was to protect the unity of his ruling coalition and to push on with the war.

The forces of support and opposition to the imperial preference system began to change during the war. The deterioration of the country’s economic position made the preference system more attractive to some British officials who otherwise would not support discriminatory trade practices.⁸¹ These officials believed that the preference system might be a way to protect Britain’s payments balance after the war, at least in the short term, particularly if the international economy fell into recession. They realized that turning away from multilateral trade and payments would mean relying on trade restrictions and currency controls. While this would split the world into blocs, the bloc system would insulate Britain from low-cost foreign competition and the deflationary effects of an American recession.⁸² Alfred Eckes offered the following characterization of the coalition that favored this option: “In Britain an unlikely coalition of socialists and conservative imperialists favored this alternative—the socialists to achieve full employment and domestic reform, the imperialists to preserve traditional ties with the Commonwealth. But although these interests were articulate and enjoyed some support in the cabinet, where Churchill and Beaverbrook attached considerable importance to preserving the empire, the rigid restrictionist view had little appeal among official economists.”⁸³

Other British officials were more skeptical of bilateral trade and the preference system, even as a fallback option, but they saw threatening recourse to that option as a way of gaining bargaining leverage with the United States.⁸⁴

79. See Penrose, *Economic Planning for the Peace*, p. 20. In discussing the views of the conservatives, Penrose states that “perhaps their most active and uncompromising member was Leopold Amery, who had great energy, high integrity, and keen political insight, but little facility in economic reasoning.”

80. *Ibid.*, p. 20.

81. *Ibid.*, p. 14.

82. For a discussion of the relationship between British domestic economic problems (particularly those concerning employment) and an open international economic order, see Allan G. B. Fisher, *International Implications of Full Employment in Great Britain* (London: Royal Institute of International Affairs, 1946). Fisher also surveys various positions on multilateralism and its alternatives.

83. Eckes, *A Search for Solvency*, pp. 64–65.

84. According to Harrod, these officials believed that Britain “could not afford to abandon any device that might assist her to retain or enlarge her export trade. Such motives were honourable and not fundamentally inconsistent with what the State Department had in mind. Most of those who held such opinions would not have deemed it a wise long-run policy to push the system of

While they believed that the only real option was to cooperate with the United States, they wanted to do so in a manner that would allow Britain to achieve its economic objectives.⁸⁵

In short, there were striking divisions between and within the British and the American governments. In Washington, the State Department articulated a remarkably unadorned vision of nineteenth-century free trade. In London, the wartime government, worried about the stability of its political coalition and the fragility of its impending postwar economic position, entertained notions of regional and managed economic arrangements. These differences became apparent in the earliest discussions of postwar order.

From trade stalemate to monetary agreement

The first exchanges on postwar economic questions between the United States and Britain were triggered in the summer of 1941 during negotiations over a lend-lease agreement. State Department officials wanted to use the occasion to secure a promise that the British would open up the imperial preference system. British officials resisted and sought to tie the dismantling of discriminatory practices to a larger program of postwar reconstruction that ensured economic expansion and employment stability. The principles and mechanisms of the larger program, however, remained obscure.

Discussions began in the summer of 1941 when Keynes, who had been appointed as adviser to the Chancellor of the Exchequer, arrived in Washington to negotiate the terms of the lend-lease agreement. But the visit only underscored the differences in official British and American thinking.⁸⁶ Disagreement centered on the proposed terms of Article VII, which set forth the framework for postwar settlement of mutual aid obligations. The article

Imperial Preference further and build a self-supporting British Empire *bloc*." See Harrod, *The Life of John Maynard Keynes*, p. 515.

85. This was the position of most officials at the British Foreign Office and the Treasury. See the Foreign Office report, "Note on Post-War Anglo-American Economic Relations," 15 October 1941, F0371/28907, Public Records Office, London.

86. Keynes's initial thoughts on postwar policy were prompted by an invitation from the Ministry of Information to draft a response to the German propaganda campaign and its proposal for a "New Order." In the draft statement, Keynes argued that the British too could provide a new order in Europe, based on sterling and the larger resources of the Commonwealth and empire. Britain, Keynes argued, would not return to the prewar gold standard and the policies that produced severe unemployment and other dislocations. The Keynes memorandum stressed national measures to ensure employment and social welfare, and although it spoke of the need to restore European trade, there remained the implication that the British preference system would continue. The draft statement, sent by the British government in advance of the Keynes visit, showed a very different orientation than that which was emerging in the State Department. For the text of the statement, see *The Collected Writings of John Maynard Keynes*, vol. 25, pp. 11–16. See also Harrod, *The Life of John Maynard Keynes*, pp. 503–4; and Gardner, *Economic Aspects of New Deal Diplomacy*, p. 276. As Gardner notes, "American leaders were not quite sure how to take these ideas; to most of them Keynes's memorandum meant socialism if not something worse."

provided that, in meeting these lend-lease obligations, no conditions should be laid down to obstruct commerce and that measures should be taken to reduce trade barriers and eliminate preferential duties. In a meeting at the State Department, Keynes asked if this provision “raised the question of imperial preferences and exchange and other trade controls in the post-war period.”⁸⁷ Assistant Secretary Dean Acheson acknowledged that it did, although it was not meant to impose unilateral obligations on Britain. According to Acheson, Keynes strongly objected to this provision: “He said that he did not see how the British could make such a commitment in good faith; that it would require an imperial conference and that it saddled upon the future an ironclad formula from the Nineteenth Century. He said that it contemplated the impossible and hopeless task of returning to a gold standard where international trade was controlled by mechanical monetary devices and which had proved completely futile.”⁸⁸ Keynes argued that to maintain economies in balance without great excesses of imports or exports, countries in the postwar period would need exchange controls, precisely the types of measures that seemed to be prohibited by Article VII.⁸⁹

The disagreement was clear and seemingly fundamental, and Keynes left Washington without conceding to the State Department position on Article VII. The economic planners at the State Department, however, were quite determined. During the Atlantic conference in 1941, Sumner Welles raised the issue of imperial preferences with Alexander Cadogan, a member of the British delegation. Welles told Cadogan that he “had unfortunately received the impression that Professor Keynes represented at least some segment of British public opinion which was directing its energies toward the resumption or continuation by Great Britain after the war of exactly the kind of system which had proved so fatal during the past generation.”⁹⁰ The Atlantic conference merely papered over rather than resolved the conflict.

The difficulty of Anglo-American negotiations over Article VII led some British officials to reconsider the virtues of bilateral bargaining and imperial preferences. Leading economists in the British government voiced reservations

87. “Memorandum of Conversation, by the Assistant Secretary of State (Acheson),” 28 July 1941, in E. R. Perkins, ed., *Foreign Relations of the United States, 1941* (Washington, D.C.: Government Printing Office, 1959), vol. 3, p. 11.

88. *Ibid.*, p. 12.

89. In *The Life of John Maynard Keynes*, p. 512, Harrod offers the following description of Keynes’s position in Washington: “What he had in mind was the application with American assistance of Keynesian remedies for unemployment and trade depression on a world scale. He was not averse from breaking down the barriers to trade, but thought that the necessary pre-condition was a much more thoroughgoing policy of reconstruction. He had also in the forefront of this mind the appalling problems that Britain would face after the war in the matter of her own trade balance. It was, therefore, far from his thought that all could be set right by the mere elimination of ‘discriminatory’ practices from trade policy.” Harrod confirms that the reports at the time were correct: Keynes had referred to the first draft of Article VII as “the lunatic proposals of Mr. Hull.”

90. “Memorandum of a Conversation,” in *Foreign Relations of the United States, 1941*, vol. 1, p. 353.

over bilateralism in late 1941. About this time, Keynes was also rethinking his views. An American official who knew Keynes during this period notes the change: “In his own mind, Keynes had dropped, or was on the verge of dropping, the argument that hard bilateral bargaining would have to be resorted to; and he was replacing it by a plan for an international institution to deal with balance-of-payments questions.”⁹¹ Throughout his career, of course, Keynes had been of two minds on the virtues of unrestricted trade and monetary arrangements. One mind showed itself after World War I when he argued that free trade was both an economic and a moral imperative. The other showed itself when Keynes argued that goods should be “homespun where it is reasonably and conveniently possible” and that “a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may tend to serve the cause of peace rather than otherwise.”⁹² Keynes was capable of articulating both restrictionist and expansionist positions on postwar order. In the autumn of 1941, he moved vigorously in the expansionary direction. He came to the view that perhaps an agreement could be reached with the United States for a monetary order that would be expansionary and could keep the trading system open but safeguard against depression.⁹³ The search for a postwar settlement involving both a relatively open trading system and measures to ensure employment stability soon became the preoccupation of Keynes and other British planners.

On the American side, as we have seen, there were conflicts between the State Department and the Treasury Department over postwar planning. The stalemate on the postwar economic order, arrived at in the contentious Anglo-American discussions of trade arrangements, did not prevent Treasury Department officials from proceeding with monetary planning and, in the process, shifting the focus of negotiations to monetary arrangements.

A flurry of monetary planning broke out on both sides of the Atlantic. In Britain, Keynes listened to arguments from various quarters and retreated to the countryside, where he developed an ambitious plan involving mechanisms for both the orderly adjustment of exchange rates and the mobilization of credit that would prevent countries from resorting to deflation as a means to correct maladjustments.⁹⁴ According to the plan, an international clearing union would have the authority to create and manage \$25 billion to \$30 billion of a new international currency to correct payments imbalances.⁹⁵ It would also have the authority to tax the excess reserves of creditor nations and impose other

91. Penrose, *Economic Planning for the Peace*, p. 18.

92. Keynes, cited by Lionel Robbins in *Autobiography of an Economist* (London: Macmillan, 1971), p. 194. Robbins considered this view “a sad aberration of a noble mind”; see p. 156.

93. See Eckes, *A Search for Solvency*, p. 65.

94. The initial draft and subsequent versions of the Keynes plan are published in *The Collected Writings of John Maynard Keynes*, vol. 25, pp. 21–40.

95. As Eckes notes in *A Search for Solvency*, p. 66, this “distribution of new financial assets would allow members—particularly heavily indebted countries like Britain—to remove restrictions on all capital movements, maintain stable exchange rates, and pursue stimulative domestic policies without fear of an external payments crisis.”

measures to ensure that payments imbalances would be corrected both in surplus countries and in deficit countries.

In the United States, monetary planning got under way in early 1942 under White's direction. White's plan was similar to Keynes's plan in its attempt to eliminate exchange controls and restrictive financial practices and in its provision of rules for alterations in rates of exchange. Although it provided relief for monetary authorities in international difficulties, it differed from Keynes's plan in that it proposed relatively modest resources for this purpose and severely limited the obligations of creditor nations to contribute to the relief fund. In contrast to the clearing union scheme, which obliged creditor nations to accept a clearing unit (Bancor) up to the limit of the established amount of this medium, the American plan restricted the obligation of creditors to the amount of their subscription with the fund.⁹⁶

These two plans formed the basic framework of negotiations that followed throughout 1943 and up to the Bretton Woods conference. Many of the compromises were made in favor of the less ambitious White plan, but many of the British demands were also met. The capital was to be subscribed under the compromise plan; there would not be a new international currency. Moreover, the primary responsibility for restoring international equilibrium would be borne by the deficit countries and not, as Keynes had proposed, shared by deficit and surplus countries. The power of member nations to change their exchange rates was increased in the emerging agreement, which addressed the British interest in flexibility. Finally, Keynes's provisions designed to address short-term postwar financial problems were left out of the compromise plan. Wartime debts and reconstruction loans would be dealt with through other bilateral agreements and a development bank.⁹⁷

The crucial breakthrough in Anglo-American negotiations occurred in September 1943, when the British agreed to abandon the idea of "unlimited liability" of creditor countries contained in the clearing union scheme. Lionel Robbins noted later that "once we had recognized the political unacceptability of the unlimited liability of the creditor, the rest was a compromise between essentially friendly negotiators."⁹⁸ After this concession, much of what followed involved practical adjustments to specific national interests and domestic politics.

Policy ideas and political coalition building

The "new thinking" embraced by the Anglo-American planners, with its synthesis of interventionist and liberal goals, had a political resonance within wider and more contentious British and American political circles. The Bretton

96. The White plan is published in *Foreign Relations of the United States, 1942*, vol. 1, pp. 171–90.

97. Penrose, *Economic Planning for the Peace*, pp. 55–60.

98. Robbins, *Autobiography of an Economist*, p. 200.

Woods ideas played a politically integrating role: they allowed political leaders and social groups across the political spectrum to envisage a postwar economic order in which multiple and previously competing objectives could be met simultaneously. The alternatives of the nineteenth century and of the interwar period suggested options that were much too politically stark. Outside the narrow transatlantic community of government economists, politicians were looking for options that could steer a middle course. In the end, the ability of policy experts to articulate ideas that spoke to the needs of practical British and American politicians was the most consequential aspect of their work.

Throughout their discussions with American officials, the British were looking for a middle ground between bilateralism and the imperial preference system on the one hand and laissez-faire on the other. This was noted by Ambassador Halifax in his cable to the British Foreign Office in October 1942, following a visit from John Foster Dulles, who at the time was a corporation lawyer in New York:

The most interesting point on the economic side of the discussion was Mr. Dulles' exposition of the Cordell Hull school of free trade, and the place which it had in the plans of the Administration. I said to him that I thought that we did not clearly understand what the significance of the Hull policies was. There was a feeling in some quarters here that we were faced with two alternatives, either we must revert to a completely 19th century system of laissez-faire, or else we must safeguard our balance of payments position by developing a bilateral system of trade with those countries whose natural markets we were. It seemed to me that neither of these courses would work; the first was clearly impossible, the second might be disastrous. I asked Mr. Dulles whether there might not be some middle course which would take account of our special difficulties and which at the same time would satisfy Mr. Cordell Hull on the question of discrimination, preferences, etc.⁹⁹

If we are looking for historical moments when political elites are open to the new ideas of intellectuals and policy experts, here is one. Later in the year, when Keynes and the British shifted negotiating partners and topics—from the State Department, focusing on trade policy, to the Treasury Department, focusing on monetary policy—opportunities for finding that middle ground emerged.

In both Britain and the United States, the onset of major war stimulated and widened political debate about the future world economic order. Even before the war, politicians and editorialists on the left and the right had staked out a wide range of positions on the proper direction of world trade and monetary order. The wartime views of American liberal and progressive circles, as seen, for example, in the pages of *The New Republic* and *The Nation*, affirmed the

99. Dispatch from Ambassador Halifax to the British Foreign Office, October 1942, F0371/31513, Public Records Office, London.

goals of full employment and economic planning and included calls for a postwar world economic federation and multilateral cooperation.¹⁰⁰ Liberal and progressive spokespeople stressed different goals: some advanced vague commitments to liberal internationalism, others favored the primacy of economic planning, and still others reaffirmed a commitment to free trade. While most commentators agreed that a new economic order must be built, there was little agreement on what that meant.

Once the Bretton Woods proposals were on the table, however, the various liberal and progressive commentators largely fell in line behind the agreement. Keynesian planners saw the agreement as an attempt to bring Keynesian management to the world economy; free traders saw it as a commitment to trade expansion; and internationalists now saw few alternatives to it. Indeed, it is striking how quickly the various alternatives to the Bretton Woods proposals disappeared from public debate after 1944. By this time, the opponents of the Bretton Woods proposals—including New York bankers, advocates of high tariffs, and isolationists—began to be seen as an odd bunch, outside the political mainstream.¹⁰¹

In Britain, the Bretton Woods proposals also played a politically integrating role. This can be seen by tracing the editorials that appeared during the late 1930s and the war period in *The Spectator*, a conservative free trade journal. There was no praise for economic planning and little discussion of British full employment policy. Commentary on the great tools of planning and ending the business cycle were absent. While the contributors to *The Spectator* supported free trade and a new economic order for Europe,¹⁰² the Bretton Woods proposals seemed to meet their needs. In the two years leading up to the agreement, only favorable discussions of the White and Keynes proposals were offered.¹⁰³ As the war began, contributors to *The Economist*, another conservative free trade journal, stressed the need for postwar economic cooperation with the United States. During the war, their editorials were unclear in defining postwar economic problems and solutions.¹⁰⁴ In the end, they supported the Bretton Woods agreement but argued that its success would depend on all sorts

100. See periodic essays by economic editorialist George Soule in *The New Republic*. Soule argued that postwar economic planning must be handled carefully this time, since it was botched the last time. He called for economic planning at the national and international level, which together would constitute a new form of economic federation. Similar views were expressed by economist Keith Hutchison in a series of articles in *The Nation* during the war. Hutchison favored an economic bill of rights to guarantee jobs at a living wage, but he also supported world federalism to regulate tariffs and engage in reserve banking for investment and distribution of surplus savings. See "Economy for a New World," *The Nation*, 22 March 1941.

101. See, for example, "Support for Bretton Woods," *The Nation*, 16 June 1945, pp. 661–62.

102. See, for example, Mark Sterling, "Peace by Economists," *The Spectator*, 24 July 1941, pp. 79–80.

103. See, for example, "Currency and Trade," *The Spectator*, 9 April 1943, pp. 331–32.

104. *The Economist* clearly favored multilateralism to blocs and bilateral trade. By the end of the war, its editors argued that the world needed to move toward "managed free trade." See "The Multilateral Approach," *The Economist*, 22 January 1944, pp. 94–96.

of other adjustments and changes in the manner that nations conduct their economic business.

In Britain and the United States, the Bretton Woods proposals represented a “middle way” that generated support from both the conservative free traders and the new prophets of economic planning. Wartime economic “new thinking” helped redefine the political mainstream, making it possible to form new coalitions. Like a piece of crystal, the Bretton Woods agreement had many different surfaces and projected different things to different groups. No other internationalist proposal could appeal to such a broad base of interests.

Conclusion

The above analysis helps shed light on several questions: How do we explain the Anglo-American settlement? Why did certain proposals become an effective basis for agreement between Britain and the United States? And how, given the divergent and conflicting national and bureaucratic positions, was agreement achieved within a wider and fragmented political setting? The argument presented here is that agreement was fostered by a community of experts composed of liberal-minded British and American economists and policy specialists who shared a set of technical and normative views about the desirable features of an international postwar monetary order and who were given remarkable autonomy to negotiate a deal. As discussed in further detail below, these experts fostered agreement by altering the political debate about postwar policy, by crystallizing areas of common interest between the two governments, and by elaborating a set of politically resonant ideas that served to build larger coalitions within and between governments.

Shaping government conceptions of interests

There are junctures or “breakpoints” in history when the possibilities for major change are particularly great and the scope of possible outcomes is unusually wide. In this century, the several years surrounding 1945 would surely be one such juncture. Nobody knew how the world order would be reorganized, but everybody believed that reorganization was inevitable. The ending of a major war or the aftermath of large-scale economic crisis alters the parameters of policymaking: dissatisfaction with past policy creates a new willingness by political leaders to reevaluate their interests, goals, and doctrines; the disruption or breakdown of rules and institutions creates a need for nonincremental decision making; and the collapse of old political coalitions requires a search for new coalitions. At these moments, the removal of obstacles of change occurs simultaneously with the surge of impulses to change. When this happens on a global scale, fundamental change is possible.

At these critical turning points, the interests and capacities of the dominant

groups, states, and classes still matter, as they always do, but uncertainties about power structures and dissatisfactions with prevailing definitions of interests create opportunities for the recasting of interests. At the core of the postwar settlement were British and American political leaders who were open to the redefinition of national economic policy interests. Keynes, White, and the other “new thinkers” were particularly well situated to shape the resolution of these uncertainties: the transgovernmental “alliance” that they formed allowed them to shape the agenda, taking the initiative away from the free trade-oriented State Department; the complexity of the issues gave them a privileged position to advance proposals; and their ideas were particularly well suited to building winning political coalitions.

Building new political coalitions

The consensus among British and American monetary experts provided a basis for breaking through various layers of conflicts and deadlocks within and between the British and American governments. Most immediately, the consensus among Anglo-American experts cut through conflicts by shifting the ground of debate from trade to monetary issues. In a more general way, the monetary agreement served the purpose of political compromise by articulating ideas that created possibilities for new political coalitions. The “new thinking” embraced by Anglo-American experts provided a solid intellectual foundation for a political middle ground between an unregulated open system and bilateral or regional groupings. As Albert Hirschman emphasized with respect to Keynesianism, economic ideas “can supply an entirely new common ground for positions between which there existed no middle ground whatsoever.”¹⁰⁵ It was Keynes and the British who were most intent on finding a middle ground—something that seemed so elusive in the early Anglo-American discussions over postwar trade arrangements. The Bretton Woods agreement articulated a middle position between a nineteenth-century style free trade system and regional or national capitalist arrangements. The policy views of the monetary experts were intellectually synthetic and politically robust: they not only provided a respectable position between extremes and set the stage for political compromise between the British and American governments, but they also foreshadowed and perhaps enabled a broader sociopolitical reordering of coalitions within postwar Western capitalist democracies.¹⁰⁶

Policy ideas do more than simply “enlighten” political elites. They have a political as well as a cognitive impact. They offer opportunities for new

105. Albert O. Hirschman, “How the Keynesian Revolution Was Exported from the United States, and Other Comments,” in Hall, *The Political Power of Economic Ideas*, p. 356.

106. The rise of postwar political coalitions around Keynesian social democracy has been widely discussed. For a good analysis of the rise and fall of Keynesian social democracy in Britain, see David Marquand, *The Unprincipled Society: New Demands and Old Politics* (London: Jonathan Cape, 1988).

coalitions of interests and give intellectual force or inspiration to those groupings. Ideas do change minds, but it is their practical value in solving political dilemmas which gives them a force in history.

Legitimizing hegemonic power

American leaders certainly wanted to promote American interests, and they were willing to use the nation's power capabilities to do so. But one can also detect a desire on the part of many officials to promulgate a postwar system that would have a normative appeal to elites in other nations. American officials realized that building an international economic order on a coercive basis would be costly and ultimately counterproductive. This is not to say that the United States refrained from exercising its hegemonic power; it is to say that there were real limits to the coercive pursuit of the American postwar agenda. Historical records indicate that American officials wanted to avoid looking as if they were imposing policies on the Europeans. This general observation helps explain why American officials paid more than insignificant attention to the normative bases of the postwar settlement and why they were willing to make adjustments along the way to give the system a certain legitimacy. "Power needs ideas and legitimization," Reinhard Bendix has noted, "the way a conventional bank needs investment policies and the confidence of its depositors."¹⁰⁷ This phenomenon is really quite routine in history, although it is probably underappreciated in the study of international relations.

A question of timing

Finally, it is reasonable to ask why this community of experts did not emerge earlier and play a role in fostering international economic agreement prior to World War II. There are several reasons. To begin with, in the period following World War I, the range of legitimate policy views on monetary relations was much wider. The lessons learned by British economists and politicians from the disastrous return to the gold standard in 1925 were crucial in narrowing the range of expert views. Similarly, the experiences of the 1930s were crucial in discrediting monetary ideas associated with floating exchange rates.¹⁰⁸ In the subsequent period, British and American governments began actively recruiting economic planners, most of whom were trained in the "new thinking," and provided them with an opportunity for devising international rules and institutions in a way that was not fully available in the 1930s. The formation of an influential community of Anglo-American monetary experts had to wait for these developments.

107. Reinhard Bendix, *Kings or People: Power and the Mandate to Rule* (Berkeley: University of California Press, 1978), p. 16.

108. This is stressed by Odell in "From Bretton Woods to London."

Beyond these immediate factors, there were more diffuse shifts in thinking among British and American elites concerning the virtues and necessities of internationalism. Paradoxically, much of the new value attached to international institutions and much of the perceived necessity of striking a deal between Britain and the United States sprang from the progressive rise in the social obligations undertaken by the modern welfare state. During the early 1940s, the goals of full employment, economic stabilization, and social welfare repeatedly found their way into discussions about the postwar economic order and were the topics of major concern in popular journals, in congressional and parliamentary debates, and in Anglo-American planning deliberations. Nothing similar had been evident in 1918, when the rapid return to laissez-faire and the automatic forces of economic life were the order of the day. Between the wars, the sociopolitical underpinnings of the modern state had changed.¹⁰⁹ As a result, the elites who commanded the British and American governments in 1945 had a different set of perceptions and goals of postwar order than their predecessors had in 1918. In this sense, the “demand” for new ideas was greater the second time around. At the same time, the size of the Anglo-American sociopolitical coalition that would potentially favor internationalist solutions to problems of postwar reconstruction was also larger the second time around. What was needed was an intellectual and political basis for coalition building on a grand scale, and this is what the Keynesian “new thinkers” provided.

109. During the interwar period, the legitimacy of the modern industrial state began to hinge more and more on the provision of socioeconomic welfare. See T. H. Marshall, *Class, Citizenship and Social Development* (Garden City, N.Y.: Doubleday, 1964); Reinhard Bendix, *Nation-Building and Citizenship: Studies of Our Changing Social Order* (New York: Wiley, 1964), chap. 3; Karl Polanyi, *The Great Transformation* (New York: Farrar & Rinehart, 1944); and Gianfranco Poggi, *The Development of the Modern State: A Sociological Introduction* (Stanford, Calif.: Stanford University Press, 1978), chap. 6, especially p. 134.