Multilateralism with an American Face: The United States, Great Britain, and the Formation of the Postwar Economic Order, 1941-1947

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For my mother and father,
who taught me that learning is a virtue.

Contents

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Ann Arbor, March 2011 M.E.F.

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“The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong and dangerous enemy, to revenge and to the shifting by the victors of their unbearable financial burden on to the shoulders of the defeated.”

Keynes, *The Economic Consequences of the Peace*, 1919

“Just as Darwin discovered the law of development or organic nature, so Marx discovered the law of development of human history: the simple fact, hitherto concealed by an overgrowth of ideology, that mankind must first of all eat, drink, have shelter and clothing, before it can pursue politics, science, art, religion, etc.; that therefore the production of the immediate material means, and consequently the degree of economic development attained by a given people or during a given epoch, form the foundation upon which the state institutions, the legal conceptions, art, and even the ideas on religion, of the people concerned have been evolved, and in the light of which they must, therefore, be explained, instead of vice versa, as had hitherto been the case.”

Engels, Speech at the Graveside of Karl Marx, 1883

“The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character. The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole.... Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.”

George C. Marshall, Speech at Harvard University, June 5, 1947

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“if people (instead of everyday necessity and the, so to speak,
hairy pleasures proper to the flesh),
spick-and-span, pretending they do not stink at all,

nibbled chocolates in a theater,
if they were moved by the loves of Amyntas,
and in the daytime read the *Summa*, luckily too difficult,

none would be fit for the barracks. The State would fall.”

Czesław Miłosz, “Three Talks on Civilization”, Berkeley, 1963

Introduction

> "Treasure your legacy of skills, child of Europe,
> Inheritor of Gothic cathedrals, of baroque churches,
> Of synagogues filled with the wailing of a wronged people.
> Successor of Descartes, Spinoza, inheritor of the word
> 'honor,'
> Posthumous child of Leonidas,
> Treasure the skills acquired in the hour of terror."
>
> Czesław Miłosz, "Child of Europe", New York, 1946

A great economic historian once mused that history repeats itself, first as tragedy, second as farce.

The First World War saw humankind turn its unprecedented industrial capacity against itself, and with horrific efficacy. In 1919, man said never again, and the League of Nations was formed with the expectation that states would be ready and willing to voluntarily sacrifice the national interest when the League deemed necessary for the preservation of world peace.

But the League was wholly unprepared for, and unconcerned with, economic reconstruction and development *within* nations as a contributing factor to conflict *between* nations. Thus, as global capitalism went into depression and fascism in Germany, Italy, and Japan flourished, history was tragically repeated on an even greater scale. Once again, the internationalists of the Allied powers said never again. This time, however, they wisely began their mission two years before the war's end, and did so with a more advanced, humble, and realistic understanding of the dialectics of man, the state, and war in the new industrial age.

The creation of the United Nations and its principle organs in the aftermath of World War II represented a profound and necessary advancement in our understanding of international relations. Lasting peace, it was believed, required not merely an open forum for diplomatic engagement between the great powers, but the active promotion of social, political, and—most importantly—economic development worldwide. In other words, the new internationalism based itself on a kind of progressive liberal materialism, at least in rhetoric. Or, to put it less generously: make a viable compromise between capital and labor or become your own gravediggers.

But by early 1947, European economies, Allies and Axis powers alike, were in shambles. In desperate need of essential imports, but lacking both the dollars with which they could be purchased and the industrial and agricultural capacity to produce their own, Europe was once more on the brink of collapse. The United States—now the clear global economic, military, and moral power—was uniquely suited to the task at hand. Wartime industry had pushed unemployed Americans into the factories and America itself out of the Depression, but with the war having been won, America was producing massive amounts of exports for a dollar-less Europe. In its most profound and effective manifestation of enlightened self-interest (the story goes), the United States used its status as the world's premier industrial and financial power to aid in the reindustrialization and finance the essential imports of any European nation who sought assistance. Convince the hungry, tired, and desperate of Europe that the ideas and methods of American capitalism could deliver their basic needs quicker, better, and cheaper than Soviet communism, and a free and prosperous Europe could then develop.

While most economists and historians reject the thesis that the Marshall Plan alone revived the economies of Western Europe,[1]—especially if one attributes most heavily the wisdom of more activist fiscal policies preferred by Western European governments to the recovery—Marshall Plan aid contributed significantly by, for one, guaranteeing participating governments desperately needed staples, thereby allowing for the avoidance of painful austerity measures and investment in domestic industry and production. Regardless, from 1948 to 1952, Europe saw its fastest period of growth in history, with a 35 per cent increase in industrial and agricultural production well beyond pre-war levels.[2] No longer was Western Europe a liability in the new postwar trading system. With their growing industrial capacities, Marshall Plan recipients could become competitive exporters and creditors with, rather than chronic importers and debtors to, their powerful and wealthy benefactor across the Atlantic.

But the story of postwar European reconstruction can hardly be explained through the apparent success of the Marshall Plan alone. Nor, for that matter, can the Marshall Plan itself. Before the Marshall Plan—and, in fact, years before the war had ended—the United States, in partnership with its closest wartime ally, began to develop much more ambitious, institutional, and permanent plans for ensuring the continued growth of the American

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1 Although the historiography of the Marshall Plan is not our primary focus, some notes are required. From its inception, the Marshall Plan was attacked by many neoclassical and Austrian School economists, notably, Ludwig von Mises, arguing in 1951 that “the American subsidies make it possible for [Europe's] governments to conceal partially the disastrous effects of the various socialist measures they have adopted.” More recently, former Federal Reserve Chairman Alan Greenspan (and many other free-market analysts) has attributed much of the recovery to German Minister of Economics Ludwig Erhard's deregulations and decentralizations, which, he argues in his memoir, fed the German recovery and benefitted the rest of Europe as well. The Marshall Plan has also received significant criticism from revisionist and left-wing historians, e.g., Walter LeFeber and Noam Chomsky, who have characterized the Marshall Plan as primarily a vehicle for private U.S. investment and economic hegemony.

2 Robert C. Grogin, *Natural Enemies: The United States and the Soviet Union in the Cold War, 1917-1991* (New York: Lexington Books, 2001), p. 118.

economy and the restructuring of not just European, but global, capitalism. Once created, these institutions were to be nominally independent and open to all nations who committed to their rules; though, by virtue of the financial and diplomatic resources committed to their successful implementation, the U.S. would retain unparalleled power in their administration and influence in their future. That is to say, for the United States, these institutions were to combine the multilateral principles (but American-centered reality) of the future United Nations—with which they would become institutionally associated—with the liberal trade and growth objectives of the Marshall Plan.

However, the planning for and creation of what we may call the main instruments of postwar economic multilateralism occurred mostly independent from, and prior to, the United Nations system. In fact, almost all major planning and negotiations for these institutions—financial, the International Monetary Fund (IMF) and World Bank, and commercial, the General Agreements on Trade and Tariffs (GATT) and (albeit never operational) International Trade Organization (ITO)—were the product of wartime and early postwar collaboration between the world's largest empire-in-decline, Great Britain, and its obvious heir apparent, the United States. Unlike the Marshall Plan, these institutions and agreements were not intended for the reconstruction of European industry. Nor were they meant as benevolent borrowing schemes—or, such as in the quite successful (but short lived) American-funded United Nations Relief and Rehabilitation Administration,[3] outright gifts—

[3] At the time of the UNRRA's founding in 1943, the U.S. applauded the multilateral structure and objectives of the program, which pledged to deliver relief "through the provision of food, fuel, clothing, shelter, and other basic necessities, medical and other essential services" to the starving masses of both West and East. Thus, after the war, the U.S. continued to provide three-fourths of UNRRA's funding. However, when the U.S. pulled out its funding in August 1946, a year before its promise, the State Department justified the withdrawal by arguing that the crisis in food was largely over, and that those who needed food could now probably finance their own imports. But the State Department's own figures belie this claim. Dean Acheson more accurately expressed the reasons for termination of UNRRA to a Senate committee in 1947: "If you

to provide Europe with desperately needed imports. Rather, these revolutionary financial and commercial proposals were designed as a legal framework for multilateral economic cooperation in the postwar era, based on low tariffs, non-discriminatory trade, and freely convertible currencies. In this, their contribution to early postwar reconstruction rests not in what they did accomplish, but in what they did not. That is to say, during the war and into the early postwar period, U.S. foreign economic planners believed that European recovery would follow *ipso facto* from the institutional economic multilateralism from which the United States (and therefore Europe) would benefit so much. By 1947, of course, this enlightened self-interest proved to be neither. History seemed close to being repeated as farce: the ignorance of Wilsonian multilateralists to inequalities of development and distribution *within* nations as leading to conflict *between* nations existed almost as much in the multilateralists of the Roosevelt and Truman administrations. It was in no sense guaranteed that, in 1947, American foreign economic planners would conclude that before Europe could begin making, or making good upon existing, multilateral agreements, it would need to be economically, and therefore socially and politically, stable.

Our analysis will end in the second half of 1947, after the announcement of the European Recovery Program, or Marshall Plan, and the conclusion of the GATT negotiations in Geneva. But the primary economic objectives of the Marshall Plan—to provide markets for a massive American export surplus, and to assist in the domestic economic rehabilitation and (consequently) macroeconomic integration of Western European economies—have their economic, political, and intellectual basis in the Anglo-American proposals for commercial

have an international organization which controls the allocation of funds, we have only one voice out of many voices and many votes... [therefore] future relief, our future relief, should be granted in accordance with our judgment and supervised with American personnel."

and financial multilateralism produced from 1941 to 1947 by the U.S. departments of State and Treasury and the British Foreign Office and Treasury. These negotiations began early—at our beginning in Lend-Lease, before the United States had even entered the war—but their shared objectives—and, of course, onerous disagreements—continued into the early postwar era and dominated the foreign economic policies of both. In short, for the British, domestic growth- and full-employment-directed measures for others would lead to a liberal economic multilateralism for all, but for the United States, it was the opposite: liberal multilateralism for all was the necessary prerequisite for domestic growth and full employment for others (or, at least, for Americans).

Economic multilateralism—the idea that nations should not necessarily abandon all tariffs and controls, but ensure that their enactment or removal be equally applied to all nations—had long been a belief of (however contradicted in practice by) the American foreign policy establishment. Indeed, one must begin with George Washington's well-worn farewell address, in which "the founder of his country" implored Americans to "hold an equal and impartial hand, neither seeking nor granting exclusive favors or preferences" in the exercise of foreign economic policy.[4] As we will see, however, the character of economic multilateralism was highly contested. Although no doubt liberal in theory, the early-postwar political economic paradigm for the enactment of foreign commercial and financial policies could in fact vary significantly. That is to say, although free trade ideology enjoyed a particular symbiosis with multilateralism—namely, amongst the planners of Roosevelt's and Truman's State Departments—early-postwar proposals for a new institutional economic

4 Farewell Address (17 Sept. 1796), reprinted in John Church Hamilton, *History of the Republic of the United States of America: As Traced in the Writings of Alexander Hamilton and of His Contemporaries, Volume 6* (New York: D. Appleton & Company, 1860), p. 521.

multilateralism did not necessarily mean that, through their participation, nations would be submitting themselves to a fixed body of American-style free trade dogma. Rather, as the multilateralist President Wilson explained in 1925, the notion was intended to mean that "every nation is free to determine its own economic policy, except one in particular, that its policy must be the same for all other nations, and not be compounded of hostile discriminations between one nation and another."[5]

But this is not to say that America did not push for its own more liberal, self-interested, and at times hypocritical version of postwar economic multilateralism. Of course, Great Britain would act similarly to advance British interests, against not only America but increasingly its own colonial partners, who in some cases stood to benefit from American proposals at London's expense. Since the Americans held the cards, however, British strategy necessitated a larger amount of innovation and compromise to reach agreements that would be both mutually beneficial and, crucially, mutually politically acceptable. How much the American vision would win out in the negotiations—and how successful its more orthodox approach would prove to be in the absence of adequate reconstruction dollars—would set the terms for the postwar economic debate over the synchronization of domestic and international macroeconomic policy, at least in the capitalist democracies of Western Europe and the United States. The story of the formation of the postwar European welfare state—that is, the acceptance (to varying degrees) of domestic Keynesian fiscal and monetary stimuli within an international framework of less discriminatory trade, lower tariffs and other

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[5] Letter to Senator Hitchcock, quoted in William S. Culbertson, *International Economic Policies* (New York: D. Appleton & Company, 1925), p. 295, cited in Richard C. Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), p. 17.

barriers to trade, and freely convertible currencies regulated under the Bretton Woods accords—is, at its core, the story of this peaceful, at times perilous, but ultimately successful, bilateral transition of global macroeconomic power. In this, it is a story all its own.

The United States, Great Britain, and the Interwar Economy

Before we continue in our analysis, it is first necessary to discuss the economic, political, and intellectual factors of the interwar period that brought these two Allies into such close and closed bilateral cooperation in pursuit of economic multilateralism. It is quite accurate to say that the Anglo-American consensus for some form of multilateralism during and into the early postwar period had its basis in Bastiat's old dictum: "When goods cannot cross borders, armies will." But a closer look at the objective demands of the American economy before the war—and the global aspirations of its prewar foreign economic planners—reveals less idealistic (or at least more technical and strategic) imperatives for, one, why Britain was so necessary a partner for American foreign economic planners; and, two, why Britain—though at times no less stubborn and self-interested than the Americans—remained a committed partner in such an economically and politically risky venture.

Ten years after President Woodrow Wilson's League of Nations declared equality of trade and the removal of economic barriers as essential conditions for lasting peace,[6] the Wall Street Crash of October 1929 marked the entry of the United States into what became the longest and most severe global recession of the century. The causes of the Great Depression were a convergence of domestic macroeconomic policy failures: for the Keynesians, a loss of

6 The third of Wilson's Fourteen Points insisted on "the removal so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all nations consenting to the peace and associating themselves for its maintenance."

market confidence that led to underinvestment and underconsumption; for the monetarists, a failure of the Federal Reserve to maintain the money supply that turned an ordinary recession into a depression.[7] But the foreign macroeconomic policy that most greatly worsened the Depression in America and elsewhere was—at least according to Democrats anticipating the 1932 elections—the Smoot-Hawley Tariff Act of 1930. The Act raised tariffs to record levels on over 20,000 imported goods, outraging free traders and internationalists in the Democratic Party. Perhaps the most influential anti-protectionist agitator against the Act was soon-to-be Secretary of State Cordell Hull, a former Tennessee congressman who viewed free trade and export growth as the only path to domestic prosperity and ultimately the peace between nations sought by the multilateralist President Wilson.[8] When he took over as Secretary of State in 1933, reforming U.S. tariff policy became the State Department's primary political and diplomatic objective.[9] "To me it seemed virtually impossible to develop friendly relations with other nations in the political sphere," recalled the Secretary, "so long as we provoked their animosity in the economic sphere. How could we promote peace with them while waging war on them commercially?"[10]

As Hull and others had predicted—in fact, a petition signed by 1,028 economists

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7 The terms "Keynesian" and "monetarist" are of course somewhat anachronistic. Our usage, however, refers to the macroeconomic approaches of that time as we might describe them today.

8 In fact, Hull's multilateral proposals date back to at least 1916, when as a congressman he proposed that "all nations would agree to reduce their tariffs at the same time to the same extent." (*The Memoirs of Cordell Hull: Volume I* (New York: The Macmillan Company, 1948), p. 356). In 1947, three years after his retirement, Hull's arrangement for the multilateral reduction of tariffs was implemented in the form of GATT.

9 In his memoirs Hull recounts his shock at what he found upon arriving at the State Department:

> When I came into the State Department I found in the files no fewer than thirty-four formal and emphatic diplomatic protests presented by as many nations following the passage of the Smoot-Hawley high-tariff Act. Nor had their protests been confined to words. Goaded by what they regarded as almost an embargo keeping out their exports to the United States, they retaliated in kind. (*Memoirs*, p. 355).

10 Hull, p. 355.

from across the ideological spectrum reached the desk of President Hoover shortly before passage—the Act turned out to be a disaster. Foreign governments lobbied hard to change Congress's mind: by September 1929, the Hoover administration had received notes of protest from 23 of America's trading partners.[11] Especially to America's greatest trading partners, the British Commonwealth of Nations, this was a most serious affront. In May, a month before the Act's passage, Canada responded by raising tariffs on what amounted to 30 per cent of American exports to what was then (and still is today) America's largest trading partner.[12] Britain (its second largest), Australia, New Zealand, South Africa, and a number of colonies retaliated shortly after, raising their own tariffs against American imports.[13]

The macroeconomic outlook in America, Britain, and elsewhere had never looked bleaker. Between the passage of Smoot-Hawley and the 1932 elections, the volume of world trade had plummeted 60 per cent from its 1929 level.[14] Meanwhile, in the same time that U.S. imports dropped 60 per cent—from \$4.4 billion in 1929 to \$1.5 billion in 1933—and exports dropped 61 per cent—from \$5.4 billion to \$2.1 billion—over a quarter of the American workforce remained unemployed.[15] It was clear that the domestic New Deal would not be enough to pull America out of the Depression, in the absence of some foreign counterpart to ensure the export of American manufactured goods and therefore the continued growth of American jobs.

1932 turned out to be a crucial year for the future of American foreign economic

[11] "The Battle of Smoot Hawley," *Economist*, December 18, 2008.
[12] Wilson B. Brown, Jan S. Hogendorn, *International Economics: In the Age of Globalization* (Toronto: University of Toronto Press, 2000), p. 246.
[13] Thomas W. Zeiler, *Free Trade, Free World: The Advent of the GATT* (Chapel Hill: The University of North Carolina Press, 1999), p. 8.
[14] Zeiler, p. 7.
[15] "Smoot Hawley Tariff," U.S. Department of State, found at http://future.state.gov/when/timeline/1921_timeline/smoot_tariff.html.

policy. The British Empire had famously, if inaccurately, been known as *the* empire of free trade. But as the volume of world trade declined and America closed its doors by raising import tariffs, the British Empire began to do the same. In the summer of 1932, Britain and the Commonwealth Nations met to devise a system of outside tariffs and preferential agreements that Secretary Hull would call during Lend-Lease negotiations "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life."[16] In the Ottawa Agreements, Britain's system of imperial preference was strengthened significantly, as tariffs were raised on foreign imports and bilateral agreements were signed strongly preferring imports from within the Commonwealth. London's intention was ensuring Britain's access to raw materials in the Dominions, the prices of which were greatly weakened as the Depression wore on, while increasing (or maintaining at present levels) British manufactured exports, the demand and purchasing power for which had also fallen dramatically in foreign markets.

From 1927 to 1932, the year of the Ottawa Agreements, the United States had supplied from 36.2 per cent to 62.1 per cent of total British imports. (Empire countries, meanwhile, supplied most of the rest of the balance.) One year after Ottawa, U.S. exports to Britain declined to 18.3 per cent, rising back up to 31.8 per cent in 1935 and declining once more to 22.1 per cent in 1938.[17] Yet, during planning for the Ottawa Agreements, Britain also remained locked into the world market: from 1929 to 1932, Britain still sold 56 per cent of its exports and obtained over 71 per cent of its imports from outside the Empire.[18] Thus, the

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16 Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: The Macmillan Press Ltd, 1978), p. 25.

17 David L. Glickman, "The British Imperial Preference System," *The Quarterly Journal of Economics*, 61 (May 1947): pp. 439-470.

18 Robert A. McCay, "Imperial Economics at Ottawa," *Pacific Affairs*, 5 (October 1932): pp. 873-885.

Ottawa Agreements represented something of a dilemma for those British policymakers critical enough to analyze the data without effusive imperial sentiment. Britain, an island nation heavily dependent on imports both raw (from its colonies) and manufactured (from America and Europe), might in fact benefit in the long term from exploiting its (and others') comparative advantage for manufacturing certain products with raw materials from the empire. Likewise, the terms of the Ottawa Agreements were intended by the colonies to allow for the protection of their infant industries, which could in time become competitive manufacturers of the raw materials by which they were surrounded, and which Britain preferred to import at low costs and export back as finished manufactured goods. In other words, during the 1930s, Britain faced the choice of maintaining strong imperial preferences at the cost of rising tariffs in the U.S. and elsewhere, in the hope that Commonwealth nations manufacturing from raw goods would not (or could not) do so as efficiently as Britain; or, of working with the Americans to gradually end trade discrimination and open the Empire (metropole included) to global competition.

After the Ottawa Agreements had been implemented, American multilateralists moved quickly to counter the new preferences. Central to this effort was Secretary of State Hull's cherished Reciprocal Trade Agreements Act (RTAA), signed into law by Congress in 1934. The RTAA granted entirely new powers to the executive in regards to tariff policy. Rather than being determined primarily by the concerns of American industrialists, who sought from Congress higher tariffs against foreign imports as a way of protecting themselves from outside competition, the RTAA was designed so that the formulation of tariff policy would instead reflect national and foreign policy interests. Before the RTAA, tariff agreements with foreign governments were the exclusive purview of Congress, which would act unilaterally to determine the size, scope, and nature of tariff drops or rises. But with the RTAA the power to negotiate tariffs was granted to the executive, i.e., to the State Department, which was now authorized to increase or decrease any of the Smoot-Hawley rates by up to 50 per cent, in exchange for commensurate concessions from other countries.[19] And while as before, a two-thirds supermajority was required for passage (as with all treaties), instead, the two-thirds supermajority rule was transferred to repeal. This meant that tariff reductions could be made without Congress and would subsequently be difficult to repeal by Congress. No more was tariff policy decided only by the concerns of a member of Congress' industrial or agricultural constituents. Rather, through the RTAA, Roosevelt and Hull had made what was previously seen as *domestic* tariff policy into a powerful instrument of the President's foreign policy objectives.

The political importance of the RTAA was affirmed in 1933 as the Nazi Party ominously took power in Germany. As E.F. Penrose, special advisor to the U.S. Ambassador in London and important participant in Anglo-American wartime and postwar economic negotiations, writes, European fascism was a grave threat to multilateralism:

> The aggressor countries were moving into a war economy. They desired the greatest possible supply of goods useful in war, not the greatest possible volume of production to satisfy human wants. Faced with this threat, it was in the interest of the potential victims of aggression to follow the same course for their own defense. Some of the smaller neighbors of near neighbors of Germany were coerced into bilateral agreements. Others belatedly began to prepare defensive measures. The scope for the application of the Reciprocal Trade Agreements Act was therefore limited by the political state of the world.[20]

[19] Hull, p. 359.
[20] E. F. Penrose, *Economic Planning for the Peace* (Princeton: Princeton University Press, 1953), p. 22.

In the face of German, Italian, and Japanese fascism—with which came economic nationalism and bilateral bartering—it was increasingly necessary for the U.S. to begin expanding trade with its closest allies.

In 1935, the U.S. signed a trade agreement with Canada that substantially narrowed the margins of preference established at Ottawa.[21] As war loomed on the horizon, in 1938 another, more comprehensive, agreement was signed with Canada and Britain. Before 1935 and 1938, U.S. exports to Canada had decreased drastically. After these new agreements, however, the share of U.S. exports increased, while as a consequence British exports to Canada decreased.[22] Although beneficial to the U.S. and Canada, the new agreements were not very helpful in increasing British exports to either nation, in fact having the opposite effect. They also did little to increase direct trade between the U.S. and Britain. In the same period, U.S. exports to Britain decreased from a high of 17.3 per cent in 1927 to 14 per cent in 1938.[23] Therefore, by 1938, it was possible that non-discriminatory trade amongst *all* (liberal capitalist) nations could benefit the U.S. *and* Great Britain, both economically and politically. Or as Secretary Hull preferred to phrase it, it was an enlightened self-interest for all.

Planning for Peace, Preparing for War

Of course, the RTAA was not simply a tool for international peacemaking. The main purpose of the legislation was, in the words of the preamble, to counter the Great Depression by "expanding foreign markets for the products of the United States." Therefore, the RTAA

[21] Glickman, "The British Imperial Preference System," p. 458.
[22] Ibid, pp. 459-60.
[23] Ibid, p. 453.

was to be used only when the President found that "existing duties or other import restrictions of the United States or any other country" were "unduly burdening and restricting the foreign trade of the United States."[24] The RTAA made good on the promise of its preamble to a considerable degree: between 1932 and 1939, the U.S. trade surplus doubled through agreements with twenty-three countries. Yet, it still had not pushed exports beyond the 1929 level of $5.24 billion, while protectionists were somewhat persuasive in continuing to mention that 93 per cent of production was still consumed at home.[25] But when the RTAA was brought up for renewal in 1940, Republicans began to state their opposition more on political, rather than economic, grounds. Many went well beyond protectionist arguments, linking the executive powers of the RTAA to New Deal "statism," socialism, and even communism and fascism. As two Republican congressmen claimed in February 1940, the RTAA was "dictatorial, arbitrary, and secretive," transferring power from the "duly elected representatives of the people" to "bureaucrats," i.e., the internationalists at the State Department.[26]

Such anti-big government hyperbole was only half of the Republican argument against the RTAA that year. The other half, isolationism, was rapidly becoming unconvincing, if not dangerous, as conflict escalated across Europe. The extreme version of Republican isolationism was particularly nonsensical; its obnoxious proponents only aided the Democrats in their campaign for economic internationalism. For instance, New York congressman Daniel Reed

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[24] Gardner, p. 22.
[25] Zeiler, p. 10.
[26] *Congressional Record-House*, February 21, 1940, Earl Michener (R-Mich.), 1940, and Henry Dworshak (R-Idaho), 1767-68, cited in Zeiler, pp. 11-12.

> graphically described how the Soviet Union was using U.S. exports of munitions, oil, and machinery against defenseless Finnish villages. Three years later, at the next renewal of the RTAA, he blamed Japan's devious attack on Pearl Harbor on American scrap and petroleum sales. That no trade agreements existed between the United States and either Russia, Japan, or Germany was lost on Reed. That cutting off exports would not have deterred these aggressors (as the Japanese case demonstrated), or that America was at war with no nation with which it had signed a trade accord, was irrelevant to him.[27]

In other words, the Republican analysis of the European crisis in 1940 was, in its moderate form, that trade liberalization with the Allies would not help U.S. exports or promote peace, and, in its extreme form, that trade liberalization had actually caused, or contributed to, the outbreak of war. Their dark and unappealing conclusion was that the only way to avoid war was to be economically nationalist and politically isolationist.

And so, Republican arguments for protectionism and isolationism—especially in these extreme forms—failed to convince Congress and the public away from the liberal internationalism advanced by Secretary Hull and his advisers. After the RTAA's passage, President Roosevelt—speaking just before the 1940 elections—summarized well the transformation that had occurred in the Democratic Party's foreign agenda through Roosevelt's State Department. Yes, lowering tariffs at home and elsewhere would boost exports abroad while lowering prices at home. “More important,” however, was that “the Trade Agreements Act should be extended as an indispensable part of the foundation of any stable and enduring peace.”[28] Months later, Roosevelt was reelected against his liberal Republican challenger Wendell Wilkie, who actually came to endorse the RTAA and other internationalist policies and who was selected by Roosevelt shortly after to be his

27 *Congressional Record-House*, February 21, 1940, Reed, 1732-33, cited in Zeiler, p. 14.

28 Annual Message to Congress, January 3, 1940, *Public Papers of the Presidents*, 1940, p. 5-6, cited in Zeiler, p. 16.

Ambassador-at-large. He would not be the only Republican to advocate for a multilateral foreign economic policy in the seven years following, but in 1940, Wilkie was certainly one of the first.

On September 27, 1940, Germany, Italy, and Japan signed a tripartite agreement pledging mutual defense in the case of an American assault. American participation in the European war was a near certainty. Rather than providing for peace, the goal for the Axis powers was in fact for each nation to wage war in their respective zones of influence (as defined by the aggressors), and to subsequently provide for mutual security in the case of an American attack or support against these efforts. For Germany in particular, this would allow for a decisive and speedy victory over Britain and sufficient time for Hitler to implement his plans for an invasion of Russia. The island of Great Britain was thus in a most perilous position. As Hull summarized, "A quarter of a century before, Britain had had the assistance of the French and Italian fleets in the Atlantic and Mediterranean, and of the Japanese fleet in the Pacific. Now the French fleet lay immobile, German submarines operated out of French ports, the Italian Navy was an enemy and the Japanese Navy a potential enemy." In addition to this military enclosure by sea, Britain was dangerously low in cash. "If she were to survive," concluded Hull, "it was necessary for her not only to purchase huge quantities of war supplies in this country, but also to get them safely to the United Kingdom."[29]

Multilateralism with an American Face

That Lend-Lease aid was granted to Britain with no demand for repayment provoked Winston Churchill to declare after the war that Lend-Lease "will stand forth as the most

[29] Hull, p. 831.

unselfish and unsordid financial act of any country in all history." Indeed, the United States granted Britain over $31 billion in war materiel free of charge.[30] But contained within the provisions of Lend-Lease was an article that would come to define Anglo-American wartime and postwar planning, and that would in turn prove the single greatest influence on the principles underlying the institutions of postwar economic multilateralism. Through Article VII of Lend-Lease, it was established that the postwar order would be some form of liberal commercial and financial multilateralism.[31] It was also established that the rules for this multilateralism would be determined by the negotiated macroeconomic concerns of the world's largest empire-in-decline—on its way to running a massive imbalance-of-payments and -trade in the postwar era—and its commercial and financial opposite—on its way to running a massive export and credit surplus.

Our analysis is in the first sense the diplomatic history of these early negotiations and planning, as told through the memos, meetings, and personal papers of the principal thinkers, planners, and negotiators of the postwar international-institutional macroeconomy—almost all of whom worked for the U.S. departments of State and Treasury, and the British Treasury

[30] President Roosevelt summed up the spirit of Lend-Lease thusly:

> Suppose my neighbor's home catches fire, and I have a length of garden hose four or five hundred feet away. If he can take my garden hose and connect it up with his hydrant, I may help him to put out his fire...I don't say to him before that operation, "Neighbor, my garden hose cost me $15; you have to pay me $15 for it."... I don't want $15—I want my garden hose back after the fire is over. (Press Conference, December 17, 1940)

[31] Lend-Lease Article VII is discussed in depth in Chapter I. The article read:

> The terms and conditions upon which the United Kingdom receives defense aid from the United States of America and the benefits to be received by the United States of America in return therefor, as finally determined, shall be such as not to burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations; they shall provide *against discrimination in either the United States of America or the United Kingdom against the importation of any product originating in the other country*; and they shall provide for the formulation of measures for the achievement of these ends. (my emphasis)

and Foreign Office. Critical readers may duly identify the myopia of a narrative concerned primarily with the actions of perhaps a few dozen American and British economists, diplomats, and bureaucrats in a period of such dramatic and global change. We must humbly submit to such a criticism,[32] but beg the reader to reconsider our first point: that planning for the international commercial and financial regime that has come to represented the immense and (relatively) shared prosperity of the 1950s, 60s, and early-to-mid 70s began years before the drafting of the United Nations Charter in San Francisco in June 1945. Rather, the process of drafting *economic* (as opposed to military and political) multilateral principles and institutions was remarkably—and considering the task, perhaps necessarily—bilateral and insular in practice. But this is no "Great Man History." On the contrary, our proverbial Great Men—Roosevelt and Churchill, Truman and Attlee—often had much less knowledge of and interest in the actions of economic multilateralism's key agents in their respective diplomatic services and Treasury departments.[33]

In another sense, our analysis is one of domestic and international political economy. It is difficult to understate, and crucial to emphasize, the lack of public and governmental knowledge of exactly what was being undertaken between the two allies' diplomatic and Treasury representatives. For instance, when Roosevelt and Churchill were negotiating the language of Article VII, the President genuinely promised the Prime Minister that "nothing could be further from his mind than an attempt to use Lend-Lease as a trading weapon over the principle of imperial preference."[34] Secretary Hull and his State Department, however,

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[32] In addition, the author must admit the dilettantism of his diplomatic, macroeconomic, and political economic analyses, but hopes for a Gestaltian resolution in the final product.

[33] The author might at times be guilty of overemphasizing two admittedly tremendous and fascinating personalities: John Maynard Keynes, on call for the British, and Harry Dexter White at the U.S. Treasury.

[34] Robert E. Sherwood, *Roosevelt and Hopkins* (New York: Harper, 1948), pp. 506-7, cited in Gardner, p. 62.

had very different intentions. Imperial preference was seen by Hull as "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life."[35] Hull and his deputies at the State Department sought through Article VII nothing less than a commitment by the British to *end* imperial preference at the end of the war—soon to become the lynchpin of U.S. postwar foreign trade policy under GATT and ITO and through the Anglo-American Financial Agreement. When the revised Article VII was signed on February 2, 1942, both sides were satisfied with the new language calling for "the elimination of all forms of discriminatory treatment...and the reductions of tariffs and trade barriers...at an early convenient date." Both sides were not, however, in agreement on what that language in fact meant, and (mis)informed their legislatures accordingly.

The political economy of Anglo-American economic planning thus operated within a framework of what we may call "deliberate misunderstandings." That is to say, there was general agreement by American and British negotiators on the necessity of creating arrangements and institutions for postwar economic collaboration, based on low tariffs, stable currency exchanges, and balanced trade and payments. There was significant disagreement, however, on both the means and pace by which such agreements could be reached, and the relative weight that should be afforded to each economic objective. For the Americans, multilateralism could only come with a firm commitment from Britain to end discriminatory trade practices and preferences, both within and beyond the Commonwealth—political anathema for most all British politicians, for reasons both practical and patriotic. For the British, however, discrimination could only end with greater (or at least

35 Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: The Macmillan Press Ltd, 1978), p. 25.

proportionate) reductions in American tariffs—which, of course, posed similar political difficulties. It was better, then, for American and British negotiators to advance negotiations slowly but steadily, by tacitly accepting that the other side would leave the table with significantly different interpretations of their obligations and conflicting intentions for future negotiations. It was only through a mutually beneficial process of linguistic manipulations during the negotiations and domestic political misrepresentations following the negotiations that British and American multilateralists could both assert their respective national interests to each other and simultaneously mislead their respective legislatures and publics about exactly what each side was expecting from the other. In no other way could so much have been achieved in so little time and with such great success, than by the two great powers telling so many half-lies to each other and full lies to their legislatures.

The trope that U.S. policy during this period represented an enlightened self-interest is less untrue than it is misunderstood. That is to say, most American foreign economic planners at the departments of Treasury and, especially, State, indeed believed that free international trade would produce a free international community, that only sustained and coordinated global economic growth could bury the corpse of European fascism and persuade the hungry and desperate, victors and vanquished alike, to choose the Keynesian capitalism of the United States and Western Europe over the promises of Eastern Bloc socialism and its eager benefactors in Moscow. But the balance of enlightenment to self-interest was not often achieved and too often taken for granted. While mostly accepting (and often embracing) Keynesian full-employment fiscal policies for Britain and others, State Department negotiators pushed for a commercial policy of such classical orthodoxy it would make even the most *laissez faire* Victorian Open Doorsman blush.[36] As we will demonstrate, the State Department's ideological purity often threatened shared Anglo-American objectives for multilateralism.

Fortunately for the State Department, America's supreme military and economic position after the war afforded it such risk-taking. By 1947—the year in which the Anglo-American Financial Agreement forced Britain to implement, with disastrous affects, sterling convertibility; in which food shortages and unemployment across Europe caused riots; in which the doctrine of containment was introduced to counter perceived Soviet and communist aggression into Western Europe—American multilateralists could not help but reexamine the foundational historical materialism from which the rest of their argument necessarily followed. The Marshall Plan was therefore the lesson learned from this reexamination. "Our policy," Marshall spoke on June 5 to the graduating class of Harvard University and only a handful of specially invited foreign media, "is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist."

Whether or not the resulting institutions permitted by the political and social conditions of postwar Europe came to represent the kind of farce predicted by our other great materialist, we must now leave up to the reader.

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[36] One imagines this is not at all difficult.

Chapter I: The Negotiations

"Let your words speak not through their meanings,
But through them against whom they are used.

Fashion your weapon from ambiguous words.
Consign clear words to lexical limbo.

Judge no words before the clerks have checked
In their card index by whom they were spoken."

Czesław Miłosz, "Child of Europe", New York, 1946

Part I: Article VII and the Atlantic Charter: Deliberate Misunderstandings

As the title suggests, our study is concerned with the role of U.S. foreign economic policy in the creation of financial and commercial multilateralism in the early postwar era—that is, from (roughly) the first published plans leading to the Bretton Woods Agreements to the beginning of the Marshall Plan. No relationship contributed more to the formation of postwar multilateralism than that of the United States and Great Britain. At Bretton Woods, the American and British viewpoints dominated planning for the main instruments of financial multilateralism, the International Monetary Fund and World Bank; as we will see, however, this power was not equally shared amongst the two. But before we address Bretton Woods, it is first necessary to discuss the competing conceptions of Anglo-American postwar economic collaboration prior to 1943-44—namely, American and British efforts at defining each power's postwar responsibilities in pursuit of their competing visions for, but shared goal of, a multilateral trading regime after the war. For the Americans, commercial multilateralism could only come with the cancellation after the war of British imperial preference and discrimination, both within and beyond the Commonwealth. For the British, multilateralism could only happen if these systems were to some degree left in place, at least until Britain (and the rest of Europe) had properly re-industrialized. Until then, they could never compete with American industrial dominance, and would be forced to run destabilizing and unsustainable imbalances of trade.

Neither side wanted the latter scenario, but without a dramatic opening of global markets, the U.S. would be facing a massive export surplus immediately after the war's end. The result was a strategy by the U.S. to balance the two: Europe was to be strong, but not too strong. That is to say, in American foreign economic negotiations, the U.S. would plan to concede the minimum amount possible to make their vision of multilateralism not just acceptable in desperate circumstances, but viable; of course, it was in their interest to do so. By the time Lend-Lease and the Atlantic Charter had been signed, U.S. foreign economic planners exhibited a remarkable consensus as to what the British had committed themselves. The British, of course, returned with different and conflicting ideas. More remarkable, perhaps, is how long these seemingly deliberate misunderstandings existed between the two, at Lend-Lease, Bretton Woods, and beyond.

It is important to remember that, when President Roosevelt and Prime Minister Churchill met in August 1941 for the Atlantic Conference, the U.S. was still officially neutral in the war. However, Lend-Lease aid to Britain had already been approved by Congress on March 11. In fact, it had been announced to the British back in December 1940, with the expectation on both sides that congressional approval was an inevitability.[1] Indeed, Treasury Secretary Morgenthau, who was on closer terms with Roosevelt than anyone else in the government, was instructed by the President, shortly after his announcement, to inform Sir Frederick Phillips, the British Treasury representative in Washington, that "the President had said that it was all right to place orders now." In response to Phillips's question if whether "that definitely meant that all obstacles had been removed," Morgenthau replied that "the President was the boss and that all the Cabinet were simply his hired men."[2] This news was received in London with great relief and gratitude. Britain could, at least for now, continue to bear the burden of standing alone on the Western front. But the terms of Lend-Lease agreement—that is, what the U.S. would expect in return for its aid—was a question to which, at the beginning of 1941, neither the U.S. nor the British knew the answer.

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1 As Van Dormael writes,

> As soon as he had become Prime Minister, Churchill had decided to wage the war on the basis of unlimited liability, regardless of financial consequences. Huge orders for war material were placed with American manufacturers, although Britain could not pay. Some time in the first half of 1941 Britain would run out of resources, and would need massive credits from the United States government in order to be able to continue the armament purchases... President Roosevelt had encouraged the British government to place all the contracts necessary, without consideration of the financial implications. He was determined to give Britain all the help he possibly could. (*Bretton Woods: Birth of a Monetary System* (London: The Macmillan Press Ltd, 1978), p. 12)

2 T175/122, Keynes to Hopkins 18 Mar 1941, cited in Van Dormael, p. 13.

It would be with Morgenthau (and his close advisor Harry Dexter White) that John Maynard Keynes would work closely in the Bretton Woods conference three years later, but in early 1941, the two began their relationship on strained terms. Morgenthau had pledged to Britain that it would receive whatever was needed to continue fighting the war, but after the announcement of Lend-Lease, he then insisted that the British announce publicly the sale of a number private investments in the United States, in order to convince Congress that Britain was "scraping the bottom of the barrel."[3] What angered Keynes, however, was that Morgenthau continued this tack even after Lend-Lease was approved. In response to what he saw as unnecessary and unreasonable forced sales of British investments, Keynes, six days after the passage of Lend-Lease, noted to Roosevelt advisor Harry Hopkins that

> Morgenthau has repeatedly led us to hope (though without full confidence) more than he has performed. Instead of taking a more discouraging line before the necessary legal powers have been obtained and then using them generously when obtained, he has pursued precisely the opposite policy to the extent of actual dishonestly, namely, to encourage us before he had the powers and then to refuse to use them when he has got them.[4]

And so the British suspicion of American diplomatic motives had begun. Since Lend-Lease had been passed, Keynes believed "that it might be as well to call attention to the consequences of what is proposed in plain language and not submit to it in humble silence." If not, "it will be open to Mr. Morgenthau day by day to allow us just so much relief as is necessary to keep us on the mat but still believing...if he adopts this procedure he will retain

3 Samuel E. Morison, *History of United States Naval Operations in World War II, Volume 12* (Chicago: University of Illinois Press, 2002), p. 37.
4 T175/122, Keynes to Hopkins 18 Mar 1941, cited in Van Dormael, p. 14.

power in his hands to bend us to his will both on the sale of direct investments and on any matter of detail where he has a fancy to do so."[5]

Keynes would learn to get on with Morgenthau as time progressed, but it was the State Department that would most vex him and other British officials in the coming months and beyond. In fact, Harry White at Treasury sent out a scathing memorandum during this process, criticizing State for its "half-measures, miscalculations, timidity, machinations, or incompetence," and characterizing their diplomatic maneuvering as "a 19th century pattern of petty bargaining."[6] Although Morgenthau may have been quite close with Roosevelt, it was Secretary of State Cordell Hull whom Roosevelt asked to draw out a plan for how, when, and with what Britain would repay its Lend-Lease debts. On May 16—about two months after the brief Morgenthau-Keynes row—Roosevelt wrote to Hull,

> I wish you would work out the over-all arrangement between the United States and the British Government relative to the

5 T175/122, Keynes to Hopkins 14 Mar 1941, cited in Van Dormael, p. 14.

6 The full paragraph is worth quoting:

> It has consisted of a 19th century pattern of petty bargaining with its dependence upon subtle half promises, irritating pinpricks, excursions into double dealing, and copious pronunciamentos of good will alternating with vague threats—and all of it veiled in an atmosphere of high secrecy designed or at least serving chiefly to hide the essential bareness of achievement.... Where modern diplomacy calls for swift and bold action, we engage in long drawn-out cautious negotiation; where we should talk in terms of billions of dollars, we think in terms of millions; where we should measure success by the generosity of the government that can best afford it, we measure it by the sharpness of the bargain driven; where we should be dealing with all-embracing economic, political and social problems, we discuss minor trade objectives, or small national advantages; ...we must substitute, before it is too late, imagination for tradition; generosity for shrewdness; understanding for bargaining; toughness for caution, and wisdom for prejudice. We are rich—we should use more of our wealth in the interest of peace and victory. (White Papers, Box 6, Item 16a, cited in Van Dormael, pp. 19-20)

> consideration or considerations to be given to us by the British in return for the material provided under the Lend-Lease act. ...Although I presume the agreement will not provide primarily for a return to us of cash, I think, nevertheless, you should consult with Secretary Morgenthau in regard to the broad provisions of the agreement... [It is important] that we reach an agreement with the British at an early date.[7]

Hull had served as Secretary of State since 1933, and in his tenure, had been the strongest advocate for the idea of an Open Door policy. Through Lend-Lease, Hull sought nothing less than the full abolition of British imperial preference and bilateral treaties (such as the Ottawa Agreements) in exchange for Lend-Lease aid. This was a matter Roosevelt would soon lead Churchill to believe—and that Roosevelt believed himself—was not a binding commitment in the Lend-Lease agreements or the Atlantic Charter. As will become clear, committing the British to renounce and repeal of imperial preference and discrimination was the most pressing objective for the State Department's vision for postwar economic multilateralism.

During June and July 1941, the State Department met with Keynes and, after many revisions, presented to him on July 28 the first "Draft Proposal for a Temporary Lend-Lease Agreement". Keynes was satisfied as he read over the draft, until he came to the clause which would come to define early postwar Anglo-American economic conflict and indeed the commercial half of postwar multilateralism. Article VII of the draft proposed

> The terms and conditions upon which the United Kingdom receives defense aid from the United States of America and the benefits to be received by the United States of America in return therefor, as finally determined, shall be such as not to burden commerce between the two countries but to promote

7 United States Department of State, *Foreign Relations of the United States,* 1941, Volume III (Washington, DC: GPO), p. 5, cited in Van Dormael, p. 21.

> mutually advantageous economic relations between them and the betterment of world-wide economic relations; they shall provide *against discrimination in either the United States of America or the United Kingdom against the importation of any product originating in the other country*; and they shall provide for the formulation of measures for the achievement of these ends.[8]

Keynes knew what was coming. When he asked Acheson if this meant Britain had to end imperial preference and exchange and trade controls, and Acheson replied in the affirmative, Keynes was visibly upset. Acheson tried to reassure him but Keynes, according to Acheson, insisted that "the only hope of the future was to maintain economies in balance without great excesses of either exports or imports, and that this could be only through exchange controls, which Article VII seemed to ban."[9] This language set off alarm bells in the mind of Harry Hawkins, Hull's free-trading deputy and partner in the negotiations. Hawkins wrote to Hull, "Mr. Keynes contemplates the adoption after the war, as a deliberate policy of the United Kingdom, of bilateral and commercial economic arrangements with foreign countries...his standing and influence are such that any views he may have are bound to receive consideration in the United Kingdom and hence are of real concern to us here."[10]

Hawkins was correct on both charges. According to Hawkins, Keynes had said that, after the war, Britain would find itself in need of large quantities of imported goods but with drastically less money and resources to purchase them. Therefore, the British would need to adopt some form of bilateral agreements in order to "keep its purchases within its means,

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8 FO371/28799, Telegram Halifax to Foreign Office 28 May 1941, quoted in Van Dormael (my emphasis), p. 22

9 U.S. Department of State, *Foreign Relations of the United States,* 1941, Volume III, pp. 11-13, cited in Van Dormael, p. 24.

10 Van Dormael, p. 26.

while facilitating exports to a maximum." Hawkins further wrote that

> Keynes felt that the United States should not object to this plan, because, anyway, Britain would be under the *necessity* of adopting it, and it would not be of great consequence to the United States; in addition, as a creditor nation with a large export surplus, refusing to take full payment in goods, and instead, accumulating gold, the United States had 'made any general international system unworkable.'"

These were harsh words, but they were by no means inaccurate. The U.S. *was* a creditor nation with a large export surplus, and unless Britain and other countries were allowed to keep *some* trade and currency controls, Keynes argued, this imbalance would disallow for the multilateral system that both sides envisioned for the eventual structure of the postwar global economy.[11] This would not be the last time Keynes would make this argument to U.S. policymakers. From this point on, the State Department would make the ending of imperial preference and all other forms of trade discrimination and currency restrictions the *raison d'être* of U.S. postwar commercial policy. Hawkins concluded his letter to Hull by warning that "it might easily happen that British policy, under the influence of Mr. Keynes and others,

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11 R. F. Harrod describes Keynes's position less harshly than does Hawkins:

> Keynes, as may be expected, reacted unfavourably. He, too, had had the idea that the Lend-Lease commitments might somehow be tied up with a big programme of collaboration in world reconstruction. 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 his 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. Mr. [Redvers] Opie [the British economist] affirms that he referred to this first draft of Article VII as "the lunatic proposals of Mr. Hull". He had to bring them back to England. (*The Life of John Maynard Keynes* (London: Macmillian & Co. LTD, 1951), p. 512.

will be permitted to drift in a direction wholly opposed to ours unless we take pains to make our position clear on every suitable occasion." A concerned Hull then forwarded the memorandum directly to the President.[12]

In the days after Keynes's July 28 meeting with Hawkins and Acheson, Hawkins's alarm about Keynes's comments made its way into another Anglo-American agreement on the postwar settlement. On August 9, President Roosevelt, accompanied by Undersecretary of State Sumner Welles, met with Prime Minister Churchill in an undisclosed location off the coast of Newfoundland for the landmark Atlantic Conference. Neither Roosevelt nor Churchill were primarily concerned with the particularities of postwar economic collaboration, but Welles, imbued with the same free trade absolutism as his superior, Hull, pressed Sir Alexander Cadogan to draft with him a joint declaration on the Atlantic Conference principles. Welles placed particular emphasis on economic issues. Alluding to Keynes's outburst, he informed Cadogan that he sensed British opinion to be "directing its energies towards 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." Welles concluded with a rather succinct summary of the American philosophy of free-trade multilateralism. He stressed to Cadogan that he hoped the Undersecretary recognized

> the need, when the time came for world reconstruction to be undertaken, of the freest possible economic interchange without discriminations, without exchange controls, without economic preferences utilized for political purposes and without all of the manifold economic barriers which had in my judgment been so

12 Roosevelt Papers, Secretary's File, Box 78, cited in Van Dormael, p. 27.

> clearly responsible for the present world collapse.[13]

Cadogan "expressed general sympathy with Welles' remarks but was not prepared to pursue the matter further until the question of the joint declaration was considered by the two leaders."[14]

Roosevelt discussed the matter while dining with Churchill on August 9, and the next day, the Prime Minister, well aware of the exchange between Cadogan and Welles, sent a response with only the most vague reference to Welles's demands: "Fourth, they will strive to bring about a fair and equitable distribution of essential produce, not only within their territorial boundaries, but between the nations of the world."[15] With its focus on balanced, rather than limitless, trade, Churchill's draft smacked of Keynes's noncommittment to ending imperial preference and other forms of trade discrimination—precisely what would come to define the British resistance to the U.S. vision of postwar multilateralism and precisely what Welles and the State Department sought to end at the conference and in Lend-Lease negotiations. Welles's response left no doubt as to his intentions:

> Fourth, they will strive to promote mutually advantageous economic relations between them through the elimination of any discrimination in either the United States of America or in the United Kingdom against the importation of any product originating in the other country; and they will endeavour to further the enjoyment by all peoples of access on equal terms to the markets and to the raw materials which are needed for

13 Memorandum of conversation between Welles and Cadogan (9 Aug. 1941), cited in Richard C. Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), p. 43.

14 Gardner, p. 43.

15 Winston S. Churchill, *The Grand Alliance* (London: Houghton-Mifflin, 1950), p. 385, cited in Gardner, p. 43.

> their economic prosperity.[16]

It is not clear whether Churchill had actually read the Lend-Lease Article VII draft presented to Keynes on July 28, but if he had, he would have noted that Welles's statement matched almost entirely that of Harry Hawkins.

After a few alterations by Roosevelt,[17] the document was presented to Churchill and Cadogan for discussion. Churchill, aware of the alternations, asked if "the elimination of any discrimination" applied to the Ottawa Agreements, the set of twelve Commonwealth preference treaties treasured by the British but hated by Hull and the State Department.[18] Welles, understanding Roosevelt's desire to simply reach a broad agreement on principles in the spirit of the conference, assured Churchill that the phrase "endeavour to further" negated the suggestion of any contractual obligation. However, Welles had by no means lessened in his desire to end any British postwar discrimination and preferences through Article VII:

> I said that in my own judgment further modification of that article would destroy completely any value in that portion of

16 Sumner Welles, *Where Are We Heading* (London: Harper and Brothers, 1947), p. 8, cited in Gardner, p. 44.

17 According to Gardner,

> To Roosevelt, they read too much like the text of a detailed trade agreement and seemed out of place in what was intended to be a lofty statement of general purpose. He told Welles it would be better 'to limit the scope of the entire declaration to principles, rather than include therein references to the immediate issues'. For this reason he struck out the words before the semicolon; but he retained their general import by inserting the words 'without discrimination' in the passage that followed, so that the section now provided for 'access without discrimination and on equal terms'. In Welles's view this retained the 'essential point' of the excised section. Welles rewrote his draft of the Charter once more, incorporating the suggestions of the President, and in this form it was discussed on the morning of 11 August by Churchill and Roosevelt, assisted by Welles, Hopkins, and Cadogan. (*Sterling Dollar Diplomacy*, p. 44)

18 Hull was passionate about ending the Ottawa agreements, even calling them "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life." See Van Dormael, 25, and Gardner, 51-52.

> the proposed declaration. I said it was not a question of phraseology, but that it was a vital principle which was involved. I said that if the British and the United States governments could not agree to do everything within their power to further after the termination of the present war, a restoration of free and liberal trade policies, they might as well throw in the sponge and realize that one of the greatest factors in creating the present tragic situation in the world was going to be permitted to continue unchecked in the postwar world.[19]

In a defense that would become common in Anglo-American discourse in the years to come, Churchill told Welles, “I could not help mentioning the British experience in adhering to Free Trade for eighty years in the face of ever-mounting American tariffs...All we got in reciprocation was successive doses of American protection.”[20]

Still, the Prime Minister's recommendations—“strike out 'without discrimination', substitute 'trade' for 'markets', and, most important, insert the saving clause 'with due respect for existing obligations'”—were satisfactory to the President and the matter seemed, for now, settled.[21] In a cable to the War Cabinet in London, Churchill included the Atlantic Charter draft along with this reassurance:

> The fourth condition would evidently have to be amended to safeguard our obligations contracted in Ottawa and not prejudice the future of Imperial Preference. This might fall into place after the war in a general economic settlement, with decisive lowering of tariffs and trade barriers throughout the world. But we cannot settle it now. For the sake of speedy agreement I have little doubt he [Roosevelt] will accept our amendments.[22]

Despite Welles's final attempts to convince Roosevelt on the importance of keeping the phrase “without discrimination” and removing the clause “with due respect for existing

19 Welles, pp. 13-14, cited in Gardner, p. 45.
20 Churchill, p. 387, cited in *ibid*.
21 Gardner, p. 47.
22 Churchill, p. 391, cited in Gardner, p. 46.

obligations"—the insertion of which, Welles argued, would preserve the Ottawa Agreements—Roosevelt did not believe that the fine points of commercial policy should stand in the way of releasing the joint statement.[23] In fact, Roosevelt added the War Cabinet's proposed amendment stressing the more growth-oriented ideas of Keynes, and the final text was released on August 14 as a statement of "certain common principles in the national policies of their respective countries on which they base their hopes for a better future for the world"—not exactly the firm promise to end discrimination and preference sought by Welles and others at the State Department.[24]

With the Atlantic Charter completed, Welles and his colleagues turned back to negotiating the controversial Article VII of Lend-Lease. The State Department's position in the months between the announcement of the Atlantic Charter and the signing of the revised draft of Article VII remained firm in its desire to pressure the British into a definite commitment on ending discrimination and tariffs, but did begin to reflect a desire to incorporate British anxieties about their postwar economic realities. In the State Department's final draft, the language of the July draft providing for "the elimination of all forms of discriminatory treatment...and the reduction of tariffs and other trade barriers" remained, but, crucially, the last paragraph suggested that these demands would not necessarily be immediately expected:

> *At an early convenient date*, conversations shall be begun between the two Governments with a view to determining, in

23 Gardner, p. 46.
24 *The New York Times*, August 15, 1941, quoted in Gardner, p. 47.

> the light of governing economic conditions, the best mens of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.[25]

However, the phrase on ending discrimination still clearly meant that the British would have to give up, at some point, imperial preference—an issue on which even the most *laissez-faire* of British Treasury officials were far from a consensus. As late as December 1941, Secretary Hull was lobbying Churchill to commit the British to ending imperial preference with Article VII, eventually convincing Roosevelt to press the Prime Minister on the matter. Churchill was resolute, stressing to the President that such a provision would help enemy propagandists condemn U.S. aid as a cynical power move, especially since the request corresponded with the fall of Singapore—later described by Churchill as “the worst disaster and largest capitulation of British history.”[26] Roosevelt was convinced, and offered his reassurance to Churchill that “nothing could be further from his mind than an attempt to use Lend-Lease as a trading weapon over the principle of imperial preference.”[27]

Roosevelt was most likely being honest about his own intentions, but even after the signing of the revised draft of Article VII on February 23, 1942, seemingly purposeful confusion continued on both sides as to what British had actually committed themselves. As late as April 21, 1944, Churchill was explaining to the House of Commons “how strictly I have during my stewardship, safeguarded the structure of Imperial Preference,” alluding to

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25 *Department of State Bulletin VI* (1942), p. 192, cited in Gardner, p. 59 (my emphasis).
26 Gardner, p. 61.
27 Robert E. Sherwood, *Roosevelt and Hopkins: An Intimate History, Volume II* (New York: Harper & Brothers, 1948), pp. 506-7, cited in Gardner, p. 62.

charges that he had traded imperial preference in exchange for Lend-Lease aid.[28] Meanwhile, on the American side, the State Department was asserting the opposite. For instance, Dean Acheson told Congress in February 1943 that the British "are not holding out any of their special arrangements as being sacred or being protected from these negotiations."[29] Perhaps the most honest explanation of the State Department's interpretation was given by Secretary Hull:

> We informed British Ambassador Halifax that we had expressed Article VII in general terms so as to avoid specific reference to preferential arrangements, which reference might cause political embarrassment to the British government. We added that all such arrangements were included within the scope of our general provisions and that, if the agreement were published and we were asked to explain what did fall within the term, we proposed to say it was all-inclusive.[30]

These were the views on each side of the Atlantic in 1943-1944: general agreement on phasing out discriminatory trade and drastically reducing tariffs under multilateral arrangements, but significant disagreement—to the point of deliberate misunderstanding—on the means and pace by which these goals could be reached. Who would bear the burdens of creating this system? Would the U.S. use its inevitable postwar leverage to end *all* discrimination within the British trading system (if it had not already achieved the promise of this in Article VII)? If the British made these concessions, would the U.S. reciprocate with enough aid and trade concessions of their own? In other words, would the U.S. lean more

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28 U.K. Parliament, House of Commons, 399 H.C. Deb. 579-80 (21 Apr. 1944), cited in Gardner, p. 65.

29 U.S. Congress, House, Committee on Foreign Affairs, *Extension of Lend-Lease*, Hearings on H.R. 1501, 78th Cong., 1st sesssion (Jan.-Feb. 1943), p. 109, cited in Gardner, p. 67.

30 Cordell Hull, *The Memoirs of Cordell Hull: Volume II* (New York: The Macmillan Company, 1948), p. 1152, cited in Gardner, p. 66.

towards Keynesian ideas of equal growth and full employment—which, as Keynes and others stressed, could not happen without some ideological flexibility—or would these goals be ignored in favor of the Open Door absolutism of Hull and the State Department? The answers to these questions would slowly emerge out of Anglo-American economic negotiations in the final years of war and in the immediate postwar period. It is this period towards which our analysis may now turn.

Part II: Keynes and White: A New Partnership

By the end of Lend-Lease discussions, debate about the form Anglo-American postwar multilateralism had been defined primarily by the *laissez faire* State Department's impression on the various factions of the British political class—Tories, liberals, socialists, and Labourites—who rejected ending imperial preference for a number of ideological and practical reasons. However, Keynes's experience with the State Department had taught him something about both the limits and locations of American generosity vis-a-vis its foreign economic policy. It was at this time that he began to further develop his proposal for an internationalist, monetary-based solution to the inevitable imbalances of payments and trade that he feared would lead to the death of the multilateral system both sides sought to achieve.

In America, Harry Dexter White—the man from Treasury who had so harshly criticized the State Department's behavior during Lend-Lease discussions—started writing his own plans for a compromise between the export-oriented demands of the U.S. economy and the growth-oriented demands of Britain, Europe, and the developing world. In fact, State and Treasury had by this point assumed separate roles in foreign economic planning. State, headed by the conservative Hull, had clearly taken the lead in forming U.S. commercial policy, while Treasury, headed by New Dealers like Morgenthau and White, naturally assumed control over U.S. international financial policy. As we have seen, relations between the two departments were sometimes strained; effective communication about objectives and policies could be as much of a problem as any actual ideological differences. Further, Morgenthau had a close personal relationship with Roosevelt that Hull did not have, as a result of biographical and ideological similarities. State had achieved a partial victory in Article VII, the significance of which would not become clear until after the war, but, for now, Treasury would take the lead in crafting U.S. foreign economic policy. Still, for all its disagreements with State, Treasury Department strategy was nevertheless based on the same thesis: that meeting the structural demands of the postwar U.S. economy should take precedence over meeting the structural demands of countries awaiting or expecting reconstruction aid. As we will see, the U.S. was not afraid to spend its capital, political and fiscal, to ensure these goals through the creation of postwar financial institutions whose international commitments would not—and because of its veto power, could not—overwhelm the interests of policymakers in Washington and bankers in New York.

Keynes returned to London in 1941 with "the lunatic proposals of Mr. Hull" in hand. He knew that the State Department would not change its postwar commercial policy; he also knew how much leverage the United States would have, considering the extent of British debt relative to its desperate need for imports and lack of capacity to export. Keynes could either stick with the idea of bilateral agreements—potentially growing British export abilities but risking State's threat of a trade war—or he could devise a more creative solution to work with, or perhaps around, U.S. ideological stubbornness. He chose the latter. R.F. Harrod explains Keynes's thinking during this period:

> I ran into him about this time in a Treasury corridor; he was leaning against a door-post. "You must give up the bilateralist approach," I said, "and come down on the American side." "No," he said, "I must pursue both lines of thought...*both*." His expression was enigmatic. He seemed to be transfixed with a curious immobility that was unlike him. Some deep inscrutable thoughts were proceeding. Even his great brain was baffled by this problem... He was soon busy on his first draft of an international "Clearing Union".[31]

In less ecstatic terms, Keynes explained further that there was "a logical reason for dealing with the monetary proposals first": "It is very difficult while you have monetary chaos to have order of any kind in other directions.... It is perhaps an accident that the monetary proposals got started first...but I am not sure that it was not a fortunate accident."[32]

Keynes had been developing his idea of the International Clearing Union since his appointment as adviser to the Chancellor of the Exchequer in the summer of 1940. The plan was essentially an attempt to create an institution that both ensured stable exchange rates *and* allowed for stimulative fiscal policies. His idea was simple but bold: an international bank that would measure balances of trade by adding and subtracting bancors—a supranational currency backed by gold—from members' accounts based on their relative levels of exports

31 Harrod, p. 526.
32 U.K. Parliament, House of Lords, 131 HL Deb. 778, 16 May 1944, cited in Van Dormael, p. 31.

and imports. Member nations would be given incentives to keep their balance near zero: surplus nations would be punished by losing a small percentage of their bancors to the Clearing Union's Reserve Fund, so that they are encouraged to buy other countries' exports, while deficit nations would have their currency deflated to make imports more expensive and to further encourage other countries to buy their exports. The point was to make the burdens of shifting to multilateralism more evenly shared, by declaring the free convertibility of all currencies—a goal both the U.S. and (at least for now) Keynes shared—while allowing for deficit or developing countries to grow their own economies without being merely debt-ridden export dumping grounds or cheap sources of raw materials for exporters of manufactured goods. By the summer of 1941—the same time he was in Washington for Lend-Lease discussions—Keynes's plan was circulating around the British Treasury and Cabinet. Although met initially with skepticism, it was generally favored by the winter, leading Keynes to remark, "I have received more encouragement for this from all quarters in Whitehall than for anything I have ever suggested."[33]

By the end of 1941, Harry White had produced his own plan for postwar financial stabilization. The "Suggested Plan for a United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations" in many ways shared the same objectives as Keynes's plan: it aimed "to prevent the disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to

33 Donald Edward Moggridge, *Maynard Keynes: An Economist's Biography* (New York: Psychology Press, 1995), p. 676.

supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery."[34] The plan for the Bank was especially ambitious: it was to have a capital stock of $10 billion and was "designed chiefly to supply the huge volume of capital to the United and Associated Nations that will be needed for reconstruction, for relief, and for economic recovery," by making long-term loans at low interest rates. By the spring of 1942, however, planning for the Bank was largely ignored in favor of the less ambitious Stabilization Fund. Like Keynes's Clearing Union, the Fund was a plan to address credit imbalances; however, unlike the Union, the Fund would do little to ensure that this would contribute to balances in trade. Rather, what White had invented was closer to the International Monetary Fund of the neoliberal era: "In return for this additional source of international liquidity members would be required to part with a considerable measure of economic sovereignty.[35] In specific terms, they would have to surrender the right

34 Edward Sagendorph Mason, Robert E. Asher, *The World Bank since Bretton Woods* (New York: Brookings Institution Press, 1973), p. 15.

35 The list of conditions that participating countries would have to fulfill is informative:

> (1) agree to alter their exchange rate only with the consent of the Fund, and only to the extent and in the direction approved by the Fund;
> (2) agree (after a certain period of adjustment) to operate without foreign-exchange controls, excepting possibly exchange to be used for short-term capital movements;
> (3) agree not to enter upon any bilateral clearing arrangements;
> (4) agree not to permit gold to circulate as a medium of exchange within the country, and to concentrate all monetary gold in the central bank or in the treasury;
> (5) agree not to adopt any monetary banking measures promoting either serious inflation or serious deflation without the consent of a majority of the member votes of the Fund;
> (6) agree to embark upon a programme of gradual reduction of existing tariff schedules without any increase in schedules except with the approval of the Fund; and
> (7) agree not to permit any defaults on foreign obligations of the government, central bank, or any other government agency, without the

to vary their exchange rates; abolish all forms of exchange control; and submit to Fund supervision over domestic economic policies."[36] In the late summer of 1942, Morgenthau and White arrived in London and exchanged plans with Keynes in a dramatic private meeting—their first, according to E.F. Penrose, who attended. After the meeting White and Keynes agreed to return to their colleagues with each partner's proposals.[37]

By early 1943, the growth-oriented Bank had been shelved and White released only his plan for the Stabilization Fund. In the spring, it reached the British Treasury, via Ambassador Halifax. Although Keynes's idea of an international currency was absent, in the eyes of British policymakers, White's revisions contained a most significant concession. When drafting the Clearing Union, Keynes had worried that creditor countries such as the U.S. would allow a favorable imbalance to continue uncorrected unless compelled to do otherwise. White's plan seemed to offer an American version of Keynes's putative measures:

> If debtor countries increased indebtedness beyond a certain

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> approval of the Fund. (Van Dormael, pp. 43-4)

36 Gardner, pp. 74-5.

37 Penrose, pp. 48-49. It might be helpful to quote, from Penrose, a recollection of this most exclusive exchange, of which no official record was made:

> The exchange of views was left almost wholly to Keynes and White. It was lively and at times somewhat acrimonious but exceedingly fruitful. There was a substantial area of agreement but there were also sharp differences. Keynes thought the fund proposed by White would not be large enough. White considered it would be impossible to get more, if as much, out of Congress for the U.S. share... He also attacked as politically impossible the proposal of Keynes to use the Clearing Union to finance relief and reconstruction or any part of it... Difference arose on the voting system and other points. Finally Keynes argued for direct negotiations between the U.S. and U.K. alone or possibly with the Dominions and the Soviet Union added, while White maintained that this would create suspicion of an Anglo-Saxon financial "gang-up"...White argued that a beginning might be made in two or three separate small groups, for example, the U.K. and European Allies and the U.S. and a Latin American group.

> level, they would lose their drawing rights; if creditor countries increased their credit beyond a corresponding level, their currencies would be declared 'scarce' and would be allotted under a scheme, and thus debtor nations would have a fully authorized right to discriminate against the exports of creditor countries. Thus there was to be discrimination, not unilaterally at the mere whim of the importing country, but only when the condition of the Stabilization Fund showed that it was justified.[38]

Even though the U.S. would most likely have ultimate control over the terms and application of these measures, that it seemed that the U.S. had *finally* admitted a joint responsibility for combatting the initial difficulties of a transition made less orthodox multilateralists, such as Penrose, ecstatic. Keynes, however, was keen to the political realities of this still-tentative draft. In a response letter to Penrose, he remarked, “I cannot imagine that the State Department really would put forward as their own solution the rationing of purchases from scarce currency countries. You must remember that the evidence as to the extent to which the State Department have actually accepted this document of Harry White's is somewhat flimsy. I should expect that the moment emphatic attention was drawn to this alternative, it would be withdrawn.”[39]

In June 1943 informal discussions began in Washington between British Treasury and Embassy representatives and U.S. Treasury officials on postwar international monetary planning. By September the chaotic exchange of ideas began to cohere into something presentable, and the two teams worked hard into the winter, when experts of some thirty of the United and Associated Nations were brought in for additional help. The resulting

38 Harrod, p. 543.
39 *Ibid*, p. 547.

document—“Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations”—was released to the public in April 1944; not surprisingly, it closely resembled the less generous and more orthodox White Plan. The Bank plan had been published in November 1943, but would not be addressed directly by the British until June at preliminary discussions in Atlantic City.[40] On July 1, American and British representatives took these two plans to a remote hotel in New Hampshire, at which all forty-four Allied nations were present, for perhaps the most significant three weeks of international financial cooperation in world history.

Part III: The Bretton Woods Conference: Multilateralism with an American Face

“Only two people understand the gold standard and they disagree”
-Unknown

The Bretton Woods Conference, as it came to be known, was organized in the final year of war around the genuinely shared belief that there could be no lasting peace without economic security. Indeed, the chilling prescience of Keynes's observations on post-WWI Germany in his 1919 bestseller, *The Economic Consequences of World Peace*, provided to all delegates a moral imperative for cooperation and sacrifice in the creation of a more effective and stable world economic order. It was an impressive, and necessary, accomplishment that the negotiations—not to mention the domestic political reality of selling the plan in each respective country—were completed in time and without any walkouts. However, as we have outlined above, there were significant differences between American and British visions for

40 Gardner, p. 110. See Van Dormael, pp. 156-167 for an overview of the Atlantic City discussions.

postwar multilateralism—not to mention those of other Allied nations, many of whom found themselves calculating their positions based on their own prewar bilateral arrangements with the U.S. or Britain.

The British view was for most the more attractive one, namely, in its emphasis on stronger measures to curb the power of chronic exporters-creditors such as the United States, and on ensuring larger and less restrictive loans for debtor countries to pursue policies of domestic growth and full-employment. This was the crux of Keynes's Clearing Union; without it, he believed, any attempt at multilateralism would be doomed from the start. For the United States, such a mechanism was out of the question. On the first night in a private meeting with the American delegation,

> The other countries had suggested that pressure should be put on creditor countries, and by that they meant mainly the United States. They expected that the United States would continue to export more than it imported, and to drain the world's gold. So they wanted these creditor countries to adopt a policy which would put less pressure on the exchange of the debtor countries, and [said White] 'enable them to sell more goods here. We have been perfectly adamant on that point. We have taken the position of absolutely no, on that. And that has created a good deal of discussion and will continue to create some.'[41]

White's plan *would*, however, retain the system of punishing debtor countries with climbing interest rates for each loan taken out from the Fund. When one American delegate objected that this policy might actually *increase* an indebted country's indebtedness, White replied that the charges would be low, and further, that it was a necessary inducement for the country to

41 Van Dormael, p. 171.

balance its books.[42]

The first few days of the conference were spent working out procedural issues, out of which the U.S. assumed an important early advantage: the secretaries of Fund committees, who would write up the minutes of committee meetings, were to be designated by White alone. Not surprisingly, White's designates were all Americans who had worked with him at Atlantic City in June.[43] In a situation in which, as one official from the U.S. Federal Reserve remarked, “There were a great many varieties of people and a great many varieties of unintelligible English spoken,” where “most everything was said in what was supposed to be English,” this was an extraordinary advantage, effectively giving White and his advisers the final say in any given Fund negotiation taking place in that Hotel of Babel.[44]

As had been previously decided, White's Commission I was in charge of all planning for the Fund. Keynes's Commission II, meanwhile, was to be in charge of planning for the Bank. This—and the linguistic medley that emanated from the non-English speaking delegations—made the conference an essentially Anglo-American debate, at least in the minds of Anglo-American officials. As Harrod remarked in Keynes's official biography, “It has to be said that, on the whole, other nations did not contribute ideas of novelty or importance.”[45] Rather, most conflict that was not Anglo-American in nature concerned the issue of quota allotment in the Fund. This was indeed an important issue but it had the effect of obscuring the balance of payments problem which Keynes and others believed to be

42 *Ibid.*
43 *Ibid*, p. 175.
44 *Ibid*, p. 179.
45 Harrod, p. 579.

insufficiently addressed in White's vision for the Fund. Nevertheless, the quota problem was solved by White in a typically American fashion: by appointing "a formal Quota Committee, which presumably will report the quotas to the Commission, but we won't call them to meet. United States is chairman."[46] On the night of July 14, White's private Quota Committee submitted its proposal to his commission. Reservations were made by delegates from China, Egypt, France, India, New Zealand and Iran, but none stated that they would not abandon the plan because of these disagreements, and the proposal passed unanimously.[47]

Meanwhile, Keynes's Commission II had been moving at a similarly fast pace. This was distressing to the Americans. All of the experts were working with White on the Fund, leaving an exasperated Dean Acheson—an admitted nonexpert who was "playing this by ear"—practically alone to deal with Keynes. White again had an American solution. When disagreement arose, "instead of referring it back to the committees or instead of discussing it at any length in the committees, we let a few people discuss it, and immediately refer it to the ad hoc committees, created especially for that purpose, to refer back to the Fund Commission, and not to the committees. The procedure is very simple, Dean."[48]

This procedure effectively buried Keynes and White's initially shared idea of an international currency—and all without Keynes's knowledge. Even in June 1944, at the preliminary discussions in Atlantic City, Keynes still rejected the idea that the dollar should be given a special status, though he did admit that White's answer to his bancor, the unitas,

46 Morgenthau Diary, 752, pp, 40-86, found at the Franklin D. Roosevelt Library (Hyde Park, NY), quoted in Van Dormael, pp. 180.
47 Van Dormael, p. 183.
48 Morgenthau Diary, 753, pp. 77-116, cited in Van Dormael, p. 200.

might be acceptable. Nevertheless,

> There seems to be no evidence that the Americans discussed the subject with any other delegates. However, though the Statement of Principles, as it was submitted to the Bretton Woods conference, clearly stated that "The par value of a member's currency...shall be expressed in terms of gold," White knew that the international bankers were extremely anxious to see the dollar become the international currency of the future.[49]

It is doubtful whether White ever considered any other option than a dollar-based postwar international order. For instance, a year prior to the conference, he told a group of economists, "The dollar is the one great currency in whose strength there is universal confidence. It will probably become the cornerstone of the postwar structure of stable currencies."[50]

Keynes, however, never had White's confidence in the strength of the dollar. Rather, he (and many others) feared that if the United States were to experience a depression, the rest of the world would not only suffer, but would be forced back into protective tariffs against the U.S. and bilateral agreements excluding the U.S., provoking a global trade war and marking the end of any kind of multilateralism. But White, with the use of his special "referral" commissions, was able to fulfill his promise to U.S. bankers. On July 6, at the 2:30 p.m. meeting of Commission II—at which time Keynes was notably absent—the American delegate offered this "insignificant" proposal: "The par value of the currency of each member shall be expressed in terms of gold, as a common denominator, or in terms of a gold-

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49 Van Dormael, p. 201.
50 Morgenthau Diary, 753, pp. 133-64, cited in Van Dormael, p. 200.

convertible currency unit of the weight and fineness in effect on July 1, 1944."[51] The provision was hastily approved by the committee and redirected for final view to White's private commission at the Fund. As Van Dormael explains,

> Only White and his closest assistants at the Bretton Woods conference were aware. It is doubtful that even Morgenthau was involved. While it made White a little nervous, until the process was completed, it was in fact the easiest hurdle to overcome during the conference, and the one that had the most far-reaching consequences for the future. Since only a small group of 'technicians' were informed, it did not become a point of general debate.[52]

On July 13, the issue was brought up again in White's Commission I. Before the meeting White had remarked to Morgenthau that this meeting "was extremely important. This is where we either fish or cut bait on most of these things."[53] Professor Robertson, the British delegate, suggested, against the earlier instructions of Keynes, that the phrase "gold and gold-convertible currency" be changed to "net officials holdings of gold and U.S. dollars." White, recognizing Robertson's error, immediately accepted the proposal and redirected it to his special committee.[54] In the ninety-six page document that all forty-four delegates would sign days later, the subtle but essential change from 'gold' to 'gold and US dollars' was noticed by no one—not even Keynes, who did not find out until days after the conference. According to Van Dormael, this was one of many unnoticed changes worked out by White and his group. Keynes "obviously would have never agreed to the proposal, and he was not aware of it."[55]

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51 Van Dormael, p. 202.
52 *Ibid*.
53 Morgenthau Diary, 753, pp. 77-115, cited in Van Dormael, 202.
54 Van Dormael, 202.
55 *Ibid*.

What this meant was that the nation with by far the largest currency *im*balance had, unilaterally, linked the future stability of its own currency to that of, quite literally, the world's bank, suggesting that the U.S. could continue its imbalance for as long as it wished. This had far reaching consequences. Since the U.S. held and would continue to hold the most gold reserves, that the U.S. had insisted on giving veto power to the country with the highest quotas—based, of course, on the amount of gold one held in the Fund—gave them veto power over the timing and condition of future Fund or Bank loans. In terms of the future of U.S. exports, this had similarly hegemonic implications. Now, anyone importing U.S. goods on Fund or Bank credit would have no choice but to pay for those goods by borrowing its U.S.-backed reserves, the ultimate distribution of which required the consent of—of course—U.S. policymakers. Considering that the chorus of the conference was, in the closing words of Morgenthau, "the end of economic nationalism," this seemed quite a contradiction.

The final Anglo-American area of contention was perhaps the most symbolic: the locations of the Fund and the Bank. In both practical and symbolic terms, the American vision triumphed once more. At Atlantic City, White had made his intention of locating both in the U.S. clear to Keynes, but London thought this most unacceptable. Another unbridgeable impasse had arisen in Anglo-American planning. The solution, then, would be another decision by White and Morgenthau, with or without explicit British or Allied approval. The British strategy was to delay the selection until after the conference. Morgenthau, understanding this, concluded that "the answer is that we have got to fight it out here and now."[56] Both sides thought it politically necessary to have the location—for the British, just the Fund—on their own turf. But, in the end, both Keynes and the British Cabinet recognized that this battle was futile. On July 18, the U.S. proposed that the Fund be located in the country with the highest quota, and the measure was passed. There was not a shred of ambivalence on the additional political difficulty the U.S. had just handed to the British Cabinet in selling the plan to Parliament. As White remarked to Morgenthau in agreement, "If the advantage was theirs, they would take it."[57]

The conference ended on July 22, and, considering what had been accomplished in three chaotic weeks, there was a profound and shared hope in the promise of postwar global cooperation. Indeed, it was a tremendous achievement, despite the compromises made to satisfy the particularities of the project's patrons in Washington and New York. Keynes was duly jubilant; just four days earlier, he had experienced a heart attack and so, to his great disappointment, had to take the rest of the night off (!). Keynes had put his heart and soul into crafting an effective and politically acceptable plan for postwar multilateralism. Bretton Woods ensured that, at least for now, his efforts had not been in vain. Harrod remarks on Keynes at the conference's conclusion:

> And so, homewards. What did he think of his achievement? His original plan, with its broad scope, had been sadly whittled down. He could hardly have expected otherwise. Indeed, in the early days of the Treasury talks, two and a half years ago, those who sat around the table would have been amazed to learn that anything nearly so like the original scheme would be accepted

56 Morgenthau Diary, 752, pp. 33-36, cited in Van Dormael, p. 207.
57 Morgenthau Diary, 754, p. 162, cited in Van Dormael, p. 211.

> by fourty-four nations. There had been general enthusiasm. Above all, the sustained and active co-operation of the Americans was heartening. So long as that cooperation continued, the schemes ought not to fail.[58]

That cooperation, however, was far from guaranteed. Neither was anything else. In April of the next year, Roosevelt died from a massive stroke; less than four months after, his successor would end the war against Japan with two devastating atomic bombs. A new order was in Washington. Financial planning was over, and the free-trading State Department was back in control of U.S. foreign economic policy. Keynes, ever the realist, would have to adjust his sails accordingly.

Conclusion

"In the long run, we are all dead."
-Keynes

Shortly after the end of Bretton Woods Keynes was right back in Washington. Indeed, one had to, for the immediate future, ignore the long run; more important now was to ensure that the British would be able to cover their import needs at the end of the war. As it stood, they could not. A large loan would be required from Washington—or, more specifically, from a State Department eager to bring the British to make good on Lend-Lease Article VII. Britain's political capital weakened day by day, and the United Statses was similarly anxious. "The British financial problem is admittedly the greatest present barrier to rapid progress towards free multilateral payments and relation of barriers to trade," wrote William Clayton on June 25, 1945. "It threatens not only delay but, indeed, the ultimate success of our

58 Harrod, p. 584.

economic foreign program," making it necessary that the British take a large loan "laying down conditions that would insure a sound advance towards our post-war objectives."[59]

The Anglo-American Financial Agreement of 1946 was a major victory for U.S. foreign economic policy, and, when viewed alongside the successes and failures of effecting U.S. objectives in the not-yet-functional Bretton Woods accords, begins to reveal a pattern that was much more orthodox than most historiography has ventured to assert. It is a goal of this study to identify such consistencies through a more comprehensive—albeit much less technical, a deficiency that is duly noted by the author—survey of U.S. foreign economic policy in the early postwar period. Rather than representing a golden age of U.S. "enlightened self-interest" in the creation of postwar welfare capitalism, U.S. policy sometimes reflected in key ways the naked self-interest of contemporary neoliberalism[60], in a way that many commentators on this subject, past and present, have failed to adequately recognize.[61]

The time between the end of Bretton Woods and the Anglo-American Loan was a remarkable shift in American foreign economic policy. The New Deal internationalism[62] held

59 U.S. Department of State, *Foreign Relations of the United States,* 1945, Volume VI, p. 54.
60 This is of course a broad generalization and without prior explanation on my behalf. But if we, for a minute, remove the editorial content from my assertion and view both systems without prejudice, we see that much of the stock and trade of today's neoliberalism—rapid currency liberalizations and tariff eliminations, deemphases on state-driven growth and full employment measures, top-down IMF-directed development—are all notably central to U.S. foreign economic policy in these years. What I am measuring is when, where, with whom, and to what degree these features were present on the U.S. side during a period that has been, in my view, heavily (and in many ways, duly) idealized by both conservatives *and* liberal historians, while at the same time ignored by revisionists as a multilateral economic system.
61 It is interesting, too, that most of the literature on this topic that I have encountered was written in the 1950s, 60s, and early 70s, notably dropping off right at the beginning of the neoliberal revolution that replaced the more-or-less Keynesian consensus of the postwar boom years.
62 For all its limitations, this is the closest the U.S. came to "enlightened self-interest" in its postwar foreign

by the U.S. Treasury was notably absent in these new commercial and financial negotiations. To the free-traders at the State Department, maintaining the U.S. export-credit surplus was less a necessity than a right. As Undersecretary of State William Clayton explained in 1946, "Let us admit right off that our objective has as its background the needs and interests of the people of the United States... We need markets, big markets, in which to buy and sell."[63] A return to the exclusive European trading blocs of the Depression—the necessary outcome if the United States did not make loans and economic concessions to dollar-starved postwar Europe—was unacceptable to the U.S. and undesirable to its European partners. Thus, in the window between the conclusion of Bretton Woods and its actual implementation, piecemeal U.S. reconstruction loans to Europe—most pressingly, to Great Britain—would have to be the primary vehicle of restructuring European commercial and financial policies to meet the demands of the U.S. economy.[64] "We cannot play Santa Claus to the world," asserted Secretary of State James F. Byrnes in 1945, "but we can make loans to governments whose credit is good, provided such governments will make changes in commercial policies which will make it possible for us to increase our trade with them."[65]

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economic planning. It should also not be casually dismissed as typical great power hegemony.

63 Scott Jackson, "Prologue to the Marshall Plan: The Origins of the American Commitment for a European Recovery Program," *Journal of American History*, 65 (Mar. 1979), p. 1055.

64 It is important to note that, under the rules of the International Monetary Fund (IMF) Board of Governors—over which the U.S. had veto power—,the IMF could only make loans for current account deficits, and explicitly *not* for reconstruction or capital. This meant that it would be impossible for Europe to borrow enough for reconstruction from an international institution like the IMF; if large loans were to be made, they would have to come directly from the U.S..

65 Arthur M. Schlesinger, *The Dynamics of World Power: A Documentary History of United States Foreign Policy, Volume I, Western Europe* (New York: Chelsea House, 1983), p. 33.

Chapter II: The Loan

Part I: More Deliberate Misunderstandings

The Bretton Woods negotiations were a profound achievement for Anglo-American financial collaboration. Its delegates could not help but be pleased, at least then, by this tremendous advancement towards creating a theoretically viable multilateral system of payments and exchanges. But in Washington and London, there were serious concerns about the respective structural demands of each nation's economy. As explained in Chapter I, the United States was facing a potentially disastrous readjustment period after the war. Unless the U.S. found new markets, or expanded its access to existing markets, for its exports, its economy would contract, unemployment would skyrocket, and tariffs would have to be raised, in the United States and elsewhere. The British were in an even more perilous position. Indeed, they had the opposite problem, in desperate need of cash with which to rebuild their own export capacity, only after which their economy would be strong enough for them to take more dramatic steps towards American demands to remove trade preferences and currency controls. Thus, U.S. and British foreign economic policy objectives were mutually dependent in 1944. As newly-appointed (and highly influential) Assistant Secretary of State for Economic Affairs William Clayton observed, “The British financial problem is admittedly the greatest present barrier to rapid progress towards free multilateral payments and relation of barriers to trade. It threatens not only delay but, indeed, the ultimate success of our economic foreign program.”[1] In other words, unless the British took a large loan, the American dream of Open Door multilateralism would experience an early death. More

1 U.S. Department of State, *Foreign Relations of the United States*, 1945, Vol. VI (Washington, D.C.: GPO), p. 54.

seriously, the resulting trade war could plunge the world right back into conflict.[2] The consensus for postwar peace was thus profoundly materialist in nature; in Marshall's famous words, “There can be no political stability and no assured peace without economic security.” Exactly how much the United States would provide for that security, and in exchange for what, were the questions of foreign economic policy planners in the middle of 1944.

In the midst of this crisis, American and British officials also had to deal with recalcitrant legislatures and negative public opinions back home. As with Lend-Lease, these disputes were based on the same kinds of misunderstandings, often deliberate, about each side's intentions.[3] To the chagrin of British and American multilateralists, there was considerable skepticism of the Bretton Woods accords in legislatures on both sides of the Atlantic, presenting a new political challenge to the negotiation of a successful reconstruction. The British government's first public statement on Bretton Woods, in early October 1944, contributed to this confusion. Sir John Anderson, Chancellor of the Exchequer, held the line from Lend-Lease that nothing in Bretton Woods or elsewhere was “decisive” on the matter of prohibiting Britain from entering into discriminatory trade or currency agreements.[4] Keynes affirmed this when speaking to the House of Lords, declaring that “it is clearly recognized and agreed that, during the post-war transition period of uncertain duration, we are entitled to retain any of those war-time restrictions, and special

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2 A quick aside: it can be inferred from this analysis that the U.S. never had any doubt that the Allies would defeat Germany and Japan. Indeed, in all the documents and quotes I have read, not once does postwar economic planning involve an “if”; it is always “when”. Of course this follows *ipso facto* from the very idea (“postwar”), but it seems there was never a “plan b” for the war's end. If State and Treasury department planners were truly this certain about victory, it would explain a lot in regards to U.S. behavior during these negotiations.

3 One wonders what would have happened, had the British known—or been honest with themselves about—how the U.S. interpreted British postwar obligations; the same goes for the United States.

4 *Financial News*, 3 October 1945, cited in Armand Van Dormael, *Bretton Woods: Birth of a Monetary System*, (London: The Macmillan Press Ltd, 1978), p. 267.

arrangements with the sterling area and others which are helpful to us."[5] The *Manchester Guardian* went further, summing up the British interpretation (or public presentation) thusly: "We are free to maintain exchange control, free to do away with gold except as an accounting device, free to vary our exchange rate, and free to discriminate against the goods of any country which is declared an under-importer."[6]

The U.S. interpretation could not be further from these statements. On the issue of international liquidity—how much could be given by the Fund, and to whom—there was particular opposition from isolationists such as Senator Robert A. Taft, who believed U.S. participation in the Fund would be "pouring money down a rat hole."[7] Citing Keynes's speech to the House of Lords, Taft argued that the British expected large sums from the Fund, and on their own terms, to which Dean Acheson responded, "There is no idea whatever that a person walks in and goes through the empty formality of saying 'I need this presently to make a payment', and no one can look into it. That would be too childishly absurd... I assure you that this is not so."[8] Congress was also assured that, contrary to what the British were saying, the agreements *per se* ensured the end of "the use of some of the most flagrant devices for discriminating against the trade of the United States by other countries."[9] In a later session, Taft read aloud to White Keynes's assurance that White's scarce-currency clause would place a burden on creditor countries to correct payment imbalances. White's response put an end to any question on the U.S. position: "Very definitely this country assumes no

5 U.K. Parliament, House of Lords, 131 H.L. Deb. 841-2 (23 May 1944), col. 839, cited in Richard Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), p. 128.

6 *Manchester Guardian*, (27 Apr. 1944), cited in Gardner, p. 129.

7 91 *Cong. Rec.* 7573 (16 July 1945), cited in Gardner, p. 130.

8 U.S. Congress, Senate, Committee on Banking and Currency, *Bretton Woods Agreements Act*, Hearings on H.R. 3314, 79th Cong., 1st sess. (June 1945), p. 45, cited in Gardner, p. 135.

9 'Statement on Postwar International Economic Problems to a Sub-committee of the Committee on Postwar Economic Policy and Planning of the House of Representatives', *Department of State Bulletin* xi (1944), p. 656, cited in Gardner, p. 136.

moral responsibility for a scarcity of dollars. The technical representatives of the United States have made it clear to other countries in a number of memoranda that a scarcity of dollars cannot be accepted as evidence of our responsibility for the distortion of the balance of payments."[10]

This said little, however, about the most important source of the State Department's conflict vis-à-vis not only the U.S. Congress, but the British as well: the elimination of imperial preference and discriminatory trade practices. Even the most committed British multilateralists had promised Parliament and the public that Bretton Woods did not mean an end to these practices, but the State Department, highly influenced by Hull's intellectual successor, the cotton magnate William Clayton, argued that

> the success of the Bretton Woods arrangement...depends more on the eventual elimination of trade discriminations and the reduction of trade barriers than on any other single thing. The evil practices which Bretton Woods is supposed to correct grew out of the existence of trade discriminations and excessive trade barriers, and these must be corrected; otherwise, any beneficial effects which Bretton Woods might have will be transitory and costly.[11]

Therein lies the essential difference between U.S. and British postwar economic ideology. For the British, domestic growth- and full-employment-directed measures for others would lead to free trade multilateralism for all, but for the United States, it was the opposite: free trade multilateralism for all was the necessary prerequisite for domestic growth and full employment for others (or, at least, for Americans). Both sides knew now was the time to act; neither side knew, or at least acknowledged, the extent of their differences.

Part II: Lend-Lease Lost

10 "The Monetary Fund: Some Criticisms Examined," *Foreign Affairs,* xxiii (1945), p. 205, cited in Gardner, p.137.

11 Letter to Bernard Baruch (26 Mar. 1945), *Clayton Papers*, found at the Harry S. Truman Presidential Library (Independence, MO), cited in Gardner, p. 136.

"We must stand unpropped, or be laid low"
-Keynes

In the midst of post-Bretton Woods legislative squabbling, monumental changes—political and military—were taking place on both sides of the Atlantic. Churchill and the Tories were replaced with new Labour government, led by Prime Minister Clement Attlee. In the eyes of British multilateralists, this was a healthy shift, but the U.S. State Department was skeptical of its socialist-leaning elements. America, meanwhile, had seen the death of its longest-serving, and most internationalist, president. Although Truman was no doubt a strident internationalist like his predecessor, he personally admitted to having no expertise on foreign affairs. Thus, foreign policy—especially foreign economic policy—planning would largely be in the hands of the free-trading top officials of the State Department, such as James F. Byrnes, William Clayton, and Harry Hawkins.

On August 9, 1945—three months after the unconditional surrender of German forces—Japan announced that it would accept the Potsdam arrangements, following the American deployment of two devastating atomic bombs on the cities of Hiroshima and Nagasaki. Less than two weeks later, the U.S. shocked Britain with the following press release:

> The president has directed the Foreign Economic Administrator to take steps immediately to discontinue all Lend-Lease operations and to notify foreign governments receiving Lend-Lease of this action.
> The president directs that all outstanding contracts for Lend-Lease are cancelled, except where Allied governments are willing to agree to take them over or where it is in the interest of the United States to complete them.[12]

No longer was Roosevelt's charitable interpretation of Lend-Lease a matter of policy; rather, the announcement sent a clear message to the British that American wartime idealism was

12 *Department of State Bulletin* (August 21, 1945), found at http://www.ibiblio.org/pha/policy/1945/1945-08-21a.html.

over. Churchill's assertion that since Britain had "given in the common cause," they "may claim assistance to recover our normal economy from those we have helped to victory" was hardly persuasive to the American government. Neither was it persuasive to the American public, who believed, or had been made to understand, that they had already been more than generous in the Allied war effort and *owed* nothing to anyone.[13]

To be sure, both sides were correct. But because their economic futures had been inextricably linked during the war, both sides knew that they would have to reach an agreement as soon as possible. Although Lend-Lease aid guaranteed war supplies to the British, it did not guarantee staples for domestic consumption, nor did it, of course, provide money for boosting British exports. Thus, during the war Britain had strengthened ties with its prewar trading system. By the war's end, this sterling bloc held a collective British debt of almost $14 billion, greatly restricting capabilities for expanding U.S. exports and gaining access to raw materials in an area which, in 1945, amounted to the largest postwar export market in the world.[14] Since the currency provisions in Bretton Woods permitted a five-year grace period before forcing free convertibility on all of its members, Britain's vast sterling debt indeed posed—as Clayton put it a month after the U.S. began its first large cuts in Lend-Lease aid in May 1945—"the ultimate threat" to the State Department's vision of a new global Open Door multilateralism.

However, the British financial problem was much larger than the United States or Britain had anticipated. The provisions of Lend-Lease prevented them from using loaned material for reconstruction or export; it was not until January 1945 that the British were

13 Prime Minister Churchill, "A Future of Toil and Sweat: No Totalitarian System for England," a speech delivered before the annual conference of the Conservative Party (London, March 15, 1945), found at http://www.ibiblio.org/pha/policy/1945/1945-03-15a.html.

14 Gabriel Kolko, *The Limits of Power: The World and United States Foreign Policy, 1945-1954* (New York: Harper & Row, 1972), pp. 61-2.

permitted to begin producing exports with raw materials provided through the agreements.[15] For a country with an entirely export-based economy, desperate to build back up its industrial capacity, this was damning. In a March 1945 paper Keynes laid out the British postwar dilemma. Britain could choose from one, “austerity,” which he envisioned as heavy state planning at home and imperial withdrawal abroad; two, “temptation,” or large loans from the U.S. with heavy conditionalities; or three, “justice,” in which Britain could appeal to the U.S. on the grounds of Churchill's “common cause” for reasonable aid. Neither side wanted the first option; the British, of course, wanted the third, the Americans, the second. Regardless, Keynes had estimated in the same paper that Britain's likely postwar expenditures would be so large that American aid, in some capacity, would be necessary for at least the next three or four years.[16] In other words, London needed to take a loan to address its postwar domestic and foreign economic desperation; Washington needed to give a loan to fulfill its postwar domestic and foreign economic objectives.

Following the German surrender, Assistant Secretary Clayton visited London and began talks on a new Anglo-American agreement to address the British financial problem. Their reaction, in the words of U.S. Ambassador John G. Winant, was “extremely pessimistic.”[17] To the British, the State Department's insistence on attaching trade concessions[18] to this kind of aid was more than offensive; it was also politically harmful. Penrose, assistant to U.S. Ambassador in London John Winant, recalls:

> In the summer of 1945 the question of aid to Britain to tide over

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15 Sir Alec Caincross, *Years of Recovery: British Economic Policy, 1945-51* (London: Methuen & Co., 1985), pp. 3-16, cited in John Killick, *The United States and European Reconstruction, 1945-1960* (New York: Taylor & Francis, 2000), p. 42.

16 Killick, pp. 34-35.

17 Kolko, p. 62.

18 These concessions would form the basis of the International Trade Organization, and were consistent with prior Anglo-American discussions on postwar commercial planning. We will discuss these separate but related negotiations in Chapter III.

> her balance-of-payments difficulties was in danger of becoming entangled with problems of trade policy which were the subject of quite separate discussions... In the embassy in London we had opposed this from the beginning, believing not only that it was a form of diplomatic sharp practice justifiable only in exceptional circumstances—as for example, in dealing with neutrals in wartime or with countries suspected of politically aggressive intentions—but also that, where British people were concerned, it increased opposition within Whitehall and Westminster to the very policy which it was designed to advance.[19]

The talks continued slowly through the end of the war in mid-August. Then, days after the Japanese surrender, President Truman, at the behest of his conservative foreign-aid minister Leo Crowley, abruptly cancelled Lend-Lease. After the Quebec Conference in September 1944, Churchill had assumed that Britain would be able to use Lend-Lease to fund its exports after the end of war in Europe, but the cancellation of Lend-Lease put a final end to British optimism.[20] As Prime Minister Attlee recalled, the announcement came as "a great shock. The tap was turned off at a moment's notice... It made quite an impossible situation. That's why we had to go and ask for an American loan right away."[21] And so they did.

Part III: A Necessary Compromise; or, "Kentucky Will Have to Like It"

A British delegation headed by Keynes arrived in Washington in early September 1945. The first meetings were an exhibition in calculated diplomacy, tailored exactly to American expectations and values. "We are not coming to you hat in hand as suppliants," promised Ambassador Halifax. "We do not want to ask anything of you which you are not satisfied is in the ultimate interest of your own country."[22] Keynes was even more flattering in an opening press conference, asserting that "The British government had no reason to

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19 E. F. Penrose, *Economic Planning for the Peace* (Princeton: Princeton University Press, 1953), p. 208.
20 *Ibid*.
21 Earl Attlee (with Francis Williams), *A Prime Minister Remembers* (London: Heinemann Press, 1961), pp. 129-30.
22 *The New York Times* (13 Sept. 1945), cited in Gardner, p. 190.

suppose that Lend-Lease would continue for a significant length of time after the end of the war... We have received far too much liberality and consideration in the famous Lend-Lease Act to make any complaint about the clean cut." Keynes was noticeably vague about the conditionalities of a loan, but persuasively strengthened his plea with a affirmation of mutual self-interest. With American financial help, Britain would be able "to work out with you...some means of returning at the earliest possible date to normal trade practices without discrimination and to increased freedom and liberality in commercial and tariff policies; in the belief that the resulting general expansion of world trade will result in the final outcome in you and other countries as well as ourselves being much better off on balance than under the first plan."[23]

Appealing to these sentiments was Britain's strategy to make the Americans more receptive to a generous and less restrictive aid settlement than Britain's actual belief in the "equality of sacrifice" to determine the conditions of postwar assistance. However, for reasons personal and political, the American response was discouraging. The Chairman of the American delegation, Treasury Secretary Fred Vinson, was a rural-conservative Democrat more in the mold of Truman, rather than Roosevelt. Therefore, his capacity or willingness for innovation was considerably less than his predecessor, Henry Morgenthau. The Vice-Chairman, Assistant Secretary of State for Economic Affairs William Clayton, was a familiar, but ambivalent, figure for the British, due to his unequivocal insistence on ending immediately imperial preference and discrimination.

The American delegation's orthodoxy was buttressed by a confrontational Congress and American political elite. Influential ex-statesmen such as Herbert Hoover and Bernard Baruch warned Congress and the public of the potential costs at home of handing out foreign

23 Press conference of 12 Sept. 1945, cited in Gardner, p. 191.

loans, i.e., rising inflation and federal deficits. Baruch in particular spoke out against the British case, arguing to the legislature that the U.S. would be helping the new Labour government "to nationalize their industries against us."[24] Popular opposition to a British loan[25] reinforced such sentiments in Congress, so that by the time Keynes was back in London, he commented to the House of Lords that "during the whole time I was in Washington there was not a single Administration measure of the first importance that Congress did not either reject, remodel, or put on one side."[26]

Nevertheless, both sides knew an aid agreement had to happen, and they went to work. The first and most immediate issue was the form of the aid. This was decided rather quickly. Keynes and the British delegation argued persuasively for their "justice" scenario: an outright gift of $6 billion. This was a pipe dream: Vinson and Clayton had only to mention the political impossibility of such an agreement passing Congress in response to the British proposal. To the chagrin of an anxious Cabinet in London, Keynes pressed on for an interest-free loan. This, too, was politically impossible, alleged the American delegation, but both sides took the issue of war debts seriously and the U.S. hardly wanted to kick its desperate ally when already down. Again citing the domestic political reality, the U.S. insisted on an interest rate of no more than two percent, to be waived in times when Britain's dollars were insufficiently low.[27]

The second half of the loan issue was the size. Vinson's first priority in negotiating the loan was whether he thought it would be able to pass Congress, and not whether it would be most beneficial to Britain's economy. This was an understandable diplomatic reality, but

24 Bert Andrews, 'Baruch Asks Inventory of Nation's Resources', *The New York Herald-Tribune* (4 Nov. 1945), cited in Gardner, p. 194.

25 In October 1945, sixty per cent of those interviewed in a Gallup poll opposed a British loan, with twenty-seven per cent in favor and thirteen per cent with no opinion. (Gardner, p. 194)

26 U.K. Parliament, House of Lords, 138 H.L. Deb. 785 (18 Dec. 1945), cited in Gardner, p. 195.

27 Gardner, p. 202.

the size of the loan—the requirements of which Vinson knew nothing about—was left to Keynes's close partner from the financial negotiations, Harry White. Still powerful in Morgenthau's absence, White carried with him his sense from Bretton Woods that a British loan would be entirely unnecessary after the war. When White formed a technical committee to analyze Britain's financial position to determine the necessary size of the loan, he deliberately excluded two of his colleagues, Edward Bernstein and Ansel Luxford, who had been more sympathetic to Britain's interpretation of its financial difficulties. Not surprisingly,

> this committee produced extremely modest estimates of Britain's needs for American assistance. Seriously alarmed, Bernstein and Luxford took the unusual step of sending Vinson a memorandum on their own initiative. They warned that the committee's estimates were far too low, that the Anglo-American agreements would break down, and that the Administration would be forced to come to Congress again for additional aid.

Unfortunately, "the memorandum came too late to influence the course of the negotiations. By this time the size and terms of the American loan had been finally determined."[28]

There was another force working against the British in the negotiations: the clashing personalities of Keynes and Vinson. The two could not have been further apart in biography and temperament, something Keynes's sarcasm, often lost on Vinson, did little to help.[29] It is

28 *Ibid*, p. 195.

29 Consider these anecdotes from Gardner:

> If Vinson showed little interest in the refinements of economic analysis he showed even less appreciation of the shafts of wit which Keynes now broke about his brows. In vain did members of the British delegation warn Keynes that he was dealing with a different type of man than Morgenthau or Acheson. 'Please try to remember', one associate pleaded, 'that you are dealing with Kentucky.' 'Well', said Keynes defiantly, 'Kentucky will have to like it.' Indeed, the more he was warned, the more unmercifully he ragged his adversary. One exchange was particularly memorable. Vinson, to illustrate some point, had grown rather rhetorical. He demanded to know whether Britain's capacity to service a loan would not be enhanced 'if suddenly, tomorrow, you found currency in a cave'. 'Why, of course', Keynes exclaimed. '"Any currency found in caves"—we'll have that in the agreement!' There was a roar of laughter at this *riposte*. Vinson turned black with rage. He did not quickly forget the incident. (201)

And a few more from Harrod:

> At Bretton Woods Keynes had rebuked him on the ground that politics came

important to stress, as do Gardner, Penrose, and others, that U.S. negotiators—let alone Congress or the public—truly did not understand how dire actually was Britain's economic situation. Keynes presented his argument both rhetorically and statistically, but both were unconvincing to the Americans. Thus, discussions over the size of the loan were acrimonious: the British proposal, based on Keynes' estimates, was $6 billion, while the American counter-proposal, based on White's estimates, was anywhere from $2.3-3.3 billion. [30] Penrose, a participant at the discussions, has alleged that Vinson "allowed a personal pique against Lord Keynes to affect his attitude towards questions of substance." Nevertheless, the U.S. delegation decided to "split the difference" at a "line of credit" of $3.75 billion, which Britain could draw up to the end of 1951, with an additional credit of $650 million to cover the final settlement of Lend-Lease.[31] With this line of credit came an enormous concession: "A year after the agreement was signed, all restrictions on the use of sterling derived from current transactions were to be removed and and the holders were to be free to convert it into any other currency, including dollars."[32] In other words, it was the end of Britain's dreaded "dollar pool"; the opening of the largest postwar export market; and the elimination of, in Clayton's words, "the greatest present barrier to rapid progress towards free multilateral

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> too much into the American point of view. He felt this to be unfair. Then there was Keynes' concluding speech about lawyers in the United States; Vinson was a lawyer. During the Loan negotiations there were passages. At one of the meetings of the Big Four, Vinson, not yet fully realising the magnitude of Britain's need, made a proposal which Keynes deemed to be altogether inadequate. "Won't you first put that up to the Government of Guatemala?" he replied. Lord Halifax was there to come swiftly into the breach with consoling words of a more deferential kind. There was another brush, which did not end so happily. [In response to an American proposal to deal with international cartels, Keynes remarked] "This plan seems principally designed to make a paradise for the lawyers." Vinson burst out with harsh and angry vehemence. Keynes had no right to make remarks of that kind; they were insulting and intolerable. There was, in fact, a scene. (627-28)

30 Gardner, p. 202.
31 Penrose, p. 312.
32 *Ibid*.

payments and relation of barriers to trade."

Keynes was, in fact, in agreement on the issue of sterling convertibility, but when the U.S. had pressed for convertibility at an even earlier date, Keynes, in the words of an American negotiator, "hit the ceiling." The one-year provision was a desperate compromise by Keynes, who "poured force his eloquence on the appalling difficulties that would beset Britain for a number of years, and on the dangers of premature convertibility." This had little effect on the American delegation, who then pushed for a second condition: Britain would also have to bind itself to agreements with its Commonwealth creditors to freeze these liabilities by a certain date, so that Britain would not be able to pay down its balance-of-payments difficulties with U.S. aid. Again, Keynes "hit the ceiling."[33] But he had to relent once more: for the Americans, the aid was primarily intended for building back up Britain's export capacity, and primarily *not* for meeting her Commonwealth debts. That is to say, U.S. aid was directed towards helping Britain's balance-of-trade problem. Except for the rather intrusive clause calling for the British to negotiate an almost immediate freezing of its foreign credit balances, the balance-of-payments problem was—ironically, as Keynes had pleaded in response to the aforementioned clause—largely a Commonwealth affair. Thankfully, after more negotiating, the U.S. accepted some of Keynes's arguments, conceding that the success of convertibility would require *some* flexibility on the Commonwealth credit balance agreements.[34] One-year free convertibility following the end of the negotiations, however, remained, as did an expectation that Britain would find a way to contain its balance-of-payments difficulties enough to be ready for a viable multilateral

33 Harrod, pp. 607-08.

34 Harrod notes: "It was recognised by both sides that a complete cleaning up of this situation was necessary, if the convertibility experiment was to be a success, and that after one year no balances should remain which were not absolutely beyond the power of the creditors to realise save as and when the British agreed" (608). See Gardner, pp. 204-6 for a more detailed look at the sterling balance settlements.

currency regime by the summer-1947 deadline.

The commercial concession demanded by the United States was no great surprise to anyone: a reaffirmation

> of the general obligations assumed by them in Article VII of the mutual-aid agreement of February 23, 1942, and the understandings agreed upon this day with regard to commercial policy. Pursuant to this settlement, both Governments will continue to discuss arrangements for agreed action for the attainment of the economic objectives referred to in Article VII of the mutual-aid agreement. The Governments expect in these discussions to reach specific conclusions at an early date.... In the light of all the foregoing, both Governments agree that no further benefits will be sought as consideration for lend-lease and reciprocal aid.[35]

In exchange, the Americans promised a rather generous settlement of Britain's Lend-Lease account, in which the United States, while requiring Britain to pay $650 million for Lend-Lease in the “pipeline,” wiped out some $20 billion in war-time debt.[36] From the American viewpoint, this was an incredible gift. The British, too, were pleased with this act of largesse, however much they still expected an “equality of sacrifice” from their closest ally. Still, the United States had become, through the war, the most prosperous and powerful nation in the world; “the writing-off of Lend-Lease consumed in the war was the very least that Britain was entitled to expect.”[37] Further, the financial and commercial concessions gained by the U.S. in exchange for the loan and Lend-Lease write-off were so potentially transformative that forgiving Britain's wartime bill would be necessary for their successful implementation. In other words, the sooner Britain was back on its feet, the sooner an American-led multilateralism could take effect.

35 'Settlement for Lend-Lease and Reciprocal Aid, Surplus War Property, and Claims', *Financial Agreement Between the Governments of the United States and the United Kingdom*, Cmd. 6708, p. 6, cited in Gardner, p. 209.
36 Kathleen Burk, *Old World, New World: Great Britain and America from the Beginning* (New York: Grove Press, 2009), p. 565.
37 Gardner, p. 209.

The American delegation had—especially with the Lend-Lease write-off—likely pushed their generosity to the limits of congressional and public opinion. Unfortunately for the British, those limits were far shorter than they had hoped. So was the flexibility of the U.S. on the loan's conditionalities, about which American negotiators had been as shrewd as ever. Keynes summarized British frustration at the end of the negotiations thusly:

> The offer of almost immediate convertibility of sterling, that is the acceptance of the Bretton Woods agreement without the protection of the transitional period clauses, was in fact made by our side. So was the undertaking to pursue a policy of non-discrimination in imports. That meant abandoning discrimination in import licensing and not abandoning imperial preferences. But these promises were made in the context of a retrospective Lend-Lease adjustment, or assistance disguised in some similar cloak. The promises, having been made in one particular context, we were held to them when the scene changed and we began talking in terms of a semi-commercial line of credit of considerably smaller amount than what we had hoped to get.[38]

The American delegation's objective in the negotiations was to give enough so that Britain would be in the condition to sustain the commercial and financial concessions that U.S. multilateralism demanded. At the same time, they had to strongly condition their generosity to a Congress and public with little knowledge of, and therefore sympathy with, the British financial problem.

Besides limiting the size and nature of the loan, this had the additional effect of ignoring the difficulty that the British delegation would have in selling the agreement to their own legislature and public with little understanding for, and therefore sympathy with, the onerous concessions demanded by the rich and victorious American government. Many times the American negotiators stressed that the loan would be tied to Westminster's immediate ratification of the monetary agreements from Bretton Woods, about which Parliament and the

38 "Anglo-American Financial Relations," lectures given by Paul Bareau at the London School of Economics, cited in Van Dormael, p. 274.

public retained considerable skepticism and which worried the negotiators in Washington and Cabinet in London.[39] When the Anglo-American Financial Agreement was finally signed on December 6, 1945, an exhausted and worried Ambassador Halifax cabled home with a (perhaps overstated) sense of defeat in the concessions of their original objectives: “We have all done our level best to move Americans to meet them. I am sorry we have failed.”[40]

Part IV: The British Debate

On the same day that the Financial Agreement was signed in Washington, Prime Minister Attlee announced, to a late-night session in the House of Commons, that “owing to the need for synchronisation with the announcement in the United States of America,” there would be an early debate on the ratification of Bretton Woods—now, of course, linked to the Anglo-American Financial Agreement and the settlement of Lend-Lease. The opposition was acrimonious. Attlee expected, and indeed required, party discipline from his Labour majority.

The short length of the debate was inversely proportional to the rhetorical grandiloquence of its orators. Lieutenant-Colonel Sir Thomas Moore, a Tory, began debate in the Commons by “speaking as a man in the street...with no political complex, no inhibitions, anti-nothing, as the men of Britain generally are, except when there is a shortage of beer.” He dubiously invoked “the charlady who so kindly and competently cleans my flat, and who said to me yesterday morning, 'We are accustomed to hardships, we are used to hardships. Tell those gentlemen in the House of Commons to stand up for Britain and not trail after the Americans and their spam.'” Labour MP Miss Jennie Lee broke the party line, boldly

39 For instance, on November 13, “Secretary Vinson reiterated that the granting of a credit to the U.K. was dependent on the British agreeing to Bretton Woods. He stated that it had been made clear to the British that they would have to ratify Bretton Woods before the credit proposal was put up to Congress” (Havlik Papers, Box 5, US/FIN minutes meeting (13 Nov 1945), found at National Archives (Washington DC), cited in Van Dormael, p. 274).

40 FO371/45713, Halifax to Churchill and Eden 5 Dec 1945., cited in Van Dormael, p. 275.

declaring, “There is no wisdom in this loan, and there is no kindness in it. There is nothing in the terms of this loan which gives us any reason to suppose that an administration which could offer a niggardly, barbaric, antediluvian settlement such as this, can solve the unemployment problem in their own country much less than help the world.”[41]

Perhaps most interesting were the sentiments of the new Leader of the Opposition, Winston Churchill, arguing for a Conservative abstention:

> He recalled the invaluable aid given by the United States through Lend-Lease, 'that most unsordid act in the history of nations'. Whatever the misgivings about the present proposals, 'both their generosity and the championship by the United States of the cause of freedom will ever stand forth as a monument of human virtue and of future world hope'... [But] the Americans had burdened themselves with an enormous debt; they saw, across the Atlantic, political conceptions and ideologies very different from theirs. Those who had been victorious in the elections had held out to the British people 'dazzling expectations...which are not only of a far higher standard of life, but of a far easier life, than any that has existed in Britain before.' The Americans had undoubtedly read about this.

If the American terms were truly severe, “then what about the attitude of Egypt, which had been saved from being ravaged and pillaged by the Germans and Italians, but had charged all expenses against Britain? Neither had India made any proposal to reduce the debts owed by Britain.” For Churchill, abstention freed the Conservative Party from the consequences of proposals which were certainly not malevolent, but highly risky, and upon which they had never been consulted. Either way, it would not be the fault of the British people, or even the Labour government, if Britain could not manage its Commonwealth debts well enough for American satisfaction. “'If we fail,'” Churchill concluded, “'it must not be from any lack of sincerity or exertion, but simply because the weight that is being placed upon us may be far

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41 U.K. Parliament, House of Commons, 417 HC Deb. 642-82, 13 Dec 1945, cited in Van Dormael, p. 277.

more than our exporting power can sustain.'"[42] Despite the final (and quintessentially English) protestations of Baron Boothby,[43] the bill passed the House of Commons with a comfortable margin.

Debate in the Conservative-led House of Lords proceeded with similar ambivalence from supporters and bombast from opponents. Viscount Samuel stated succinctly the House's dilemma: "To accept this scheme is to accept the possibility of grave future troubles; to refuse it is to bring the certainty of immediate disaster." Lord Woolton, on the other hand, thought the agreement to be not just unfavorable but insulting. America had "become rich beyond her dreams. I ask the American people, whether in justice and in honour, they ought not to return to us, and without conditions, those securities that we were compelled to deposit with them in 1940. I do not ask for a gift. I ask for rightful restitution of the dollars we paid in advance of what became a common cause." Like much of the rest of the opposition, Woolton placed particular emphasis on the alleged vulgarity of tying early ratification of Bretton Woods to the loan. "That is not the way that I like to think of this country being treated," Woolton stated in reference.[44]

When Keynes arrived in the House of Lords on December 18, he could not help but be frustrated with the Lords' blustery patriotism:

> Nor, I venture to say, would it be becoming in us to respond by showing our medals, all of them, and pleading that the old veteran deserves better than that, especially if we speak in the same breath of his forthcoming retirement from open commerce and the draughts of free competition, which most probably in his present condition would give him sore throat and drive him still further indoors.

42 *Ibid*, cited in Van Dormael, pp. 279-80.

43 At the very close of the debate, Boothby remarked, "I do not think I can do anything more than make a vehement, violent and vigorous protest, and say that if I were not of such a genial disposition, I should be almost tempted to challenge your Ruling and be removed by force by the Serjeant-at-Arms from the House." (Ibid, pp. 739-45, cited in Van Dormael, pp. 280-81.)

44 *Ibid.*, pp. 699-709, cited in Van Dormael, pp. 281-82.

Keynes, venerable negotiator that he was, knew that American negotiators and citizens alike would only be annoyed by this kind of prideful self-pity. The Americans were shrewd but practical. While admitting that, "on the matter of interest, I shall never so long as I live cease to regret that this is not an interest-free loan," one had to be mindful of the sure disaster that would result "if the Administration were to offer us what Congress would reject." Like Churchill, Keynes also lauded the generous Lend-Lease settlement: "Has any country ever treated another country like this, in time of peace, for the purpose of rebuilding the other's strength and restoring its competitive position?" He went on to defend the sterling convertibility obligation, reassuring that "both the currency and the commercial proposals are devised to favour the maintenance of equilibrium by expressly permitting various protective devices when they are required to maintain equilibrium and by forbidding them when they are not so required." This was hopeful—dependent, in many ways, upon the U.S. placing global developmental equilibrium above its own domestic employment and export demands—but it did not mean that Britain could not be competitive. Indeed, its wages were now half those of the United States.[45]

Keynes concluded his speech by imploring the Lords to, in effect, choose the *much* lesser of two evils. This was duly persuasive—the larger evil would be a sort of state-driven mercantilism, destined to bring conflict and decrease world trade; "it is surely crazy to prefer that." "Some of us," he continued, "in the tasks of war and more lately in those of peace, have learnt by experience that our two countries can work together. Yet it would be only too easy for us to walk apart. I beg those who look askance at these plans to ponder deeply and responsibly where it is they think they want to go."[46] The Lords pondered, then voted. The

45 Van Dormael, p. 284.
46 U.K. Parliament, House of Lords, 138 HL Deb. 777-94 18 Dec 1945, cited in Van Dormael, pp. 283-84.

tally was, ninety contents to eight non-contents, with many abstentions.

The speech had worked brilliantly. Keynes's arguments were rational but not without sentiment; they were also backed by the evidence of his personal and diplomatic integrity. Keynes was able to convince those on the fence to either content or abstain. In most minds, the agreements were certainly a risk, but far from being without reward or merit. Moreover, they were negotiated with the best intentions and efforts of the widely respected British delegates—and none of them more so than Keynes. After the speech, Lord Beaverbrook's final plea that to content would be "wantonly and wickedly" throwing away the empire sounded like a vulgar insult to the man standing before them. No one could deny that Keynes had fought like the best of soldiers for the British and Allied cause; his publicly deteriorating health was the physical manifestation of his sacrifice. He had given himself in Britain's finest hour. Any agreement of his was no surrender.

Part V: The American Debate

On January 20, President Truman presented to Congress the Anglo-American Financial Agreement. If arguing for the loan in the recipient country was difficult, it was even more so in the country of the benefactor. Public opinion was understandably opposed to the loan. Throughout the debate, poll after poll showed a majority against the Agreement, while Congressmen and Senators frequently received negative letters from their constituents. The loan began to appear more and more like political suicide, never mind the economics. A key vote would be Senator Arthur Vandenberg, the newly-converted internationalist Republican, but even this was no surety:

> The British Loan is a tough conundrum for me and for my Republican colleagues....I have a feeling we ought to 'go along' with this loan for the sake of some nebulous affinity which the

> English-speaking world must maintain in mutual self-defense. But I also confess my feeling that about 90 per cent. of my constituency will be unimpressed by this ideology...and will soon become very vocal against this whole postwar fiscal prospectus. I freely confess my own perplexity....The whole thing has been badly handled. It can easily become a major tragedy.[47]

America was now a nation turned inwards. Taxes, strikes, and potential unemployment in the postwar readjustment loomed large over complex monetary and trade proposals tied to yet another loan to Britain. Its politicians thus prepared to respond accordingly.

The most hostile arguments against the loan were American political sophism at its finest. Representative Emmanuel Celler captured the right-populist objection succinctly: the loan would "promote too damned much Socialism at home and too much damned Imperialism abroad."[48] Senator Edwin Johnson expressed similar sentiments with a politically sublime formulation: "The British Loan is not to provide relief for starving people. It is to provide relief for a decadent empire. My slogan is: 'Billions for the relief of starving children but not one cent of American taxpayers' money for the relief of Empires.'"[49] Indeed, the idea of the loan being used to "fund" the British empire was conveniently persuasive both morally and economically. Members of the House Banking and Currency Committee warned that the loan "will give impetus to Anglo-American imperialistic elements. Later the American people will be told this loan was advance guarantee of American money, guns and boys for all future British Empire needs and desires."[50] The debate was ripe for oppositional platitudes, while a lack of understanding of the British financial problem prevented any rational debate of Britain's needs. Britain had a massive and unprecedented deficit with its

47 Personal memorandum of 19 Dec. 1945, Arthur H. Vandenberg, Jr. (ed.), *The Private Papers of Senator Vandenberg* (Boston: Houghton-Mifflin, 1952), p. 231, cited in Gardner, p. 237.
48 Representative Emmanuel Celler, quoted in the *Daily Mail* (7 Dec. 1945), cited in Gardner, p. 237.
49 Senator Edwin Johnson in a nation-wide broadcast reported in *The New York Times* (17 Feb. 1946), cited in Gardner, p. 238.
50 Minority Report of the Committee, quoted in *The New York Times* (18 June 1946), cited in Gardner, p. 239.

empire; imperial preference and currency controls were its ways of hanging on by a thread. Congress seemed to have no knowledge of this problem. The United Kingdom, alleged one Congressman, "has about $8,000,000,000 in dollar assets lying around in other countries, several billions in dollars in cash now. She has about $15,000,000,000 in gold mines, about $8,000,000,000 assets in diamond mines. She is far from being strapped."[51]

Statements circulated from the British debate only strengthened opposition to the loan. The Administration was keen to stress the economic benefits of the agreement, but the timidity of its chief British negotiators and Parliamentary supporters to admit its trade and monetary concessions made Congress uneasy. "Our prospective debtors are already beginning to 'shylock us' before the papers are signed," thought Senator Vandenberg. "We are notified in advance that we are going to get no good will out of this largesse. If we are not going to get good will what are we going to get?"[52] Isolationists such as Senator Taft quite cleverly challenged the Administration based on its previous assurances, objecting that the loan was "sought for the exact purpose that Bretton Woods was sought."[53] Congressman Howard Buffett took the same line, arguing that Britain "made a commitment in Article 7, and they got 20 billions of aid in connection with that, net. Is it not reasonable for us to expect some accounting made of that promise before we get into a series of new deals?"[54]

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51 Representative William Barry, House Hearings, p. 417, cited in Gardner, p. 240.

52 Personal memorandum of 19 Dec. 1946, *Vandenberg Papers*, p. 231, cited in Gardner, p. 242.

53 Taft noted,

> A year ago, when we had the Bretton Woods agreements up for consideration, and it was proposed that the way to meet the whole problem was to make the British a loan, rather than through Bretton Woods, Mr. White, of the Treasury, came before the committee in executive session and said that the British are all right, they do not need a loan, or, if so, it can be worked through the Export-Import Bank. He was afraid it would interfere with the Bretton Woods agreements. He said the British expect most of the $14,000,000,000 [sterling balances] will be forgiven. He had the British have a great deal of money here, and he gave us the figures. (92 *Cong. Rec.* 4111 (24 Apr. 1946), cited in Gardner, p. 241)

54 Representative Howard Buffett, U.S. Congress, House, Committee on Banking and Currency, *Anglo-American Financial Agreement*, Hearings on S.J. Res. 138, 79th Cong., 2nd sess. (Apr.-May 1946), p. 417,

Administration officials had argued for each agreement on the basis that they were gaining firm promises from the British to commit to multilateralism, but this was the third or fourth time: had not the concessions already been made? The Administration's solution was to argue more forcefully for American self-interest. Henry Wallace warned that without an open British trading system, the U.S. would be forced to "reduce our exports below the prewar level with far-reaching consequences for our economy as a whole."[55] Vinson agreed, warning, "Two rival blocs would mean economic warfare...world trade would be destroyed...We would find our trade decreased, and our people unemployed. England would find her standard of living deteriorated and her people impoverished...The consequences to world prosperity and to world peace would be disastrous."[56]

The argument was now effectively the State Department's consensus from the last few years. That is postwar multilateralism, and by dint the structure of the entire global economy, rested on the future structure of the British economy:

> The proposed loan to Britain...is a special case....No other country has the same crucial position in world trade as England. Because of the wide use of the pound sterling in world trade, the large proportion of the world's trade which is carried on by the countries of the British Empire and the extreme dependence of England upon imports, the financial and commercial practices of Britain are of utmost importance in determining what kind of world economy we shall have.[57]

When Truman offered the Agreement to Congress, he stressed that "its most important purpose from our point of view is to cause the removal of emergency controls exercised by the United Kingdom over its international transactions far more speedily than is required by

cited in Gardner, p. 240.

55 House Hearings, p. 404, cited in Gardner, p. 242.

56 U.S. Congress, Senate, Committee on Banking and Currency, *Anglo-American Financial Agreement*, Hearings on S.J. Res. 138, 79th Cong., 2nd Sess. (Apr.-May 1946), p. 14, cited in Gardner, p. 243.

57 U.S. National Advisory Council on International Monetary and Financial Policy, *The Foreign Loan Policy of the United States*, House Doc. No. 489 (21 Feb. 1946), p. 3, cited in Gardner, p. 244.

the Bretton Woods Agreements."[58] Not for the last time, the administration argued that it was the final piece to the puzzle; in the words of Clayton, "the greatest single factor thus far in the postwar foreign economic policy of the United States."[59] "If the agreement is ratified," Clayton promised to Congress, "we will have multilateral trade."[60]

But the projected economic benefits of multilateral trade were still not enough to sway Congress and the public. Rather, final support for the Agreement was the result of a factor of which the Administration had initally sought to avoid mention: deteriorating relations with the Soviet Union. Gardner recounts, "In December, there was the impasse of the Foreign Ministers in New York; then, in early spring, the Soviet threat to Iran and Gromyko's boycott of the United Nations. Now the State Department had to face another difficult meeting with the Russians in Paris."[61] Statesman such as Joseph Kennedy came out for the loan in the press, arguing that "the British people and their way of life form the last barrier in Europe against Communism; and we must help them hold that line."[62] In the face of the perceived Soviet threat, Senator Vandenberg abandoned his reluctance. Shortly before leaving for the Meeting of Foreign Ministers in Paris, he announced to the Senate, "If we do not lead some other great and powerful nation will capitalize our failure and we shall pay the price of our default."[63] It was time to begin picking sides. Was the U.S. *really* prepared to risk a socialist-leaning Labour government turning to the Soviet Union for trade and aid?

By the end of the debate, the rhetoric of the Agreement's supporters had shifted dramatically towards the worsening diplomatic situation with the Soviet Union. In the beginning of the debate there had been opposition on the grounds that the loan would be seen

58 92 *Cong. Rec.* 603 (30 Jan. 1946), cited in Gardner, p. 245.
59 "The British Loan and American Foreign Trade", *Dun's Review* (11 May 1946), cited in Gardner, p. 245.
60 House Hearings, p. 220, cited in Gardner, p. 245.
61 Gardner, p. 248-9.
62 "Kennedy Backs Aid to Britain as Gift", *The New York Times* (4 Mar. 1946), cited in Gardner, p. 250
63 92 *Cong. Rec.* 4080 (22 Apr. 1946), cited in Gardner, p. 250.

by the Soviets as a provocation by the two capitalist giants. By the end, Democratic Majority leader McCormack had declared that they "are challenging our civilization directly and other civilizations indirectly...we leave those countries who look toward Washington with a friendly eye no alternative but to be subjected to the sphere of influence of Moscow."[64] This crossed party lines, with Republican Minority leader Jesse Wolcott, who had first opposed the bill, now wondering "whether there shall be a coalition between the British sphere and the American sphere or whether there shall be a coalition between the British sphere and the Soviet sphere."[65] Democratic Speaker Sam Rayburn reached the same dramatic conclusion: "I do not want Western Europe, England, and all the rest pushed toward an ideology that I despise. I fear if we do not co-operate with our great natural ally that is what will happen....If we are not allied with the great British democracy, I fear somebody will be and God pity us when we have no ally across the Atlantic Ocean and God pity them too."[66]

The Anglo-American Financial Agreement passed the House 219-155 and the Senate 46-34. It was signed by President Truman on July 15, 1946, at which point the British could finally exhale. By this time it was clear that new lines had been drawn. Future compromise with the Soviet Union on international matters was no longer a hopeful objective. Rather, day by day, it appeared to be not just an impossibility, but an existential threat to the very future of Western democracy. The Scare had begun. Its effectiveness in the passage of the British loan presaged a revolution in the formation of U.S. foreign economic policy—to say the least.

Part VI: Savannah Twilight

64 92 *Cong. Rec.* 8824 (12 July 1946), cited in Gardner, p. 251.
65 *Ibid*, p. 8913, cited in Gardner, p. 251.
66 *Ibid*, p. 8915, cited in Gardner, p. 251.

Midway through the American debate, the final task of the Bretton Woods agreements was quietly completed: the first meeting of the International Monetary Fund and the International Bank, at a luxurious island resort just outside of Savannah, Georgia. For Keynes, this meeting would be a perfunctory ratification of matters already settled. More pressing, he believed at the time, was for him to attend the first meeting of the nationalized Bank of England, which fell on March 8, one day before the first meeting in Savannah. A few weeks before the meeting Keynes's friend R.F. Harrod remarked to him, "I expect that you will think the latter the more important." "I am not so sure about that," Keynes replied. "Important matters of principle and procedure, which will guide all future action, may be formulated at the Bank of England meeting, while I think that the Savannah meeting will be just a pleasant party."[67] Eventually, the allure of a "pleasant party" with his old American friends, to celebrate their tremendous achievements and collaboration in the face of all the personal, political, and—lest we forget—military challenges that profoundly conditioned their special relationship, proved too alluring for even Keynes's fastidiousness, and he decided to attend.

During the conference, the Americans quickly displayed that they had had something very different in mind. Since the Agreement had not yet passed Congress, it was imperative that the United States reiterate to the foreign delegates its expectations for the Fund and Bank. Although the conference does not appear to have been heavily (or at all) publicized, the Americans had not forgotten recent Congressional objections that Britain had troubling and unresolved differences of interpretation with the U.S. in their own domestic political presentation of Bretton Woods. The conference was a time for triumph, but it was still a strategic opportunity, both for the passage of the Agreement in Congress and for the broader

67 Harrod, p. 625.

objectives of American foreign economic policy.

Many issues of procedure and politics were discussed, the most important of which was the status of Russia. The Soviet Union had attended Bretton Woods but had not responded to the Americans' invitation to Savannah. One last offer was extended: Russia, and other countries that were present at Bretton Woods but who had not yet ratified the agreements, would have six additional months to join.[68] But the most important and controversial issue was seemingly the most simple: the location of the Fund and the Bank. At Bretton Woods, it had been decided that the Fund and Bank would be located in the country with the largest quota, i.e., the United States. Keynes had wanted New York; Washington wanted, well, Washington. Keynes had been told previously that Washington would not budge on this matter,[69] but he decided to argue his case: if the Fund and Bank were in Washington, it would send a clear message that they were Washington's Fund and Bank. Assistant Secretary of State Clayton, once the largest cotton exporter in the world, gave a clever response: “The Fund, as an intergovernmental institution, should be free of any possible influence from economic, financial, or commercial private interests.” “In recent years,” he continued, “there has been a shift from New York to Washington of international financial policy making. The judgment of the government of the country in which the Fund is located should be given substantial weight.”[70] Clayton and Keynes were thus in ironic

68 Van Dormael, p. 293.

69 Keynes wrote after the conference:

> Passing through New York on our way to the Conference we discussed these ideas at the Federal Reserve Bank of New York, and found them in complete sympathy. No rumour had reached them of any other side than New York. No rumour reached us until a day or two before we left Washington for Savannah, when Mr Vinson told me that the American delegation had decided that both institutions should be placed in Washington and that this was a final decision the merits of which they were not prepared to discuss. The U.S. Administration, he said, was entitled to decide for themselves what location within the U.S. was to be preferred. (Harrod, p. 630)

70 *Selected Documents, Board of Governors Inaugural Meeting* (Washington: International Monetary Fund, 1946), p. 30, cited in Van Dormael, p. 294.

agreement: locating the Bank and Fund in Washington *would* communicate that Washington was the global center for the coordination of international financial policy. The British, French, and Indian delegations then withdrew their objections, and the matter was settled. The path of multilateralism was to begin and end in Washington.

The second major issue was the function of the Fund. Anglo-American differences on this issue still remained from the earlier negotiations. Keynes had been disappointed with the direction the Fund had taken. As the Federal Reserve explained:

> The British had always been interested in creating a Fund that would involve a minimum of interference with national policies and programs. They wished to have international assistance available in case of need, and they would always be prepared to consult with an international organisation in whose personnel they had confidence; but they did not want political representatives of a dozen countries to be active in such an organisation and to use it as a means of prying into their affairs.

The British believed further that "if a throughly able and discreet man could be put at the head of the Fund to run it day in and day out, a man who would have the confidence of the directors and of the member countries generally, the directors would remain in the background, meeting only occasionally to determine broad policies of the Fund and to protect their respective national interests."[71] Keynes placed great importance in having Harry White in this position at the Fund. Harrod writes, "Keynes had always tended to take it for granted that he would be, and had come to repose confidence in his outlook and his vigour; he felt that under White the Fund would be in safe hands."[72] For reasons known at the time to only a few top officials—Secretary Vinson included—this was not to be so.

The British thus viewed the Fund as a source of short-term credit for struggling countries, to be given with coordination but without compulsion. The Americans, however,

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71 Board of Governors of the Federal Reserve System, Washington DC, Files: Bretton Woods Institutions, cited in Van Dormael, p. 296.
72 Harrod, p. 629.

"envisaged the Fund as an instrument for helping to correct the national policies that were disturbing the balance of international transactions. For this purpose they felt that the Managing Director of the Fund, who was not a policy-determining official, could never speak with the authority of those who made policy."[73] For the United States, the Fund was for the homogenization of monetary policy. That is to say, it was for removing convertibility restrictions on foreign currencies, and not for providing liquidity to help each debtor country with its balance-of-payments problems. Without Fund officials who could spend time in the recipient's country, the supervision that the U.S. desired could not exist. It would be necessary to have a dozen Executive Directors (and an alternate for each) representing the Fund in recipient countries, rather than Keynes' idea that Fund representatives should instead work closely with recipient countries' Treasury departments to ensure a more proportional crafting of policy.[74] At the meeting of the Committee on Functions and Renumeration, White explained that "he thought the most important thing was that the Executive Directors should be devoting their thoughts and time to studying world problems rather than the problems of their individual countries. ...They should not consider themselves representing only their individual governments. They should consider themselves as members of an international

73 Federal Reserve, cited in Van Dormael, p. 296.

74 Harrod explains Keynes's full plan:

> His conception was that, while there should be an efficient technical staff conducting research and responsible for day-to-day routine activities, policy decisions should be taken by a Board consisting of part-time Directors. The essence of his view was that the institutions should in effect be run by high officials in the Treasuries of the participating countries. Only so could the objectives and decisions of the Fund and Bank be integrated with those of the Teasuries of the principal nations. ...They would bring to the counsels of the international institutions intimate knowledge of the current problems confronting their own governments and of the real, and sometimes secret, motives and objectives of their current policies. Only so could the decisions of the Fund be based upon realities. And when they went home, having bathed themselves anew in the spirit of internationalism, they would be impelled to do their best in all the details of the daily work there to deflect the policies of their own countries, wherever possible, towards the direction desired by the Fund. (633)

organization."[75]

At the second meeting an agreement was reached that the Executive Director or his alternate would be continuously available at the Fund. But there was one more issue of contention: the renumeration of Fund executives. Their compensation—$30,000 per year for the Managing Director; $17,000 (maximum) for the Executive Directors; and $11,000 for their alternates, free of taxes—was controversial, but more important was its source: privately, from the Fund's budget, rather than publicly, and with relative adjustments, from the Treasuries of member countries. Keynes presented a strongly worded final objection:

> If we had foreseen at Bretton Woods what was going to happen – and it has turned out widely different from our expectations – we should certainly have proposed that the remuneration of the Executive Directors and their Alternates, who, as distinct from the staff, are National Delegates, should be provided or shared by the Governments appointing or electing them and not by the institutions themselves. This would have allowed the necessary elasticity for adjustment to the widely differing levels of official salaries in different countries. Unfortunately, that course was not followed. ...A more unpleasant duty than that which falls to me today I have seldom experienced.[76]

Keynes knew that these decisions were important for the form postwar multilateralism would take, but by this point it was abundantly clear that the matter had been settled long ago. Indeed, whether the Fund officials were compensated by private or public funds made little difference now. The American vision for the main institutions for postwar financial multilateralism had long since won out.

After Keynes's speech, Harry White delivered a last rejection of his former partner's hopes for the Fund and Bank. What followed was a perfect description of the conflict within Anglo-American planning for the institutions of postwar financial multilateralism:

75 Inaugural Meeting of the Joint Session of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development, Savannah, Georgia, March 1946, Summary of 12 March Meeting, cited in Van Dormael, p. 297.
76 Summary of 12 March Meeting., cited in Van Dormael, p. 298.

> I rise to speak on this matter with no small sense of embarrassment, for obvious reasons. My justification, however, is that I do not think the issue that is before us is one of salary. ...There is implicit in the document something far more fundamental and that, I say, is my justification for speaking on this issue.
>
> I believe that [Keynes's] views and those of his Government stem from something that goes very far back, from something that ran right through the discussions with regard to the proposals that are before us from the very beginning, from the very first conversation that we had with our British friends several years ago, when early drafts were being considered. The point of view that they expressed and held then they continue to hold, possibly in slightly modified form but basically the same. The controversy stems from the issue as to what is the major role which the Fund and the Bank, and particularly the Fund, shall play. It has been our belief from the very beginning that the Fund constitutes a very powerful instrument for the coordination of monetary policies for the prevention of economic warfare and for an attempt to foster sound monetary policies throughout the world.
>
> The British view, in my judgment, was based more on the concept that the Fund should play a role somewhat similar to that indicated in the International Clearing Union, that the greater emphasis should be upon provision of short-term credit, that it should provide the necessary funds whereby a country, when it felt the need of foreign exchange, would be able to acquire it. ...They believed that there should be as little discretion as possible in...the role of the Fund to determine whether or not policies pursued by any member governments were or were not in accord with certain principles.[77]

While perhaps a bit unfair, White's characterization of British expectations for the Fund and Bank indeed represented the broader hopes of Keynes and others. It is particularly revealing that White insisted that these disagreements had been present "from the very first conversation that we had with our British friends several years ago." Ever since Lend-Lease negotiations, both sides had been comfortable with a tacit acceptance of non-confrontation on their rather substantial philosophical differences. Now, these deliberate misunderstandings had been finally confronted in a bitter last argument—and one in which, as had happened so

77 Document 27, *Selected Documents, Board of Governors Inaugural Meeting*, cited in Van Dormael, p. 299-300.

many times before, the United States was the clear victor. In his concluding words, White reiterated that "the real problem is, shall you have a Fund which is competent to meet these various problems which are before us or shall you have an automatic source of credit." That, and not salaries, "is the real question that is before us."[78] With this, the last delegations still on Keynes's side, Poland and Ethiopia, relented, and he voted alone against the salary proposal.[79]

On the train from Savannah back to Washington, Keynes suffered his worst heart attack yet. His two battles—negotiating with the Americans in Washington while explaining the complications and compromises to the Cabinet in London—had no doubt brought him to this point. But he pushed on, finishing his meetings in Washington and returning to London in early April for a particularly heavy week. He even wrote up a lengthy memorandum on the conference for the British Treasury, but he decided not to send it out; it had to be remembered that the Financial Agreement was still being held up in Congress. On Easter Sunday he had one final attack, at his farmhouse, Tilton. His last view of this world was of his wife, Lydia, and mother, Florence Ada.

One cannot help but comment on the symbolism of Keynes's final years. His optimism in the prospects of peace through economic security in an (inevitably) American-led mutlilateralism persisted until his last days. "I went to Savannah expecting to meet the

78 *Ibid*, cited in Van Dormael, p. 301.

79 Paul Bareau recalled,

> It was a harsh fight in which Keynes, for the first time in his dealings with Americans, found himself faced not by arguments but by the big batallions of voting blocks. ...We felt convinced that to follow the American line on this issue would the Fund to a slow process of deliberation and ultimate atrophy. …We lost on every issue, not by the process of rational argument in debate but by the solid massing of the cohorts which voted automatically with America, mainly South American states, whose representatives could be depended on to read sometimes with considerable difficulty the speeches prepared for them by the Secretariat of the United States delegation. (Bareau Lectures, cited in Van Dormael, pp. 301-2)

world, and all I met was a tyrant," he had remarked shortly after the conference. Perhaps he should have accepted this lesson earlier. All of his experience with the Americans suggested that, although they were capable of compromise and generosity, in the end, Washington got its way on nearly every aspect of postwar multilateralism. The Bank still showed promise, but the Fund would not at all resemble his Clearing Union. The consequences of this for British and European balance-of-payments difficulties would become evident in the year after Keynes's death. He was especially prescient in one of his final thoughts on the whole process: rather than the Fund representing the liberal internationalism he envisioned, it was increasingly "becoming one of the minor desks at the U.S. State Department." On commercial matters—also under the control of the State Department—there was no ambiguity on the issue of ending imperial preference and discrimination and removing currency controls regardless of the British financial problem. Worryingly, the British still had not reconciled themselves to the realities of Article VII and the Financial Agreement and had yet to conceive of a viable solution for when the Americans demanded the stated return for their investment.

Without his optimism, creativity, and capacity for compromise, it is difficult to imagine anyone else challenging more the American hand in this fateful reconstruction of global capitalism. Keynes's vision for postwar multilateralism came to represent much of the world's vision, regardless of whether they had dared to vote with him or not in the final count on these most controversial issues. It was his profoundly modern idealism, conditioned by a classical rationalism, that overcame the skepticism of the British and others for these revolutionary proposals—for the ideas and institutions which informed and sustained the incredible prosperity of the postwar welfare state, a term which, not unlike "liberal," has strangely and most unduly become a slander to be spat by American conservative commentators and polticians. No doubt much of the world would never have agreed to, or believed in, American multilateralism, had it not contained the essential ideas and irrevocable influence of John Maynard Keynes.

Conclusion

The last few years would prove to be too much for Harry White as well. Unbeknownst to Keynes, his nomination for Managing Director of the Fund[80] was ineligible for service on grounds far more serious than he could have imagined. Months before Savannah, in February 1946, FBI Director J. Edgar Hoover handed President Truman a list of "a number of persons employed by the Government of the United States [who] have been furnishing data and information to persons outside the Federal Government, who are in turn transmitting this information to espionage agents of the Soviet Government."[81] White's name was listed second. It was decided that he would be allowed to serve as Executive Director, but would be heavily monitored and surrounded by "persons who were specially selected and who were not security risks."[82]

Less than a year later White abruptly quit his position. Shortly after, the House of Representatives Committee on Un-American Activities convened a grand jury investigation on his alleged Soviet ties. On Friday, August 13, 1948, White gave a passionate and sentimental last defense of his belief in and allegiance to the principles of American liberalism, in which he convinced many in Congress and the press of his innocence.[83] He

80 The issue of Managing Director was in fact decided less than two hours after the first directors' meeting had started—typically, behind closed doors. The selection, Camille Gutt, Belgian Minister of State, was, however, in good standing with Keynes.
81 David Rees, *Harry Dexter White: A Study in Paradox* (New York: Macmillan, 1974), pp. 379-90.
82 *Ibid,* pp. 380-90.
83 His speech is worth quoting from:

> I should like to state at the start that I am not now and never have been a

then retired to his farm in Fitzwilliam, New Hampshire, where, days later, he suffered a heart attack that left him in a semi-coma. The next day, Harry Dexter White was gone.

It must be acknowledged that multilateralism lost another great mind in Harry White's passing. His ability to mix the demands of American self-interest with creative compromises for the rest, as imperfect and one-sided as they could turn out to be, was crucial in convincing not only foreigners but Americans too that their participation in these bold new institutions was worth the risk. However, the simple fact remained that the British and American visions were incompatible. Even between White and Keynes, the two most innovative and knowledgable about financial multilateralism, the differences were real and in the end proved irreconcilable.

Keynes (and the British) had believed that the Fund must allow more freedom for member countries to maintain financial equilibrium on their own through the ability to use depreciation and exchange controls; White (and the Americans) expected free and stable exchanges largely without these tools, but when they were needed, they were to be controlled

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Communist, nor even close to becoming one....The principles in which I believe, and by which I live, make it impossible for me to ever do a disloyal act or anything against the interests of our country, and I have jotted down what my belief is for the committee's information.

My creed is the American creed. I believe in freedom of religion, freedom of speech, freedom of thought, freedom of the press, freedom of criticism, and freedom of movement. I believe in the goal of equality of opportunity, and the right of each individual to follow the calling of his or her own choice, and the right of every individual to an opportunity to develop his or her capacity to the fullest....I am opposed to arbitrary and unwarranted use of power of authority from whatever source or against any individual or group.

I believe in a government of law, not of men, where law is above any man, and not any man above law.

I consider these principles sacred. I regard them as the basic fabric of our American way of life, and I believe in them as living realities, and not as mere words on paper.

[These were the principles] I have been prepared in the past to fight for, and am prepared to defend at any time with my life, if need be." (House Committee on Un-American Activities, *Communist Espionage in the United States Government*, Hearings, 80th Congress, 2nd Session, 1948, p. 878, cited in Van Dormael, pp. 306-7) not by foreign governments but by Fund officials in Washington. If this was not enough, as Morgenthau left the Treasury in 1945 and White became involved in scandal, American foreign economic policy became even more orthodox and Washington-centric. As Keynes had feared, it was now the exclusive purview of the State Department—which, as we have attempted to demonstrate, viewed the Fund and Bank, as well as the Anglo-American Financial Agreement and Lend-Lease, as mechanisms whose first function was to ensure the interests of American exporters, rather than to address the industrial and financial concerns of war-torn or developing countries.

This objective was perhaps less sinister than it seems. While certainly tied to the business community, men like Hull, Clayton, and Hopkins truly believed they were acting in the interests of the American economy. That is to say, they saw American export supremacy in foreign markets—ensured through the removal of tariffs, preferences, and currency controls—as the only way to maintain high domestic employment after the war. But for them, an Open Door policy for the world was not a zero-sum game; it couldn't be, as the U.S. could not finance other countries to buy its exports forever. In this way both the American and British visions for postwar multilateralism were highly optimistic. The key difference, however, was that if the American vision failed, it was clear who would suffer the most. Of course, the Americans were more than willing to take that chance.

At the same time as the Financial Agreement was being debated in the U.S. Congress, the State Department was preparing to release its plan for, effectively, the implementation of Article VII from Lend-Lease to the rest of the world. The first official draft of plans for the International Trade Organization (ITO)—outlined in *Proposals for Expansion of World Trade and Employment*—emerged in December 1945 during negotiations with the British over the Financial Agreement. In September 1946, a few months after the conclusion of the Savannah Conference, a more comprehensive plan was released as the *Suggested Charter for an International Trade Organization of the United Nations*. In October, the United States presented the *Suggested Charter* to the Preparatory Committee created by the United Nations Economic and Social Council at its first meeting in London. The wording of the ITO Charter's goals was nearly identical to Article VII and the Atlantic Charter: "[To] promote national and international action for the expansion of the production, exchange, and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of all forms of discriminatory treatment in international commerce...[and] to facilitate access by all members, on equal terms, to the trade and raw materials of the world." [84] The ITO marked an important continuity with the Fund and Bank both in its goal—the State Department's long-fought crusade for *laissez-faire* multilateralism—and in its vehicle —the nascent United Nations. As the United States had done with the new international monetary framework in its influence within the Fund and the Bank at the UN, so it was attempting to do with a new international commercial framework that could be managed in much the same way. For reasons both domestic and international, this was not to be so.

The ITO was accompanied by a interim agreement designed to provide for many of the same objectives. Although the ITO failed to pass Congress in 1947, marking its demise, the General Agreements on Tariffs and Trade (GATT) survived. Signed in Geneva by twenty-three countries in April 1947, the GATT would last, through a series of rounds, until 1993, when it was replaced by the World Trade Organization. The purpose of the GATT was wisely preemptive: to ensure that all parties would hold themselves to the tariff concessions

84 Department of State, *Proposals for Expansion of World Trade and Employment*, November 1945 (Washington, DC: Government Printing Office, 1945).

negotiated during ITO discussions after the expected economic turbulence of its interim period.[85] Clayton and the State Department had been given the authority by President Truman to reduce American tariffs to fifty per cent of 1945 levels at Geneva; this, Clayton assumed, would be enough to drastically cut, if not end, preference within the British trading system and elsewhere. Indeed, this was the entire purpose of the Geneva agreements, made clear in an exchange between Harry Hawkins and the Republican-controlled Senate Finance Committee:

> MR. HAWKINS. In theory, you have not yet got absolute assurance that anything is going to happen to the British preferences. But in practical fact, something is going to happen, I am quite confident. If it did not happen, then this whole thing is in danger...
> THE CHAIRMAN. ...In other words, it follows that if these preferences cannot be eliminated there is no point in the Charter. Is that correct?
> MR. HAWKINS. Yes; and the action contemplated on the tariffs. When you say eliminated, it does not necessarily follow that they will all be gone, but the parts that hurt will be gone.
> THE CHAIRMAN. But if the real substance of the preferences is not eliminated, there will be no point to the Charter and it will probably not come before the Congress.
> MR. HAWKINS. I should think that would be it.[86]

The internationalist free-traders in the Truman administration faced a new challenge for their foreign economic policy with the Republican midterm victories. If Congress did not think that the U.S. could secure the end of imperial preference through the ITO—which they had been promised since 1941 with Article VII—then the Charter might become irrelevant. This is what made the signing of GATT along with the ITO ever more pressing for the State Department's form of postwar commercial multilateralism. This is also what made Anglo-American negotiations at Geneva over imperial preference so acrimonious.

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85 Douglas A. Irwin, Petros C. Mavroidis, Alan O. Sykes, *The Genesis of the GATT* (New York: Cambridge University Press, 2008), p. 86.

86 U.S. Congress, Senate, Committee on Finance, *International Trade Organization,* 80th Cong., 1st sess. (March-April 1947), p. 195.

As the State Department had done with the Financial Agreement, the Charter was presented to Congress as "essential to the successful operation of the Bretton Woods agreements." The need for an international commercial counterpart to Bretton Woods, as Clayton testified, "was specifically recognized by Congress in the act approving these agreements. Without the [International] Trade Organization, a vital part of the machinery for economic cooperation would be missing." In other words, what Bretton Woods did for financial multilateralism, so was the ITO to do for commercial multilateralism. "The stated objective," Clayton reiterated, was "reducing tariffs and other trade barriers and the elimination of all forms of discriminatory treatment in international commerce." Like Bretton Woods, "it would create an international body to facilitate the operation of these provisions and to promote such further action or agreements as will promote mutually profitable trade."[87]

"None of them has come to an arrangement concerning so many vital economic interests of so many states," Clayton concluded at the final signing of the soon-to-be rejected ITO Charter in Cuba. "None of them has produced a document so comprehensive as the Havana Charter for World Trade. Few, if any, of them have attained so notable a measure of success."[88] We may now turn to the planning and negotiations for, and the successes and failures of, these revolutionary commercial proposals.

87 U.S. Congress, Senate, Committee on Finance, *Trade Agreements System and Proposed International Trade Organization Charter*, 80th Cong., 1st sess. (Mar. 20 1947), pp. 2-3.
88 Press Release, ITP/194, United Nations Conference at Havana (23 Mar. 1948), p. 1, cited in Gardner, p. 368.

Chapter III: The Charter

Part I: The RTAA and the ITO

As we have attempted to demonstrate, the American vision for commercial multilateralism was remarkably consistent and insistent in its goals of a postwar trading regime free from discriminatory agreements and restrictions, namely, those of the British preference system and its sterling area benefactors. Although planning for financial multilateralism took center stage in the final year of war, by no means was planning for a commercial compromise ignored. Around the same time that the White and Keynes plans for financial collaboration were published, in winter 1943 the State Department was hard at work preparing a draft of its commercial counterpart. The Division of Commercial Policy, under the direction of Harry Hawkins, reiterated the (assumed) international duty and domestic necessity of the United States to bring such a code into existence:

> A great expansion in the volume of international trade after the war will be essential to the attainment of full and effective employment in the United States and elsewhere, to the preservation of private enterprise, and to the success of an international security system to prevent future wars....
> ….The only nation capable of taking the initiative in promoting a world-wide movement toward the relaxation of trade barriers is the United States. Because of its relatively great economic strength, its favorable balance of payments position, and the importance of its market to the well-being of the rest of the world, the influence of the United States on world commercial policies far surpasses that of any other nation.

In other words, the expansion of international economic freedoms—defined narrowly as non-discriminatory and control-free trade—would necessarily lead to the expansion of international political freedoms. “Unless excessive tariffs, quantitative restrictions on imports and exports, exchange controls, and other government devices to limit trade are substantially reduced or eliminated," the report continued, "there may be a further strengthening of the tendency, already strong in many countries before the war, to eliminate private enterprise from international trade in favor of rigid control by the state."[1] (Revealingly, the idea of repressive states willing to comply with Western industrial demands—or, for that matter, democratic governments wishing to promote their own exports or protect their currency through controls—was, in this model, a theoretical impossibility.)

In September 1943 a delegation headed by British Minister of State Richard Law arrived in Washington for talks on postwar commercial policy. The discussions were informal in tone and revealed an encouraging amount of consensus on end goals. Both sides were in substantial agreement on the importance of ensuring high employment during the turbulence of reforming world trade. Crucially, however, the State Department still viewed liberal international trade as the necessary prerequisite for high employment. The British were in agreement on moving towards a more purely liberal trading system, but expressed a much deeper concern for the unemployment that might result from too hasty or orthodox an application.[2] There was a stronger accordance, though, on the issue of quantitative restrictions. Direct quotas on the imports and exports of commodities were proscribed by both as more dangerous and disruptive to market forces than tariffs[3]; thus, quantitative

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1 Department of State, "'Summary of the Interim Report of the Special Committee on Relaxation of Trade Barriers" (18 Dec. 1943), id., App. 45, p. 622, cited in Richard C. Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), pp. 101-2.

2 Gardner, pp. 104-6.

3 Penrose explains the Anglo-American consensus on quantitative restrictions:

> It had been fully recognized in London, Washington, and Ottawa that reductions in tariffs could easily be nullified if restrictions on physical quantities imported were imposed in their place. Such restrictions were more stifling to trade than duties on imports which could often be surmounted by enterprising exporters who made every effort to reduce their costs. From the beginning the postwar plans included a general prohibition of limitation by physical quantities or "quotas," except insofar as such limitation might be necessary to give effect to agreed allocations of scarce products in the early postwar period, or to give effect to commodity agreements involving export

restrictions would be allowed only under international supervision and only if non-discriminatory in application.[4]

The issues of tariff reduction and preference elimination were a bit more complicated. The State Department was adamant in its defense of Article VII, which called for "the elimination of all forms of discriminatory treatment." For the Americans, imperial preference was the penultimate form of discrimination; unless the British were willing to bring this system to an end, they stressed, discussions on tariff reductions could not move forward. Ironically, the British position was more *laissez-faire* than that of the Americans. Penrose later recalled, "[The British delegation] repeatedly declared, at first privately and later during negotiations, that they would abolish preferences only in return for a heavy all-round and not a 'selective' reduction of tariffs and other trade barriers."[5] In other words, the British believed that ending imperial preference would only be possible with a sweeping, but proportional, reduction in American tariffs—a rather fair proposal, considering the significance of imperial preference to Britain's postwar recovery and the otherwise persistent orthodoxy of the Americans' arguments.

The British proposal—minimum and maximum percentage levels for tariffs, across sectors—was bold. The proposal had formed the basis of the ambitious British Overton Report, produced in January 1943 by the Secretary of the Board of Trade, Sir Anthony Overton. Overton's idea for postwar tariffs was an attempt to call the Americans' bluff on their ideological puritanism: he hoped to "strike the American imagination" through the offer of a "radical diminution of Imperial Preferences," in exchange for drastic cuts in American

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"quotas," as proposed in the Draft Wheat Agreement of 1942. (E. F. Penrose, *Economic Planning for the Peace* (Princeton: Princeton University Press, 1953, p. 100)

4 Gardner, p. 107.

5 Penrose, pp. 92-93.

tariffs.[6] The Report eventually made its way out of an ambivalent British Cabinet in time for the September discussions in Washington. Churchill accepted the document in April 1943, but not without two provisions: one ensuring the ability to use, if necessary, limited import controls for balance of payments issues, and another reemphasizing the clause from Article VII requiring "mutually advantageous economic relations" before agreements are met to reduce tariffs and preferences.[7]

Harry Hawkins, head of the American delegation, at first took issue with across-the-board cuts. The Americans doubted that Congress would be willing to pass such a broad formula for tariff reductions; anyway, the Reciprocal Trade Agreements Act (RTAA) of 1934, in preparation to be sent by President Roosevelt to Congress for renewal, prescribed a selective process for reducing tariffs.[8] This revealed a fundamental weakness in the RTAA's formulation: without radical cuts in American tariffs, particularly those used to protect its Latin American markets, ending imperial preference would be simply unsustainable for the British. After complaints back and forth about the respective political difficulties of selling each side's position, Hawkins compromised: "token preferences" would be allowed if a reformation of RTAA was not possible. It was an ambitious and solitary gamble:

> At great risk to his career, he agreed to devise a tariff reduction formula based on sectoral cuts. No higher authority, including Cordell Hull, had endorsed this plan. It was doubtful that Roosevelt would revise the RTAA to accommodate across-the-board reductions. Yet Hawkins believed that he had found a way to abolish Ottawa preferences. In fact, however, [British negotiator] [Percivale] Leisching had managed to safeguard that very system because he knew that the Americans would likely never agree to sectoral tariff reductions.[9]

6 Department of State, "Report of the Committee on Postwar Commercial Policy," (January 6, 1943), cited in Thomas W. Zeiler, *Free Trade, Free World: The Advent of the GATT* (Chapel Hill: The University of North Carolina Press, 1999), p. 29.

7 Zeiler, p. 31.

8 *Ibid*, p. 35.

9 *Ibid*, p. 36.

The talks ended shortly after on October 21, 1943, with Hawkins concluding optimistically that disagreement lay more on “technique or method rather than of policy.”[10] Again, it was easier for both sides to conclude discussion with substantial but unarticulated differences in expectations; for now, it was enough that planning for commercial multilateralism was moving forward in a suitable, albeit uncertain, direction. Encouragingly, the Americans' final report of the meetings included the Overton Report's idea of an international commercial union—a sort of commercial counterpart to Keynes's Clearing Union for international finance. Penrose explains, “It provided for the establishment of a permanent international trade body composed of members who accepted its principles and took the necessary initial steps to cut down trade barriers. Thus it covered most of the main points of what was to become, about five years later, subject to ratification, the International Trade Charter.”[11]

Part II: Politics Intervenes

Back in London, the proposals were much less popular. As would happen with the Anglo-American Financial Agreement, multilateralists in Britain were practically alone in their guarded defense of the latest commercial proposals. From the left, Labour warned that Britain should be “wary of being maneuvered into making further concessions upon the points not yet agreed in the hope of satisfying the demand for a free-entrance ticket for American capitalism into every market in the world.”[12] Worryingly for Churchill, pro-empire Tories were in greater opposition: they treasured imperial preference as much as Hull's State Department hated it. Even the centrist Liberal Party, while endorsing Article VII as a path for economic growth, insisted on broader rights for British discrimination in case of difficulties,

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[10] Memorandum on informal exploratory conversations and 4th plenary meeting, both October 16, 1943, box 19, International Trade Files, found at National Archives (Washington, DC), cited in Zeiler, p. 36.
[11] Penrose, p. 95.
[12] Cripps to Law, December 30, 1943, CAB 127 91, British Public Record Office, cited in Zeiler, p. 38.

alarming multilateralists like Meade and Law who understood American vehemence to preferences and import controls.[13]

The Government was divided. By February 1944, Churchill decided to freeze commercial planning until the implications of the September proposals had been made more clear. An ascendant Labour Party had pushed the internationalist Churchill to respond to the protectionist right; there was no question that he would need party unification for the upcoming elections. Unless the U.S. explicitly stated that it would submit to the British proposal for across-the-board tariff cuts, Britain would commit itself to nothing. The "limiting words" of the Atlantic Charter and Article VII, Churchill promised to the House of Commons in April 1944, assured that Britain was still, "in every respect, so far as action is concerned, perfectly free."[14]

The Americans found British attitudes worrisome—Cordell Hull complained that Churchill no longer cared about liberalizing trade—but rather than slow down, they sped up. In October 1944, Harry Hawkins's Executive Committee on Economic Foreign Policy released its "Articles of Agreement for a Proposed Multilateral Convention on Commercial Policy." The articles were in many ways a summary of the talks held the year prior—they called for ending discrimination through an international trade organization and the resumption of Article VII talks—but made important concessions regarding Britain's concerns. First, the articles preserved some, albeit narrow, preference margins and allowed for limited import quotas, to help with Britain's balance of payments issues. Second, the articles promised to halve tariffs, providing two ways to do so:

> One involved sectoral cuts on a percentage basis. The Executive Committee preferred this "horizontal" approach, a

13 Zeiler, p. 38.
14 Law Memorandum, February 7, 1944, PREM 4 18/1, British Public Record Office, cited in Zeiler p. 38.

> centerpiece of Britain's Overton Report, because it provided a precise obligation by all nations to lower tariffs. The other method called for bilateral accords among pairs of nations to be extended to a "nuclear" club of major nations. This technique was consistent with the reciprocal trade program. It compelled tariff reductions on selected items and limited them to principal producers.

The Americans made it clear in the articles and to the British that they preferred the Overton approach. Both sought to avoid bilateral tariff bargaining in the postwar years and believed the issue could be settled through a comprehensive international system of trading principles and agreements. The RTAA, however, threatened this possibility. It must be remembered that, because of its protection of certain industries, the RTAA as it stood had strong industrial backing; like in Britain, business was divided amongst itself. It would be necessary, then, to couple an American concession with an American exception. "An indiscriminate slashing of tariffs would not subject sensitive industries to unfair competition," the State Department argued, "as an escape clause would provide them with an exemption from any concessions that might prove injurious."[15]

Hawkins gave the plan to British negotiator James Meade in November 1944. This was the reassurance that British multilateralists had been looking for; Meade saw the plan as a clear advantage for the British.[16] Keynes and others were not so convinced. The American tariff concessions were still too timid, Keynes argued, especially considering the escape clause protecting U.S. industries.[17] By January, Parliament had only strengthened in opposition to any resumption of Article VII talks without a reformation of the RTAA bill being prepared for Congress. The State Department firmly backed an amended bill, but a

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15 Committee on Trade Barriers, "Multilateral versus Multilateral-Bilateral Action," (October 1944), box 23, International Trade Files, cited in Zeiler, pp. 42-3.

16 Howson and Moggridge, *Meade*, 4:22-23; also Meade to Robbins, November 27, 1944, FO 371 40949, cited in Zeiler, p. 43.

17 Zeiler, p. 43.

politically cautious Roosevelt resisted. By the time the RTAA was sent to the House, in March 1945, the Bretton Woods agreements were also before Congress, and the United Nations conference in San Francisco was less than three months away. The Overton plan for tariffs was not included. Instead, Roosevelt proposed a more cautious three year renewal of the RTAA and a halving of its tariff rates based on bilateral agreements rather than horizontal cuts.[18]

Nevertheless, throughout the first half of 1945, U.S. Embassy and State Department officials continued to meet for informal talks with British officials in Whitehall. The British reiterated their position on tariffs to a generally sympathetic American delegation, led by Hawkins and Penrose. However, as Penrose writes, "The outcome of the discussion on [tariffs] was determined, not by economic reasoning, nor on grounds of equity but by what the Assistant Secretaries in the State Department believed it possible to pass through Congress."[19] The refusal of the American delegation to take the political risk of proposing the tariff agreements that both sides, for the most part, desired, produced great disappointment in Whitehall. Without a "simple, vigorous, and challenging approach" to tariff reduction, a leading British official told Penrose and Hawkins after the discussions, "the British would go into any other approach with no heart and without expectation that much would come out of it."[20]

On April 12, 1945, President Roosevelt suffered a massive and fatal stroke; his successor, Harry S. Truman, had been Vice President for only eighty-two days. Passing the revised RTAA in June—debated at the same time as the Anglo-American Financial Agreement, passed in July—was President Truman's first major victory for postwar

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18 *Ibid*, p. 45.
19 Penrose, p. 107.
20 *Ibid*.

multilateralism. Protectionists and isolationists railed against the tariff cuts; there was particular opposition to the Administration's argument that free trade would bring global peace.[21] Congressional Republicans grilled William Clayton, appearing on behalf of Secretary of State, Edward Stettinius, on the fact that his cotton firm had profited from protectionism, concluding from this that American economic self-interest was indeed a zero-sum game. They even went as far as to defend the infamous Smoot-Hawley Tariff Act of 1930—the very kind of protectionism and economic nationalism seen by American multilateralists as the sure path to depression and war.[22] But the arguments for economic isolationism were more and more unconvincing to a diverse array of commercial, political, and social interest groups. Business and labor came together to back the bill as necessary for full employment at high wages, while academics and peace groups embraced the hopeful economic materialism espoused by Administration officials. As the war wound down the (alleged) connection between protectionism and socialism was being made from all corners; indeed, the two were beginning to become conflated in popular discussion. An international agreement of principles for the opening of markets in America and elsewhere was increasingly being accepted as the only sustainable path to postwar peace.

In Britain, the response to the RTAA's passage was understandably mixed. Ambassador Halifax believed Truman had "scored a Congressional victory of the first magnitude," while British negotiator James Meade believed the passing would push both sides to move forward on Article VII discussions.[23] Others were not so convinced. The

[21] For instance, Congressman Carl Curtis, Republican from Nebraska, presented Library of Congress data of nineteenth century Britain at its free-trading height; he concluded that, during 1838 and 1920, Britain had engaged in thirty-five continental and colonial wars. (*RTAA-House*, 1945, Curtis, p. 635, cited in Zeiler p. 46)

[22] Zeiler, p. 46.

[23] Halifax to foreign Office, June 25, 1945, BT 11 2741, British Public Record Office; Meade diary, June 25, 1945, London School of Economics; both cited in Zeiler, p. 49.

Cabinet had stated that, in exchange for ending preferences, they would require the heavy and all-around leveling of tariffs favored in the Overton Report and adopted in the final report of the October 1944 discussions; anything less, they believed, would fall short of Article VII's promise of “mutually advantageous” agreements. This was not merely an attempt to assert British self-interest against American self-interest; even mutual cuts in tariffs might prove insufficient to the respective macroeconomic realities Britain and the United States would soon face. Penrose, then Special Assistant to U.S. ambassador John Winant, explains:

> It was a central principle of the [RTAA] that trade agreements should provide for approximately equal reductions on both sides....But from 1941 onwards it became clear that in the postwar world the United Kingdom would have lost the creditor position which it had held before the war, while the United States would probably be more than ever a creditor country. If chronic instability in international accounts was to be avoided, adjustments would have to be made in the balance of trade in both countries, exports increasing proportionately to imports in the United Kingdom and imports increasing proportionately to exports in the United States. To assist in the difficult task of making these adjustments, trade barriers should be lowered on both sides but to a greater extent on the American than on the British side. The Reciprocal Trade Agreements Act contributed to the first but not to the second of these processes of adjustment.

In Congress, the bill's proponents from the Administration made clear the importance of equal concessions through the bilateral tariff cuts; even this, however, was political overstretch. “This may have helped to pass the bill,” Penrose writes, “but it also made it so much the more difficult for the administration to lay before Congress at a later stage any measures that could be used ultimately to increase imports more than exports.”[24]

In the midst of these commercial negotiations history marched on. In June, Clement

[24] Penrose, p. 93.

Attlee and Labour replaced Churchill and his Tory cabinet.[25] The war was finally winding down; victory was almost certain. On May 8, 1945, Allied forces accepted the unconditional surrender of Germany; on July 11, it was formalized at Potsdam. After continued Japanese rejection of Potsdam—and two devastating atomic bombs—on September 2, Japan signed its unconditional surrender and the war was over.

Worryingly, the British financial situation continued to worsen. Just weeks before the surrender of Japan, Lend-Lease was abruptly cancelled by President Truman. To the new Labour government, this “made quite an impossible situation.” The announcement came as “a great shock,” recalled Prime Minister Attlee. “The tap was turned off at a moment's notice....That's why we had to go and ask for an American loan right away.”[26] Attlee naively expected to negotiate a large loan without heavy conditionalities; Keynes believed that “there was no reason to expect the United States to twist their arms.” Meade, however, was more realistic: the State Department would no doubt connect, in some way, the promises of Article VII to the Anglo-American Financial Agreement.[27] He would soon be proven correct.

Part III: The AAFA and the ITO

The timing of the cancellation of Lend-Lease was perhaps a “great shock,” but it could not have been entirely unexpected. In fact, Britain had been worrying to U.S. officials for some time about the effects of a cancellation; so, as it happens, had American multilateralists. Ambassador Winant recognized these coming difficulties in a cable to

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25 The connection between the 1945 general elections and the trade and financial agreements of 1944-45 is but one of a multitude of important and connected factors that led to Labour victory. The literature on this subject is extensive, but we can say in summary that the British public came to believe that a Labour government focused on domestic economic recovery through a more planned economy could serve Britain's peacetime needs more effectively than the existing wartime Tory government.

26 Earl Attlee (with Francis Williams), *A Prime Minister Remembers* (London: Heinemann Press, 1961), pp. 129-30.

27 Zeiler, p. 51.

Secretary of State Stettinius at the beginning of commercial discussions in January 1945: "Pointing to the huge deficit which the UK will face on both current and capital account the officials emphasize that when Lend-Lease stops it will be extraordinarily difficult to balance their current account let alone make a contribution towards the reduction of their indebtedness."[28] The British had known that they would need a loan; the Americans had known as well and planned accordingly.

As discussed in Chapter II, the Treasury Department's conditionalities in the Anglo-American Financial Agreement concerned mainly convertibility and currency controls; their counterpart negotiations through the State Department would address more directly Lend-Lease Article VII. Meade's fears about the two proposals were indeed valid; as Secretary Stettinius cabled to Ambassador Winant a month before the negotiations, "The British should understand that not only are the arrangements tied together but financial conversations would be fruitless unless conducted simultaneously with and as a part of larger discussions embracing the entire agenda which you have submitted."[29] From the beginning the stated desire of the State Department was to get the British to sign off on a substantial commercial arrangement providing for, amongst other things, the long-discussed establishment of an international trade organization and a firm promise on ending preferences. The State Department, typically, was acting boldly and practically unchecked in the field of foreign economic policy. It was not until two weeks before the negotiations began that the State Department decided to clear with President Truman its preliminary draft for the *Proposal to Establish an International Trade Organization*—at this point, effectively a restatement of the conclusions of the Whitehall negotiations a month before, i.e., an intergovernmental body

[28] DoS 840.50/1-1245, Winant to Stettinius, Department of State, *Foreign Relations of the United States,* 1945, Volume VI (Washington, D.C.: GPO), p. 9.

[29] DoS 011.4131/8-2745, Byrnes to Winant, *Foreign Relations of the United States*, 1945, Volume VI, p. 110.

mandating the the elimination of quantitative restrictions and, "in so far as practicable, of tariff preferences."[30]

Preliminary commercial discussions began on September 11 at the State Department. Three committees were established: one chaired by Treasury Secretary Fred Vinson on "financial problems"; one chaired by Leo Crowley, the conservative foreign aid administrator who convinced Truman to cancel Lend-Lease, on Lend-Lease's settlement; and one chaired by William Clayton, on "commercial policy."[31] By September 19, Clayton and Percivale Leisching, the British negotiator on commercial matters, had hit an impasse. Leisching and the British sought to avoid committing to too much in the discussions, since the commercial agreements were expected to be tied to the Financial Agreement and Lend-Lease settlement. Vis-à-vis the ITO and preferences, they held their line from the previous year's discussions:

> Regarding basis for commercial policy Leisching said UK officials would not favor working on a suggested draft convention or even a summary of a convention such as we had given them. They considered that such a document was of great value for use at later stage but that the forthcoming talks should be centered on the outstanding issues and especially those on which there were difficulties....Regarding preferences he indicated that UK officials would take an uncompromising stand that preferences must be placed in similar framework of discussion with tariffs. If there was no general formula on tariffs there could be none on preferences.

So far, the United States had been the most politically cautious in Anglo-American economic negotiations; it was Britain who most frequently had to shoulder the burden of selling unpopular arrangements. But the British also knew how anxious the Americans were to achieve their postwar commercial and financial objectives. Thus, Leisching decided to spend

[30] DoS 011.0031/9-1145, Acheson to Truman, *Foreign Relations of the United States*, 1945, Volume VI, p. 117-19. Acheson summarized the State Department's broadly proposed goals as, "a) the maintenance of unemployment, b) the relaxation of trade barriers of all kinds, c) the elimination of restrictive private business practices, d) the principles to be observed in the negotiation and operation of intergovernmental agency to discuss trade problems."

[31] DoS 011.4131/9-1045, Acheson to Certain American Missions, *Foreign Relations of the United States*, 1945, Volume VI, p. 121.

this apparent capital, remaining firm on the tariff-preference question and "[repeating] that the political importance in UK of dealing carefully with this question was paramount."[32]

Predictably, as soon as commercial discussions began on October 2, the American proposal for preference elimination "revealed a wide divergence between American and British viewpoints which may be difficult to bridge," as Acheson cabled.[33] Still, the committees formed to work on the principal issues—in the decided order of "tariffs and preferences, subsidies, state trading and exchange control, and cartels"—worked throughout the month. By October 31, some agreement had been reached on most points. On cartels, the British proposal for a case-by-case approach was, after some debate, adopted. On exchange controls, a compromise was reached requiring common membership in the Fund and ITO so that the "scarce currency" clause of the Fund remained in effect. "The British have taken the position, however, that this is not enough," cabled Ambassador Winant; more discussions were planned for the following week. Regarding preferences, Liesching's strategy seemed to be working well. In exchange for a commitment to not adopt any new or increase existing preferences, the U.S. made it clear that they were "not asking the British to give us a unilateral commitment...in consideration for financial aid." Instead, it was agreed that "action for elimination of preferences will be taken in conjunction with adequate measure for the substantial reduction of barriers to world trade on a broad scale." In other words, at least until the ITO conference, ambitiously planned for June 1946, the Ottawa Agreements remained untouched.[34]

Commercial discussions ended on December 1, just five days before the signing of the Financial Agreement. Their conclusions contained something of a win for both sides.

[32] DoS 011.1131/9-1943, Winant to Byrnes, *Foreign Relations of the United States*, 1945, Volume VI, p. 128.
[33] DoS 611.4131/10-245, Acheson to Winant, *Foreign Relations of the United States*, 1945, Volume VI, p. 138.
[34] DoS 611.4131/10-3145, Byrnes to Winant, *Foreign Relations of the United States*, 1945, Volume VI, p. 152.

Import quotas "applied on balance of payments grounds" would be applied based on price, not politics, asserted Liesching, which satisfied the free-trading U.S. Chairman, Clair Wilcox. On export subsidies, Britain had previously caused some friction by asserting that U.S. shipping subsidies for its exports had similar implications for free trade as protective tariffs and import controls. Wilcox firmly disagreed; his stipulation that the issue not be taken up by the ITO was accepted by the British. Liesching also expressed concern with the one-state one-vote proposal for the ITO. Keynes seconded this anxiety by mentioning his experience in the Paris Peace Conference after the first World War. Chairman Wilcox gamely agreed to discuss the matter further at preliminary ITO discussions in March.[35]

Crucially, both had finally declared their "full agreement on all points of importance" regarding the first public draft from the U.S. for a multilateral postwar trading regime: the *Proposals for the Expansion of World Trade and Employment*.[36] As Bretton Woods had done with international financial collaboration, the principles outlined in the *Proposals* were the result of the negotiated transition of power between the world's largest empire-in-decline and its undisputed financial, commercial, and military heir. Indeed, on all main issues, the latest Anglo-American consensus was proposed unquestioned as the new global consensus. Import and export duties could discriminate only on price, not location. Quantitative restrictions were permitted for no more than three years following hostilities, and on certain essential commodities like agricultural products or during times of intense distress, unless a member's balance-of-payments situation permitted an application of the Fund's scarce-currency clause. The same three-year allowance also held for (most) export subsidies. Cartels and state

[35] DoS 011.4131/5-146, Draft Combined Minutes of the Meeting of the United States-United Kingdom Committee on Commercial Policy, *Foreign Relations of the United States*, 1945, Volume VI, pp 178-84.

[36] Department of State Publication 2411, *Proposals for the Expansion of World Trade and Employment*, December 1945 (Washington, DC: Government Printing Office, 1945).

monopolies were to abide by existing tariff margins to ensure fair competition. Finally, the exchange control provisions prescribed in the Fund agreements were to apply to all members, requiring "equality of exchange treatment" unless expressly permitted by the Fund.

But on the most important issue, "full agreement" in principle once again deliberately obscured real disagreement in intention. Since 1943, the State Department had advocated for the British approach for tariff reductions, i.e., a broad formula for across-the-board cuts. But the passage of the RTAA in June 1945 dashed these hopes for good. This lead Clayton and Wilcox to push a new approach, the so-called "multilateral-bilateral," or "nuclear" method. Under this plan, nations would come together at a large conference to negotiate bilateral and selective cuts in tariffs; these cuts would then be extended to all participants through the operation of the unconditional most-favored-nation clause. The Americans believed that this would be enough to convince the British to end preferences unequivocally. While indeed agreeing in principle, the British doubted that the U.S. would be able to grant equivocal cuts to make ending preferences sustainable. As the American advisor Penrose recalled, "There was never at any time even a remote chance that preferences would be abolished in return merely for a group of bilateral agreements to reduce tariffs on selected commodities."[37]

Therefore, the tariff-preference formula contained in the draft was, as usual, both vague and specific:

> In light of the principles set forth in Article VII of the Mutual Aid Agreements, members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimination of tariff preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document.[38]

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37 Penrose, p. 102.

38 Department of State Publication 2411, *Proposals for the Expansion of World Trade and Employment*,

In this phrasing, the U.S. gained a specific commitment to the "elimination of tariff preferences," whereas Article VII had more broadly identified "discriminatory treatment." But Britain's commitment was dependent upon "adequate measures" for the reduction of not just tariffs, but other "barriers to world trade as well." Further, the old saving clause for the British requiring "mutually advantageous arrangements" remained as an ultimate precondition for any agreement on ending preferences.

Preferences would thus be preserved at least until the ITO discussions scheduled for the summer of 1946. However, the draft contained a few more important provisions that American negotiators believed to ensure their eventual elimination. First, existing preferences would be subject to reduction at the conference. Second, reductions in tariffs would work automatically to reduce or eliminate margins in preferences. Third, no existing preference margins would be increased and no new preferences introduced. And finally, the escape clause for tariffs introduced in the State Department's November 1944 proposals—to which the British, namely Keynes, had rejected as too timid—was retained. This clause, permitting countries to take "temporary action to prevent sudden and widespread injury to the producers concerned," was meant, quite specifically, "with regard to tariffs." That is to say, it did *not* apply to "tariff preferences," giving the U.S. a potential and selective opt-out for its own tariff commitments while denying the same for potentially injurious eliminations of British preferences. Once more, mutual acceptance of the new Anglo-American commercial proposals was ultimately, if temporarily, secured by the linguistic acrobatics of its chief economic negotiators.

Part IV: London Calling (for a Charter)

December 1945.

As explained in Chapter II, the half-year of legislative debate on the Anglo-American Financial Agreement was acrimonious on both sides. In Britain, imperial sentiment was strong on the Beaverbrook right, while the new Labour government remained wary of relinquishing trade controls at the same time that they were proposing ambitious plans for domestic reconstruction. Opposition to the commercial proposals coalesced in particular around the U.S.-favored formulation of the "reduction" of tariffs and "elimination" of preferences. The Americans' insistence that the two represented different "levels of evil" and should be treated separately was disagreeable to Tories and Socialists alike. But Lord Churchill, reluctant supporter of the Financial Agreement, spoke boldly to quell parliamentary fears that the Ottawa system was in jeopardy. Despite the wording of the *Proposals*, published separately but simultaneously with the Agreement, Churchill pledged, "I cannot see that there is the slightest justification for suggesting that we are compromised and fettered in any way in respect to Imperial Preference."[39] In December, just weeks after the conclusion of negotiations, the Agreement was passed by Parliament.

Across the Atlantic, the Americans of course promised the opposite. In fact, the whole Agreement was falsely presented as not just a loan, but a commercial contract. "If the agreement is ratified," assured Clayton, "we will have multilateral trade." Vinson went a step further, pledging that ratification ensured that Britain would "immediately accept the principles of fair and non-discriminatory currency and trade practices."[40] As Clair Wilcox told a group of business leaders, British approval of the *Proposals* during the negotiations meant that "we have Britain's pledge that her foreign economic policy will henceforth be devoted to restoring an international order that is favorable to the preservation and expansion

39 U.K. Parliament, House of Commons, 417 H.C. Deb. 723-4 (17 Dec. 1945), cited in Gardner, p. 158.
40 House Hearings, p. 220; Forward to the U.S. Treasury, *Questions and Answers*, p. 2, both cited in Gardner, p. 245.

of private enterprise."[41] With the politically beneficial fallout from worsening American-Soviet relations, Congress passed the Agreement in June.

Although these obscurations may have helped the Agreement's passage through Parliament and Congress, they came at the cost of yet more unrealistic expectations for postwar foreign economic planners on both sides. Anglo-American commercial proposals were unpopular in London *and* Washington, but while Britain hoped for delay, the U.S. pressed for progress—unilateral, if necessary. At the same time that the Agreement was sent to Congress, in January 1946 fourteen countries accepted American invitations to participate in a conference on tariff reductions. (The Soviet Union was invited but did not respond.) In February, at the Economic and Social Council of the United Nations, the U.S. further proposed a general UN conference on trade and employment, with the goal of preparing a charter for an International Trade Organization.

The two conferences were part of the State Department's new approach to implement a multilateral tariff code existing separately from, but to be contained within, the ITO. A February 1946 Department memo explains:

> It is considered that the best means of preparing for the general world conference would be to develop in advance a body of definite and concrete international commitments on the various aspects of the Proposals which a broadly representative group of nations, including the major trading nations, would be prepared to support and adopt. Accordingly, it is believed that the objective of the preliminary meeting should be to negotiate, and reach substantial agreement upon, a detailed international instrument incorporating such commitments.[42]

This international instrument would become, in April 1947, the General Agreement on Trade and Tariffs. But the State Department's eagerness was not yet matched by President Truman.

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41 Clair Wilcox, Speech to the Pennsylvania State Chamber of Commerce (8 May 1946), cited in Gardner, p. 246.

42 Memo, United States Department of State, *Foreign Relations of the United States*, 1946, Volume I, p. 1281.

The April 1946 meetings never happened, and State planned for negotiations to begin in September. This, too, was overly ambitious. The Administration decided then that discussions on tariff reductions should be postponed until early 1947. The political rationale was clear: the RTAA requirement that the Administration submit a list of tariffs to be negotiated ninety days in advance of any negotiations could not coincide with the congressional elections in November. Against the pleas of an anxious William Clayton, Secretary Byrnes and President Truman decided to announce the list of proposed reductions immediately following the November midterms.[43]

These delays contained a silver lining. During spring and summer 1946, State Department officials visited dozens of countries[44] to brief them on the terms of the ITO draft. In the course of these discussions a slightly revised version of the *Proposals* was released as the *Suggested Charter for an International Trade Organization of the United Nations*.[45] Soon enough, under the auspices of the UN, the first ITO negotiations were announced for London. In October, the Preparatory Committee[46] appointed by the UN in February met in Church House, near Westminster, to begin formal discussions on the Charter for the International Trade Organization.

Both Britain and the U.S. came to the negotiations with a desire to move the world one step closer to multilateralism. However, the issues of contention at London reaffirmed crucial differences between not only the U.S. and Britain, but between the U.S. and

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[43] Douglas A. Irwin, Petros C. Mavroidis, and Alan O. Sykes, *The Genesis of the GATT* (New York: Cambridge University Press, 2008), pp. 74-5.

[44] The list included France, the Netherlands, Belgium, Norway, Czechoslovakia, Canada, Cuba, Brazil, Chile, New Zealand, Australia, South Africa, India, and China.

[45] Department of State Publication No. 2598, “Suggested Charter for an International Trade Organization of the United Nations,” September 1946.

[46] The countries were Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, South Africa, the Soviet Union, the United States, and the United Kingdom. The Soviets, of course, did not attend.

developing nations as well. Being mostly debtor countries, many developing nations were inclined to view their interests as more closely aligned with British rather than American concerns. Regarding tariffs and preferences, the formulation[47] decided upon in the *Proposals* remained; the issue would be taken up in greater detail during the formal tariff-preference negotiations—that is, the GATT talks—planned for spring 1947. Instead, the London conference focused on two issues fundamental to previous Anglo-American discussions and postwar multilateralism *per se*: the relationship between trade and unemployment, and the effects of and rules for the usage of quantitative restrictions.

Anglo-American views on the relationship between trade and employment reflected both philosophical conviction and political pressure. Although mostly in agreement on the end goal, the American axiom that free trade would lead to (and necessarily precedes) high employment represented well the *laissez-faire* piety of the State Department. British multilateralists, more closely aligned with Keynes and the goals of the Attlee government, felt almost the opposite: without significant allowance for protective measures, countries overly dependent on foreign imports and credit would never be able to develop their own industries enough to compete globally or maintain consumer demand domestically. But Congress—now under Republican control in both houses—rejected such "Keynesian" approaches to employment in the Employment Act it passed in 1946, which advocated "high and productive," rather than full, employment to be achieved through less specific and binding policy obligations. American attitudes towards the relation of unemployment to stability worried the British going in to the London Conference. American negotiator Clair

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[47] While existing preference margins would be maintained but not increased, and no new preferences would be introduced, members would enter "into reciprocal and mutually advantageous negotiations...directed to the substantial reduction of tariffs and the elimination of import tariff preferences" at the upcoming international conference in Geneva (Gardner, p. 270).

Wilcox, however, brushed aside these worries, accusing the British of “impertinence” by suggesting that the U.S. was “both ignorant of the problem of stability and indifferent to it.”[48]

The “Suggested Charter” brought by the Americans was something of a compromise, at least from their point of view. It retained the obligation for each nation to “take action designed to achieve and maintain full employment within its own jurisdiction through measures appropriate to its political and economic institutions,” but emphasized that no nation should maintain employment through measures that might create unemployment in other countries.[49] The Charter also stated that, through the UN Economic and Social Council, members would consult each other on unemployment policies and hold special conferences to deal with cases of widespread unemployment.[50]

The British, however, sought more of a commitment to the maintenance of *global* employment, particularly, in fact, in America. In late 1946, America's economy was beginning to slow down. Europe was hardly recovering at an adequate rate, while Britain, the lynchpin of America's foreign economic policy and path to domestic low unemployment, looked hardly better than its war-torn neighbors. If free trade multilateralism was going to have any future, low unemployment in America—or, more importantly, global safeguards against high unemployment and an American recession—would be absolutely necessary for the British to move forward in postwar planning. “If you can maintain full employment in America,” said influential right-Labourite Hugh Gaitskell, “then the prospects for freedom from trade restrictions are bright.”[51] The British proposal stated this axiomatic thinking clearly: “We must not get into the position in which it is assumed that, if trading conditions

[48] Clair Wilcox, *A Charter for World Trade* (New York: Macmillan, 1949), pp. 33-34, cited in Gardner, p. 272.
[49] “Suggested Charter for an International Trade Organization of the United Nations,” September 1946, Article 5., cited in Gardner, p. 272.
[50] *Ibid*, Article 6.
[51] *The New York Times* (24 Oct. 1946), cited in Gardner, p. 273.

can be liberalised, employment will thereby automatically be maintained. The maintenance of employment, on which all our hopes for a permanent liberalisation of trading conditions must ultimately rest, requires separate and positive action."[52] It stated further that the maintenance of full employment was "a duty which each government owes not merely to its own nationals, but to the world as a whole. Accordingly, it must be a basic element in any international employment policy to secure from governments—particularly the governments of the main trading nations—an unambiguous recognition of their international responsibility in this regard."[53]

The Americans, though skeptical, agreed to insert language declaring full employment "not of domestic concern alone, but...a necessary condition for the expansion of international trade."[54] More offensive was the amount of freedom that the British proposed should be allowed by nations to ensure full employment. The most pressing British concern was its balance-of-payments problem, which became uncomfortably linked to the privileged position of the U.S. in being the chief exporter-creditor to Britain and the world. The British commentary explained:

> For example, a country may be persistently buying from abroad or investing abroad appreciably less than it is selling abroad. Indeed, the excess of its sales of exports may be the means whereby it is maintaining its own employment. This is, however, likely to exercise a deflationary pressure on other countries and to intensify their problem of maintaining their own employment. …What particular measures should be adopted (e.g. the stimulation of imports or the removal of special encouragements to exports, an appreciation of the country's exchange rate, an upward revision of its internal price and cost structure, an increase in foreign investment, etc.)

[52] "Draft Passages on Employment for Inclusion in a Convention on International Employment and Trade Policy", Annex A of "Memorandum by the United Kingdom Delegation on International Employment Policy", in First Session of the Preparatory Committee, Committee I (Employment and Economic Activity), *Working Papers*, E/PC/T/C.I/W.3., cited in Gardner, p. 274.

[53] Annex B, id., p. 5, cited in Gardner, p. 275.

[54] Article 3 (1), cited in Gardner, p. 275.

> should, of course, be left to the country concerned to determine.[55]

As Gardner points out, "This statement was unaccompanied by any reference to the policies of deficit countries: it appeared to place responsibility for curing a balance of payments disequilibrium on the surplus countries alone. It recalled the formulation of the problem contained in [Keynes's] Clearing Union [proposed at Bretton Woods]."[56]

American attitudes towards the international implications of their exporter-creditor dominance had not changed since Bretton Woods. The proposal was "clearly inadmissible," said Wilcox. "It applied exclusively to the United States. It carried the possible implication that instability in other countries was attributable solely to the United States. And it imposed an obligation on the United States alone."[57] Yet, the American delegation accepted another compromise. An article was included in the final London Charter stating "that, in case of a fundamental disequilibrium in their balance of payments involving other countries in persistent balance of payments difficulties, which handicap them in maintaining employment, they will make their full contribution to action designed to correct the maladjustment."[58] Another important provision was added that recognized "the need of Members to take action within the provisions of the Charter to safeguard their economies against deflationary pressure in the even of a serious or abrupt decline in the effective demand of other countries."[59] Gardner notes, "This provided explicit recognition of the fact that members might be released from their multilateral obligations in the case of an American slump."[60]

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55 Annex B, id., pp.. 4-5, cited in Gardner, p. 276.

56 *Ibid*.

57 Wilcox, p. 137, cited in Gardner, p. 276.

58 United Nations, Economic and Social Council, *Report of the First Session of the Preparatory Committee of the United Nations Conference on Trade and Employment* (London, 1946), "London Charter," Article 7, cited in Gardner, p. 276.

59 "London Charter," Article 8, cited in Gardner, p. 278.

60 Gardner, p. 278.

The British had thus won their primary objectives at the London Conference: to force the Americans to acknowledge, one, the importance of full employment over free trade, and, two, the necessity for nations to, in dire circumstances, take action to maintain full employment at the expense of free trade principles. On the issue of quantitative restrictions, the British gained even more ground. While in general agreement with the Americans on their gradual elimination, the British had continually pushed for the ability to use quantitative restrictions in the postwar transition period out of concern for their ever approaching balance-of-payments crisis. The "Proposals" of 1945 had stated that restrictions would be allowed during the transition period (of yet undetermined length) only insofar as they were guided by principles which would "promote the maximum development of multilateral trade" and which "in no event would be more restrictive of such trade" than those of the financial restrictions contained in the Articles of Agreement of the International Monetary Fund.[61] But the Americans entered the conference with the objective of obtaining more definite limits on the conditions of and time during which these restrictions could be used. The "Suggested Charter" therefore proposed that members use such restrictions only after consultation with other members who would be affected by their use. After the end of the transition period, set to December 31, 1949, those restrictions would end. Regarding discriminatory restrictions, their application would be permitted only to facilitate the use of inconvertible currencies accumulated before December 31, 1948. Before introducing new restrictions, members would first have to consult with the ITO, which would have the power to request their removal and, if necessary, to approve retaliatory action by other members. Further, new restrictions were proscribed only to "arrest a long continuing or large deficit in

[61] Department of State, "Proposals Concerning an International Trade Organization," chapter III, section C, 2, b, cited in Gardner, p. 280.

the Member's balance of payments" or "in the case of a Member with very low monetary reserves."[62]

The British naturally took offense to each point. They were worried for good reason—indeed, the disastrous implementation of sterling convertibility demanded in the Anglo-American Financial Agreement the next year would validate their concerns—but the Americans, to their credit, made a large amount of concessions on the issue of quantitative restrictions. The short transition period of the "Suggested Charter" was eliminated for not just discriminatory restrictions on inconvertible currencies, but for all quantitative restrictions. Instead, there was simply the provision that discriminatory restrictions be reviewed before December 31, 1951, "with a view to the earliest possible elimination of discriminations....which restrict the expansion of world trade."[63] Members would still have to consult with the ITO when introducing new restrictions, but, in these reviews, it was determined that the ITO "shall not recommend the withdrawal or general relaxation of restrictions on the ground that the existing or prospective balance of payments difficulties of the Member in question could be avoided by a change in that Member's domestic employment, reconstruction, development or social policies."[64]

The results of the London Conference represented something of a loss for the American negotiators. They had achieved their objective of obtaining more definite rules on quantitative restrictions, but had to carve out significant exemptions for existing restrictions and failed to secure a date for the end of discriminatory restrictions. Further, Britain had gained from the U.S. an admission that ensuring full employment was not just as, but more, important to political stability and economic security than ensuring non-discriminatory trade.

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[62] Article 20, 3(a), cited in Gardner, p. 281.
[63] Article 28 (3), cited in Gardner, p. 283.
[64] Article 26 (3)(e), cited in Gardner, p. 284.

In other words, it was a partial validation of Britain's economic logic for postwar multilateralism. It was the same argument made years earlier, first at Lend-Lease and throughout Anglo-American negotiations: that is, rather than being the result of the expansion of trade, as the State Department had argued since Hull's departmental revolution, unemployment was now “a necessary condition for the expansion of international trade.”

But less than simply a national aspiration for the Labour government's Keynesian agenda, the commitment to full employment was believed by the British to be equally important for the Americans to follow. As 1947 approached, America began to realize that its economic future would depend primarily on the success of Britain and Europe to participate fully in the new multilateral order. But if America went into a recession and failed to maintain full employment, multilateralism would be doomed; indeed, the numerous escape clauses left little to compel members to participate if it was not in their interests to continue doing so. Both believed that they, and the world, would be better off if these last proposals—the product of some seven years of consternation and cooperation—were successfully, if imperfectly, implemented. In other words, differences in interpretation and intention still remained, but a great deal of hope still existed for the completion of institutional economic multilateralism and the prosperity, development, and peace its adherents had promised. The next year would seriously test hope.

Conclusion

The first half of 1947 was a busy time for American multilateralists. From January to February, a UN drafting committee convened at Lake Success, New York—the temporary location of the UN headquarters—to produce the first full draft of the GATT. State Department official John Leddy assumed central responsibility for drafting the GATT. Leddy was an old hand of the State Department's Trade Agreements Division and an expert in the legal framework of State's plans for commercial multilateralism. The draft that Leddy produced would be the one negotiated further at Geneva, from April to October. In an oral history conducted in 1973, Leddy reveals the necessarily novel political, institutional, and legal character of the GATT:

> Well, the first thing about the GATT document is that it is basically, as you can see from looking at it still today, a trade agreement. Almost all of its provisions relate to commercial policy commitments, the tariff, M[ost] F[avored] N[ation] [status], national treatment, the usual commercial policy commitments. But unlike a bilateral, agreement it has to have some kind of way in which you can make an international decision other than through the normal bilateral discussion and agreement. Being a multilateral instrument with several parties all adhering to common rules, with common rights on all these things, you had to develop some sort of an institutional device to make those common decisions. And this is where the question came in of whether you were creating an international, organization or not. If it was a formal international organization like the Monetary Fund, or the FAO, or things of that sort, normally such a charter would be developed and submitted to the Congress, and would have its regular appropriation, and that kind of thing. But this was a trade agreement entered into by the President pursuant to advance delegation of authority from the Congress in the Trade Agreements Act of 1945. And there was nothing in that that mentioned institutions. It simply dealt with commitments, but you had to have some way of arriving at a multilateral decision. So, we wanted to avoid having this thing having the appearance of a formal organization, which it wasn't; because if it had been it would have had many more elaborate things about executive boards, and that sort of business in there like the ITO Charter did, which was supposed to come before the Congress. We devised a system whereby you could make decisions by a majority vote. The technique we invented was to use the term contracting parties," lower case, when describing the countries which assumed the trade commitments, but to use the term CONTRACTING PARTIES (upper case) when describing the same countries acting jointly for the purposes of administering the agreement. This avoided the use of the word "members" which connotes an organization.
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> [INTERVIEWER]: Whose idea was that?

LEDDY: Mine.[65]

The “lower case-loophole”[66] may have been Leddy's idea, but the “bilateral-multilateral,” or “nuclear” process of negotiation—done under the authority of the RTAA as a commercial treaty, rather than international organization, so that congressional approval was not needed—was the product of Will Clayton and Clair Wilcox two years before. As discussed in Part III, the version of the RTAA passed in June 1945 did not include the State Department's preferred approach for tariff reductions, i.e., a broad formula for across-the-board cuts. This “horizontal” approach was in fact a British proposal, contained in the Overton Report brought to the September 1943 discussions in Washington. British officials had repeatedly indicated that they would be willing to end preferences if tariffs could be negotiated on a sectoral, or horizontal, basis; anything less would not fulfill the obligation of “mutually advantageous” agreements from Article VII of Lend-Lease. But Clayton and Wilcox were determined, introducing the approach as official U.S. policy in winter 1945 commercial discussions occurring at the time of negotiations on the Anglo-American Financial Agreement. At this time, we can say, the elimination of imperial preference by the State Department was doomed. Penrose, advisor to Ambassador Winant, recalled, “There was never at any time even a remote chance that preferences would be abolished in return merely for a group of bilateral agreements to reduce tariffs on selected commodities.”[67]

While the State Department was preparing for the Geneva Conference set for April, the lack of sufficient funding and organization for postwar reconstruction needs *not* related to legal frameworks for international trade and diplomacy caught up with the Administration.

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[65] “Oral History Interview with John M. Leddy,” Washington, D.C., June 15, 1973, conducted by Richard D. McKinzie, found at http://trumanlibrary.org/oralhist/leddyj.htm.

[66] To my knowledge, this is the first desicription of this masterfully deceitful trick. Thus, I have termed it the “lower case-loophole.”

[67] Penrose, p. 102.

U.S. officials had expected the GATT and the ITO to create the rules for commercial stability; the International Monetary Fund and World Bank, meanwhile, would first both create the rules and provide the funds for financial stability. But even this formulation was heavily imbalanced. At the second Board meeting of the Bank and Fund in September-October 1946, new Treasury Secretary John Snyder explained the two purposes of the Bretton Woods system. First,

> Active leadership on the part of the Fund...is essential if world trade is to be restored to a high level and if economic warfare among nations is to be avoided.....A function of the Fund which I want to emphasize is that of promoting common standards of fair practice in monetary and financial relations among nations....Our success can be measured by our development of acceptance standards to which all countries are willing to adhere.[68]

And second,

> If I may be permitted to express the keynote of this second meeting of the Board of Governors, it is this: *Let us lose no time in speedily activating the Fund and Bank as effective instruments in a world solely in need of their services.* The Fund and Bank were designed to meet both the immediate postwar and the longer term monetary and financial needs of the world.[69]

In other words, not only would the Fund and Bank develop "acceptable standards to which all countries are willing to adhere," but would also provide enough resources to make those standards viable for war-torn nations. Yet, their disparate emphases reflected the American approach of rules-first, development-second—or, multilateralism before reconstruction. In fact, the American Executive Director of the Fund had sought (and obtained) an interpretation that the Fund would be used only for short-term stabilization purposes rather

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68 International Monetary Fund, *First Annual Meeting of the Board of Governors, Report of the Executive Directors and Summary Proceedings, September 27 to October 3, 1946* (Washington, 1946), pp. 35-36, cited in Gardner, p. 289.

69 Italics in original, *ibid*, p. 33, cited in Gardner, p. 288.

than reconstruction and rehabilitation.[70] Further, the Directors of the Fund were to "exercise the power to limit or postpone exchange operations with countries whose economies are so out of balance that their use of the Fund's resources would be contrary to the purposes of the Fund Agreement or prejudicial to the Fund or the members."[71]

American estimates of the capacity of the Fund and Bank to address postwar reconstruction needs in 1947 were optimistic at best. In 1946, shortly after the cancellation of the United Nations Relief and Rehabilitation Administration[72]—three-fourths of the funding for which came from the United States—the UN General Assembly was told by U.S. officials that no new reconstruction programs would be necessary because the Fund and Bank had available "some fifteen billion dollars for assisting countries in acquiring the foreign exchange necessary for the reconstruction and development of their economic life and for the stabilization of their currencies."[73] This was false. As Gardner explains,

> The Bretton Woods institutions did not have $15 billon ready for use in the reconstruction period. The Bank had immediately available for lending from its own resources only the 2 per cent. of its capital subscribed in gold and the additional 18 per cent. of paid-in subscription, the Bank's potential lending power was still only $3.2 billion. Moreover, it was becoming apparent by the time of the first annual meeting of the Board of Governors that the Bank would not be ready to begin lending operations 'in the latter half of 1946', as originally planned. As for the Fund, it was not designed for reconstruction at all and its management had determined to conserve its resources in the transition period.[74]

It is unlikely that the American architects of the Fund and Bank did not know these facts and intentions. More likely is that the State Department, after promising Congress that their multilateral agenda would be achieved with the passage of Lend-Lease, then the Bretton

[70] *Ibid*, p. 106, cited in Gardner, p. 289.
[71] *Ibid*, p. 24, cited in Gardner, p. 289.
[72] UNRRA is explained further in Chapter IV.
[73] U.S. Delegation to the U.N., Press Release No. 78 (November 14, 1946), cited in Gardner, p. 292.
[74] Gardner, p. 292.

Woods Proposals, and finally the Anglo-American Financial Agreement, simply believed it was not feasible to ask Congress for yet another European, let alone British, aid package. The economic and political events of 1947, however, would change the views of not just the State Department, but of Congress and the American people as well.

Chapter IV: The Crisis

Part I: Multilateralism and Reconstruction

At the end of the war, the Soviet Union was not quite yet the arch-nemesis of the United States it would soon become. But that time was rapidly approaching. Throughout 1946 local Communist parties made gains and held influence in postwar politics and reconstruction, prompting U.S. meddling, overt and covert, from France and Italy to Greece and Turkey. In Germany, a dangerous vacuum existed during the disastrous implementation of certain aspects of the Morgenthau Plan, which, though never fully implemented, aimed to pacify Germany by eliminating its ability to wage war, i.e., by eliminating its industrial capacity. This spirit was embodied in Morgenthau's Joint Chiefs of Staff Directive 1067, which, from April 1945 to July 1947, ordered American occupational authorities to "take no steps looking toward the economic rehabilitation of Germany [or] designed to maintain or strengthen the German economy." Instead of social and economic reconstruction, American forces were instructed to "decentralize the structure and administration of the German economy to the maximum possible extent" and to "require the Germans to use all means at their disposal to maximize agricultural output."[1] It is hard not to see the potential for tragedy to be repeated as farce in this refusal to acknowledge the necessity of an economically viable Germany in any postwar peace settlement. Keynes's words on the settlement of the First World War were perhaps more relevant now than ever.[2]

1 Niall Ferguson, *Colossus: The Price of America's Empire* (New York: Penguin, 2004), p. 77.

2 From our introduction:

> The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong and dangerous enemy, to revenge and to the shifting by the victors of their unbearable financial burden on to the shoulders of the defeated. (*The Economic*

Part of the American reticence to charge the World Bank and International Monetary Fund with providing large sums for reconstruction efforts was, ironically, out of distaste for multilateralism itself. Under a "no politics" principle, the United States had provided $2.7 billion—about three-fourths—of the funding for the United Nations Relief and Rehabilitation Administration (UNRRA), which aimed to "plan, co-ordinate, administer or arrange for the administration of measures for the relief of victims of war in any area under the control of any of the United Nations through the provision of food, fuel, clothing, shelter and other basic necessities, medical and other essential services."[3] At the time of UNRRA's founding in 1943, the U.S. applauded the multilateral structure and objectives of the program, and funding continued into 1946. Unlike the Bank and the Fund, however, the dominance of American financial capital did not necessarily translate into a dominance of American political capital. Mutual suspicion existed between the United States and the Soviet Union regarding the political distribution of UNRRA funds. The U.S. accused the Soviets of abusing UNNRA allocations for political purposes in Poland, Yugoslavia, and the Ukraine; the Soviets accused the U.S. of doing the same in Greece and Turkey. According to American advisor E.F. Penrose, a key participant in UNRRA decision-making,[4] these were "rumors and gossip" deliberately promoted by both powers: "the product of tittle-tattle based on magnification of minor infractions or on fabrications designed to serve political ends."[5]

Consequences of the Peace, 1919)

3 *Agreement for United Nations Relief and Rehabilitation Administration*, Articles I and II, found at http://www.ibiblio.org/pha/policy/1943/431109a.html.

4 E. F. Penrose, *Economic Planning for the Peace* (Princeton: Princeton University Press, 1953), pp. 322-23. Penrose had attended "every Council meeting on UNRRA and almost every meeting of the Committee of the Council for Europe from the beginning of the organization to the middle of 1946," and had "in the house of my duties to keep in constant touch with UNRRA affairs."

5 Penrose continues on the baselessness of such claims:

> In every area which received UNRRA supplies, including the Ukraine and Byelorussia, UNRRA missions made continuous investigations into the local distribution of supplies. In addition, leading officials of UNRRA made frequent visits to the countries. Every alleged infringement of UNRRA conditions was investigated promptly. Those of us who served as U.S.

Nevertheless, by summer 1946, it was clear that UNNRA would not fulfill the foreign economic policy objectives of the United States. As Dean Acheson told a Senate Panel after the U.S. pulled its funding in August 1946, a year before it had promised, "If you have an international organization which controls the allocation of funds, we have only one voice out of many voices and many votes... [therefore] future relief, our future relief, should be granted in accordance with our judgment and supervised with American personnel."

The Fund and the Bank in theory operated upon the same "no politics" principle, but even its declaration of non-partisanship left a broad window for American-influenced political discrimination:

> Though the Bank is precluded from making or denying loans to achieve political objectives, there is an obvious and necessary interrelation and inter-action between political events and conditions in any country. The soundness of a loan depends fundamentally on the financial and economic prospects of the borrow. In so far as those prospects may be affected by the conditions of political instability or uncertainty in the borrowing country, those political conditions must be taken into consideration.[6]

Such political conditions occurred, for instance, in August 1947, when the Bank refused to grant Poland a loan because of its Soviet-influenced foreign policy.

This language also left a window for discrimination based solely on economic uncertainty. But in 1947, nothing was certain in Europe; thus, nothing much was lent to Europe, including to America's Western capitalist allies. The failure was not necessarily of the Fund and Bank, but of American foreign policy representatives who promoted deliberate

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> representatives on UNRRA bodies had no reason to be biased in favor of the U.S.S.R. and the Eastern European countries.... Yet the agitation against UNRRA, fanned by isolationists and other political opponents of the administration, gathered such strength that even among congressmen and others well disposed toward international cooperation it seems to have been widely believed in the end that grave abuses prevailed in UNRRA. (323)

6 *Second Annual Report of the Executive Directors* (Washington, 1947), p. 17, cited in Richard C. Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), p. 296.

misrepresentations—to the point of self-delusion—about the effectiveness of and intentions for these organizations. To say that the Fund and Bank could cover European reconstruction needs—as Clayton did while attempting to justify the termination of UNRRA[7]—was at best profoundly naïve, and at worst, simply dishonest. The Fund was never intended for reconstruction at all; in fact, it was explicitly barred from doing so. Recalled its Executive Directors, the Fund was "intended as part of the permanent machinery of international monetary relations rather than as an emergency device to meet the special needs of the postwar years." "The Fund's objectives," they continued, "can only be fully realized in a world in which the war-damaged and war-devastated countries have restored their productive efficiency to the point where they can achieve balance in their international payments with a level of trade conducive to their own and the general well-being."[8]

Sadly, the Bank—in fact charged with reconstruction and rehabilitation efforts aimed at creating the stability necessary for the Fund's successful operation—showed little interest in providing for such efforts unless their terms could be made commercially appealing. It was nothing short of an insult to the tireless planning of John Maynard Keynes when, in February 1947, the United States installed at the Bank John J. McCloy, a Wall Street lawyer, and Eugene Black and Robert L. Garner, both Wall Street financiers, as President, Vice-President, and United States Executive Director, respectively. With this, the U.S. had to finally admit that the Bank would not be the primary source of reconstruction and emergency aid in the 1947 crisis. "Because the requirements are greater than anticipated, because the scope of activity and loanable resources of the Bank are limited," the Executive Directors confessed, "it is manifest that the Bank can provide only part of the answer to the problems

7 "Clayton Replies to Gravy Train," letter of Clayton in the *Washington Post* (18 Aug. 1946), cited in Gardner, p. 292.
8 *Second Annual Report of the Executive Directors*, pp. 2-3, cited in Gardner, p. 297.

which confront the world today."[9]

In the midst of the growing economic crisis in Europe and rapidly deteriorating relations between the United States and the Soviet Union, in April twenty-three countries met in Geneva for the seven-month negotiation of what the State Department expected would be the last essential piece of its ambitious, though by now whittled down, multilateral foreign economic policy. The world events that occurred during the negotiations would change these expectations dramatically. Consequently, the successful American response to those events would change our historical memory of the nearly eight years of wartime and postwar Anglo-American planning for a multilateral economic world order—the idealism, creativity, and exceptionality, but also naïvete, orthodoxy, and arrogance, of which we have so far attempted to elevate in our analysis.

Part II: A Geneva Convention

Despite the economic and political conditions of 1947, American negotiators went to the Second Preparatory meeting of the United Nations Conference on Trade and Employment in Geneva in full expectation of eliminating most, if not all, imperial preferences. At the very least, the State Department needed the appearance of a major victory on preferences. Since they had won the House and Senate in the 1946 midterms, the Republicans had been fighting hard against the Democrats' ambitious foreign economic policy. Needless to say, the dramatic lowering of tariffs aroused substantial opposition. As they always did, the State Department made big promises to Congress before they left. The Republican-controlled Senate Finance Committee, now chaired by the protectionist Colorado Senator Eugene Milikin, asked Harry Hawkins that tired old question: Would the promise of Article VII finally be fulfilled at

9 *Ibid*.

Geneva? Hopkins was “quite confident” that was so, but Milikin pressed on:

> THE CHAIRMAN. ...In other words, it follows that if these preferences cannot be eliminated there is no point in the Charter. Is that correct?
> MR. HAWKINS. Yes; and the action contemplated on the tariffs. When you say eliminated, it does not necessarily follow that they will all be gone, but the parts that hurt will be gone.
> THE CHAIRMAN. But if the real substance of the preferences is not eliminated, there will be no point to the Charter and it will probably not come before the Congress.
> MR. HAWKINS. I should think that would be it.[10]

Unbeknownst to both, the Charter for the International Trade Organization would indeed be brought before Congress despite the failure to eliminate preferences. Its passage, however, never came.

Britain had no intention of eliminating preferences at Geneva. On the contrary, opposition was vehement to any mention of ending or drastically weakening imperial preference. One MP announced bombastically that “if the Government tries to eliminate Empire Preference....we will attack them in the market place, in the towns and the cities, we will rouse this whole country against them in such a crusade as will overcome this Government, because we will not have it.”[11] Even those who could view imperial preference through economic and not sentimental reasoning were staunchly opposed to the Article VII obligation that was so fatefully worded to propose the “elimination” of preferences in exchange for the “reduction” of tariffs. “To this doctrine, in its full liberal interpretation,” *The Times* declared, “Britain could not in practice agree for obvious reasons.”[12]

Although Britain had never planned to eliminate preferences—lead British delegate Sir Stafford Cripps told a press conference at the start of the negotiations that Britain would

10 U.S. Congress, Senate, Committee on Finance, *International Trade Organization,* 80th Cong., 1st sess. (Mar.-Apr. 1947), p. 195, cited in Gardner, p. 350.
11 U.K. Parliament, House of Commons, Beverley Baxter, 425 H.C. Deb 1639 (19 July 1946), cited in Gardner, p. 350.
12 *The Times* (10 Apr. 1947), cited in Gardner, p. 351.

not eliminate preference even in exchange for the maximum 50 per cent reductions allowed under the RTAA[13]—they still sought to reach a viable agreement with the United States. This was not entirely out of good will. As Toye reveals,

> In January 1947, the Cabinet agreed to the establishment of a group of outside economists, which would study the alternative policies which might be adopted in the event of a complete or partial breakdown of plans for an ITO. This was to be kept top secret. As it turned out, the group, which met from March to October, was unable to devise any satisfactory alternative to participation in a multilateral world trading system.[14]

U.S. negotiators, on the other hand, were quite upfront that there was no satisfactory alternative to commercial multilateralism. Britain absolutely could not be left to retreat into the sterling bloc and shut out American dollars from what was still, we must remember, the *largest postwar export market in the world.*

In an offer of good faith, Clayton showed to the nations at Geneva the full American hand at the beginning of the conference. This initial exposure ending up limiting the United States' bargaining ability from the start; indeed, how does one bargain *down* from one's limit? Further, the American concessions were much less impressive than Clayton and the State Department had perceived. “Some of the countries,” Canada's lead delegate Dana Wilgress later wrote, “had come to the conference intending to obtain all they could in the way of concessions without giving too much in return.” Because of this initial misstep, the United States “found it necessary to be very tough and this toughness brought forth recriminations.”[15]

Political events back in Washington also threatened American strategy. When the

13 *The Manchester Guardian* (12 Apr. 1947), cited in Gardner, p. 355.

14 Richard Toye, “The Attlee Government, the Imperial Preference System, and the Creation of the GATT,” *The English Historical Review*, 118 (Sept. 2003), p. 921.

15 Dana Leolyn Wilgress, *Memoirs* (Toronto: Ryerson, 1967), pp. 153-54, cited in Douglas A. Irwin, Petros C. Mavroidis, Alan O. Sykes, *The Genesis of the GATT* (New York: Cambridge University Press, 2008), p. 86.

negotiations began, the Republican Congress was debating legislation that would increase restrictions on imported wool. Raw wool was a politically important commodity for American protectionists; the American delegation was actually not authorized to reduce import tariffs on wool. But wool was Australia's largest export, and the commodity on which they expected the greatest American reductions. With this news they threatened to leave the Conference and take with them the rest of the Commonwealth if concessions were not made. According to Irwin et al., “This threat was credible: although a small country in world trade, Australia was a key player and, if it decided to pull out of the negotiations, Britain and the rest of the Commonwealth were likely to follow.”[16]

When the legislated was passed in May, Clayton quickly flew back to Washington. President Truman met with Clayton and the Secretary of Agriculture, Clinton Anderson, who opposed Clayton's views. Each was given fifteen minutes to make their case. Clayton, a former wool man himself, convinced the President that to allow the bill to stand would effectively end the Geneva negotiations as they stood. As he argued in his veto statement, Truman now believed that the bill “contains features which would have an adverse effect on our international relations and which are not necessarily for the support of our domestic wool growers.”[17] Clayton was so persuasive, in fact, that Truman then gave him the power to reduce the wool tariff by twenty-five per cent at Geneva. Clayton recalled, it was “the greatest act of political courage that I have ever witnessed.”[18] After this concession, negotiations on tariffs and preferences finally began to move forward.

But in the summer of 1947 this was an overstatement, even from the man whose

16 Irwin et al., p. 87.
17 “Veto of the Wool Act”, June 26, 1947, found at http://trumanlibrary.org/publicpapers/viewpapers.php?pid=2117.
18 William Clayton, “GATT, The Marshall Plan, and OECD,” *Political Science Quarterly*, 78 (Dec. 1963), p. 499.

passion for low tariffs was surpassed only by his mentor at the State Department, former Secretary Cordell Hull. On June 5, another act of political courage was famously captured some thirty-five hundred miles away, in a speech given at the graduation ceremony of Harvard University's class of 1947. The man speaking was Clayton's new boss at the State Department—the man whom Winston Churchill called "the organizer of victory" for his tremendous military leadership during the War. After his announcement of the European Recovery Program, George C. Marshall's name would forever be synonymous with American leadership, generosity, courage, and, of course, enlightened self-interest.

Part III: Marshall's Plan

Throughout 1946, Undersecretary Clayton had been one of the main voices arguing that the resources of the International Monetary Fund and World Bank would be sufficient sources of funding for European reconstruction. In early 1947, he visited Europe. He came back a changed man. In a memorandum he circulated after his return, Clayton wrote:

> The reins of leadership are slipping from Britain's hands. They will be picked up either by the United States or by Russia. If by Russia, then the balance of world power will turn against America and war will be likely within a generation. If by the United States, there is a good chance that war can be averted.
> Communist movements are threatening established governments in every part of the globe. These movements, directed by Moscow, feed on economic and political weakness. The countries under Communist pressure require economic assistance on a large scale if they are to maintain their territorial integrity and political independence
> At one time it had been expected that the International Bank could satisfy the needs for such assistance. But it is now clear that the Bank cannot do this job.
> The United States is faced with a world-wide challenge to human freedom. The only way to meet this challenge is by a vast new programme of assistance given directly by the United States itself.[19]

19 Cited in Gardner, p. 300. From the author's footnote: "What follows is a rough summary of the contents of

This “vast new programme of assistance” would come in two forms. In February it was rumored that the British could not afford to continue their overseas commitments and were preparing to withdraw their forces from Greece. In the first days of March, it became official. On March 12, President Truman appeared before Congress to ask for $400 million for immediate economic and military aid to Greece and Turkey. The resulting program of large military assistance packages to strategically important countries deemed vulnerable to Communist influence would take a center role in American foreign policy after that moment. For now, it was the new Truman Doctrine.

In the same month, State Department officials, at the instruction of Secretary Marshall, began to prepare plans for an extensive, targeted, and American-directed program of economic and reconstruction assistance to Europe. Marshall was particularly concerned about Germany, in the wake the failed implementation of aspects of the ill-conceived Morgenthau Plan. He charged George Kennan, the author of the containment doctrine, with the preparatory work. Kennan, the foreign policy psychologist that he was, sought through the program to portray the United States as a generous and paternalistic benefactor—a just and wise winner, who sought to provide for reconstruction without overreaching politically or attaching conditionalities. “The formal initiative must come from Europe,” Kennan wrote in May. “The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program by financial and other means, at European request.”[20]

Although the emphasis in these documents was on European, rather than American,

this memorandum, the text of which has not yet been made public.”

20 Kennan to Acheson, 23 May 1947, *Foreign Relations of the United States,* 1947, Volume III, pp. 224-31, cited in Michael Wala, *The Council on Foreign Relations and American Foreign Policy in the Early Cold War* (New York: Berghahn Books, 1994), pp. 111-12.

initiative, the State Department had something quite different in mind for their expansive recovery package. In fact, the United Nations had just established in May the new UN Economic Commission for Europe (ECE). According to the United Nations History Project, the Marshall Plan was a "serious setback" for the UN's role in managing European recovery. Because the Marshall Plan was set up outside the ECE, "the responsibility for the financial and macroeconomic aspects of European recovery were handed to the Organization for European Economic Cooperation (OEEC)...especially set up for the Marshall Plan, and the Bretton Woods institutions."[21] Indeed, the development of an American-directed recovery plan—with which the U.S. could more accurately pursue its political and foreign economic objectives—was precisely the idea State Department planners had in mind. When Clayton met with Marshall, Kennan, Acheson, and a number of other State Department officials on May 28, he summarized well the structural reality then facing the American macroeconomy:

> He expressed concern that, within a short period of time, the social, economic, and political structures of Europe would collapse. The United States would then lose a market for its production and the country might well slowly descend into a new depression. Only massive financial aid by the United States and close economic cooperation among the European countries...could help.[22]

Clayton, however, rejected the idea that the United Nations should be involved in any new American-financed relief effort. Clayton's distaste for cooperation with the UN on reconstruction efforts was perhaps not as ironic as it first seems. In other words, to save the *American* conception of economic multilateralism—our "multilateralism with an American face"—the U.S. had to once again work outside the very institution under which the instruments of its multilateralism were supposed to function. The last line of Clayton's

21 Found at http://www.unhistory.org/briefing/18Europe.pdf.

22 "Summary of Discussion on Problems of Relief, Rehabilitation, and Reconstruction of Europe", 29 May 1947, *Foreign Relations of the United States,* 1947, Volume III, pp. 234-36, quoted summary of Wala, p. 113.

memorandum from that day states succinctly the lesson learned in *actual* multilateralism through their prior reconstruction efforts. "We must avoid getting into another UNRRA," Clayton concluded. "*The United States must run this show*."[23]

Acheson had already outlined the broad contours of the upcoming American response to the European crisis on May 8, to a small audience in Cleveland, Mississippi. After reiterating the State Department's materialist thesis for world peace,[24] he hinted at what would come next:

> The facts of international life...mean that the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies. Requests for further United States aid may reach us through the International Bank, or through the Export-Import Bank, or they may be of a type which existing national and international institutions are not equipped to handle and therefore may be made directly through diplomatic channels. But we know that further financing, beyond existing authorizations, is going to be needed.[25]

Less than a month later, on June 5, Secretary Marshall would convey the same message, albeit in more dramatic and memorable prose, to the graduating class of Harvard University. However, the announcement was not intended for American audiences. In fact, President Truman had called a press conference on the very same day, to divert American press away from covering Marshall's speech. Instead, only a few British and European journalists were invited, at the special request of the State Department. They were to communicate one thing: the United States would not abandon Europe economically in its greatest postwar hour of

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23 *Ibid*, my emphasis.

24 Acheson said, "It is generally agreed that until the various countries of the world get on their feet and become self-supporting there can be no political or economic stability in the world and no lasting peace or prosperity or any of us. Without outside aid, the process of recovery in many countries would take so long as to give rise to hopelessness and despair. In these conditions freedom and democracy and the independence of nations could not long survive." (*Department of State Bulletin*, xvi (1947), p. 992, cited in Gardner, p. 301.)

25 *Department of State Bulletin*, xvi (1947), p. 993, cited in Gardner, p. 302.

crisis.

But Europe could be only somewhat relieved. The Europeans, and especially the British, had years of experience in dealing with the conditionalities of American grants and loans. Would the Americans base these grants or loans on a commercial or financial basis, as they had done nearly each time before? The GATT negotiations in Geneva were only halfway through; their progress so far had not been encouraging. Would the Americans then use Marshall Plan aid as a bargaining chip to hack away at imperial preference? And finally, it was now certain that European reconstruction would be almost entirely American-funded. Could the Americans really be believed when they promised that they would only provide "friendly aid," that domestic reconstruction policies financed through U.S. dollars would truly be, as Marshall had promised, "the business of the Europeans"? In the coming months, this would all be made clear.

Part IV: A Final Deal on Preferences

When the tariff-preference debate finally began in earnest in July, after the announcement of and early planning for the Marshall Plan, Clayton and Wilcox, the lead American negotiators, believed that now more than ever was the time for the British to eliminate preferences. Unfortunately, they had not progressed much further beyond the unacceptable language of Article VII, which expected the *elimination* of preferences in exchange for the *reduction* of tariffs. As Wilcox explained, "American opinion regards the Hawley-Smoot tariff and the Ottawa system as related parts of inter-war trade restrictions. We are undertaking the liquidation of the Hawley-Smoot rates. We cannot support this action at home unless we obtain, in the process, the liquidation of the Ottawa system." But with Marshall Plan aid a near certainty, the Americans believed that they had an unbeatable hand:

> We now have in our hands bargaining weapons that we may never possess again: (a) Our excellent offers on tariff reduction; (b) a cut on wool; (c) the possibility of easing the British financial crisis through relaxation on discrimination in the short run; and (d) the prospect of aid under the Marshall Plan.

It was thus now or never for the elimination of preference. “If we cannot now obtain the liquidation of the Ottawa system,” Wilcox continued, “we shall never do so. What we must have is a front-page headline that says 'Empire Preference System Broken at Geneva'. With this, the success of this whole series of negotiations is assured. Without it, there is grave danger that the whole trade program will end in defeat.”[26]

The British, as we have explained, never planned to—and probably could not, politically or financially— “eliminate” preferences in the way preferred by Clayton. But they were also becoming increasingly resistant to *any* deal on preferences. As an American cable (perhaps over-) stated, lead British negotiator Stafford Cripps was “marked by complete indifference bordering on open hostility toward the objectives of the Geneva conference.”[27] The Americans, however, still failed to fully grasp the immediate seriousness of the British financial problem. This was unfortunate for both sides:

> [Cripps's] intransigence was also related to the extreme economic difficulties that Britain faced after the war and the lingering resentments over the British loan negotiations in late 1945. The harsh winter of 1946-47 required greater spending on imported fuels, depleting reserves that could have been spent on food and other consumer goods, and thereby necessitating additional austerity measures. Furthermore, under the terms of the loan agreement, the United Kingdom made the pound sterling convertible on June 15, 1947, shortly after the start of the Geneva conference. This early convertibility proved to be a disaster. The United Kingdom quickly lost a massive amount of dollar reserves due to pressure on foreign exchange markets.

Thus, in the middle of the conference—at the very time that the Americans believed they had

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26 *Foreign Relations of the United States,* 1947, Volume I, p. 976, cited in Irwin et al., p. 89.
27 *Foreign Relations of the United States,* 1947, Volume I, p. 965, cited in Irwin et al., p. 88.

"bargaining weapons" which they would never have again—Britain's economy was worse off than it had ever been. The British could not help but assign responsibility for these worsening conditions to the conditionalities demanded by the State Department. "In a few short weeks" after sterling was made convertible, Britain "spent a significant portion of its precious American loan defending the pound."[28] Indeed, from 1946, Britain's balance-of-payments deficit had grown by fifty per cent, accounting for one-fifth of the Western European dollar gap of $5 billion.[29] On August 20, 1947, Britain was forced to suspend convertibility. The Attlee government, far from implementing its ambitious Keynesian welfare state, had to then introduce new austerity measures to combat the financial consequences of Britain's ever-worsening balance-of-payments deficit.

Cripps, and Attlee and the Labour cabinet in London, were in no mood to make concessions. The United States had requested the lowering of some sixty-five preferences that Britain held across the Commonwealth. In response, Cripps agreed to lower the margins of frozen salmon and motorbikes, prompting Clayton to reply that the offer was "pitiable."[30] On July 29, Foreign Secretary Ernest Bevin asked the Americans for a release from its obligation of nondiscrimination, as prescribed in the Anglo-American Financial Agreement and London Charter draft. The GATT negotiations would continue, but, as Cripps stated, the financial crisis in Britain would ensure that "Geneva would produce no substantial [British] tariff reductions." [31]Truman accepted Bevin's request, and by doing so, extinguished the last flickers from the flame of free trade multilateralism passed on from Cordell Hull to Will Clayton.

28 Irwin et al., pp. 90-91.
29 Thomas W. Zeiler, *Free Trade, Free World: The Advent of the GATT* (Chapel Hill: The University of North Carolina Press, 1999), p. 91.
30 J. P. Summerscale memorandum, August 1, 1947, CO 852 701/1, British Public Records Office, cited in Zeiler, p. 106.
31 *Foreign Relations of the United States,* 1947, Volume I, pp. 969-70, cited in Zeiler, pp. 107-8.

Regardless, Clayton pressed on. He had to: if Clayton did not return to Congress with a substantial entry into the Ottawa system—as he had promised some four or five times before—the entire trade program of the State Department, including the Marshall Plan, could be stopped by the Republican Congress. The consequences of a failure to reach *any* Anglo-American agreement, however, were even more potentially disastrous. Not only would the U.S. lose the dozens of relatively beneficial bilateral agreements it had made with other nations at the GATT negotiations, but with American-Soviet tensions escalating, Britain and Western Europe might be forced to turn to Russia for assistance in implementing their postwar social democracies in the absence of generous aid from and close political cooperation with America.

Cripps was not impressed with Clayton's new plan, which reduced American requests to ending merely a handful of preferences and gradual and progressive cuts in the margins of remaining preferences.[32] America's cuts had done little to increase its imports to adequate levels, while the dollar gap made "multilateral trade almost an impossibility."[33] Clayton was livid, threatening to either sign a weak deal by withdrawing offers or ending the negotiations without a deal. Unlike the British, this was no bargaining strategy; Clayton firmly believed that Congress would reject both tariff cuts and the Marshall Plan if the Ottawa system remained untouched. At Clayton's instruction, Wilcox drafted a letter to Cripps reminding him of "British commitments, American generosity, and the peril to the Marshall Plan without action on preferences."[34]

But the letter was never sent. Influential State Department planners such as

32 Zeiler, p. 108.
33 Conversation between U.S. and British officials, August 20, 1947, box 138, International Trade Files, found at National Archives (Washington, DC), cited in Zeiler, pp. 108-9.
34 *Foreign Relations of the United States,* 1947, Volume I, 977-79, cited in Zeiler, p. 109.

Undersecretary Paul Lovett, Office of International Trade Policy chief Paul Nitze, and even Harry Hawkins, a veteran of State's free trade program, all believed, like Clayton, that a failure to reach an Anglo-American deal on preferences would put the future of the Marshall Plan in peril. But unlike Clayton, much of the State Department increasingly viewed the Marshall Plan, and foreign economic policy *per se*, in terms of politics rather than economics. Lovett worried that if the talks with Britain collapsed, Moscow would "exploit fully any such differences between [the] US and U.K. just as they are now trying to capitalize on British weakness by increasing pressure throughout Eastern Europe and [the] Near East." [35] President Truman agreed to send the letter drafted by Wilcox only if Lovett determined that it matched with recent U.S. concessions, i.e., if it contained language that accepted British discrimination. Of course, it did not.[36] Thus, from the very highest American authority, the implementation of Article VII of Lend-Lease was no longer the policy of the State Department. The acceptance of British discrimination would be the price paid for American-Anglo-Western European political unity during the American-Soviet confrontation.

In mid-September—one month before the negotiations were supposed to end—Wilcox gave Clayton one more plan to, with the Undersecretary's approval, offer to the British. The plan represented something of a final compromise for both sides on the language of Article VII. Wilcox would "accept Cripps's original offers from April and postpone further requests on preferences for three years. After that, *margins would be phased out over ten years on the condition that U.S. tariffs continued to fall*."[37] As Zeiler notes, "such gradual action would cost Britain very little for years. And the plan would dispose of the argument

35 *Ibid*, pp. 980-82, cited in Zeiler, p. 110.
36 Zeiler, pp. 109-10.
37 *Foreign Relations of the United States,* 1947, Volume I, pp. 983-93, cited in Zeiler, p. 112 (my emphasis).

that U.S. concessions under the RTAA were temporary but British offers were forever."[38] But Cripps, once more, found a problem. At issue in the American proposal was the implicit assumption of "mutual advantage." The Americans had always thought to measure mutual advantage through the percentage of cuts in tariffs and preference margins. The British, rather, because of their balance-of-payments crisis, preferred to measure advantage by the volume and value of exports. Unfortunately, this led to the same zero-sum logic of American protectionists:

> [Cripps] found Wilcox's analysis to be biased.... Concessions in the dominions would amount to $108.9 millions; reductions of British margins alone would be $83.3 million. Compare that to the American offer to Britain of $81.6 million in tariff cuts and bindings and then add in the British offers. The United States came out the winner. Also, British offers affected more important items than America's. Cripps concluded that the United Kingdom had gone far enough.[39]

In other words, because the U.S. was still gaining more *in aggregate*, the Cabinet in London would likely not agree to the offer. Still, on September 19, Cripps promised to hand the proposal to the Cabinet for approval.

However, throughout September, the British negotiators in Geneva and the Foreign Office in London grew almost as concerned with worsening American-Soviet relations as the United States. The Russians had just denounced the Marshall Plan and the West at the United Nations, leading the Foreign Office to predict that an Anglo-American walkout at Geneva "would give Stalin an opening at the upcoming Council on Foreign Ministers' meeting in London to split Britain from the United States."[40] British negotiators were prepared to take

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38 *Ibid*.
39 Douglas to Secretary of State, September 18, 1947 box 2438, 560.AL/9-1847, NA (Cripps). See also U.K. delegation to Board of Trade, September 18, 1947, FO 371 62317, UE9972/37/53, BPRO, cited in Zeiler, p. 112.
40 Moscow Embassy to Foreign Office, September 17, 1947, and C. T. Crowe minutes, September 18, 1947 (both in FO 371 62317, UE8877/37/53), September 20, 1947, FO 371 62317, UE 9972/37/53, British Public Record Office, cited in Zeiler, p. 112.

this risk, but not out of any desire to move closer to the Soviets. Rather, they simply believed that President Truman and the rest of Secretary Marshall's State Department were now more committed to maintaining political unity with Britain and Western Europe than they were to the free-trade idealism of William Clayton.

The British bet correctly. It was clear that the Cripps-Clayton talks would not move forward; both sides would have to take the initiative to reach beyond both of these stubborn men. The British Ambassador to the United States, Lord Inverchapel, arranged for a meeting with Secretary Marshall before Clayton's return. Foreign Secretary Ernest Bevin informed his American contemporary that "it is surely a singularly inappropriate moment" for America "to be pressing us to take a considerable further step in the dark, merely, it would seem, to satisfy a doctrinal objection to a preferential system as such."[41] This "doctrinal objection," of course, was the obsession of an increasingly isolated Clayton. Winthrop Brown, the American head of the Conference's Committee on Trade Agreements, did not even bother to consult Clayton when he began working towards a new agreement with the Commonwealth.

The new approach produced a breakthrough. A key change on the British side was bringing back to Geneva James Helmore of the Foreign Office. At Geneva, Canada had angered Britain by siding with the United States on imperial preference, since Canada was expected to leave the Ottawa system and would thus benefit more from its opening. But Brown convinced the Canadians to postpone their release, pushing the British one more step forward. By October 2, the two had agreed upon a plan that, although nothing like Clayton had imagined, might be palatable to cooler heads on both sides. In short, as Zeiler explains, "The United States would abandon the idea of gradual elimination of preferences, accept

41 Bevin to Inverchapel, September 30, 1947, FO 371 62318, UE9151/37/53, British Public Record Office, cited in Zeiler, p. 116.

Britain's original offers, and shift its demands on margins from Britain to the dominions." In addition, "Helmore then threw in a 20 percent reduction on British preferences in the colonies, subject to an adequate increase in U.S. rubber imports, and lowered auto preferences in India and the tobacco margin for Southern Rhodesia." Finally, "the negotiators set a three-year grace period for narrowing margins and required future concessions."[42]

Clayton did not take this lying down. In how many ways had he and Wilcox promised Congress that preferences would be severely slashed, if not ended, through the AAFA and the GATT? Clayton went straight to Marshall to ask him to refuse the Brown-Helmore plan, but to no avail. When Canadian Prime Minister Mackenzie King asked Marshall to better control Clayton, his dream of ending imperial preference, inherited from his lofty mentor Cordell Hull, was already a lost cause. As Edmond Hall-Patch of the Foreign Office concluded, the Brown-Helmore proposals did "not represent the end of imperial preferences nor even a damaging inroad into them." Indeed, just 3 per cent of the total number of preference margins would be eliminated, with 17 per cent up for reduction.[43] In addition, these reductions would not take effect until 1951, while U.S. tariff cuts would operate immediately. For the British, the proposals were a definite win for the short-term and, after Britain achieved equilibrium with the help of Marshall Plan aid, a likely win for the long-term.

The Cabinet approved the Brown-Helmore plan on October 9. The final point of Anglo-American contention was one last British exception: the Cabinet would not cut colonial margins by the (combined) twenty per cent contained in the plan. The Americans were justifiably angry. Wilcox called Cripps a "self-righteous man" whose Labour Party did not have "the courage necessary to compete in an open market." Brown was also upset, as

42 Zeiler, pp. 117-18.
43 Hall-Patch minute, October 7, 1947, FO 371 62321, UE9512/37/53, British Public Record Office, cited in Zeiler, p. 118.

the British, through Ambassador Inverchapel, went directly to Marshall with the news, rather than first consulting with the American negotiators present at Geneva.[44] The Committee on Trade Agreements still approved the plan, but without important American concessions to the colonies. The concessions would be restored, the State Department demanded, only when Britain stuck to the Brown-Helmore plan's preference cuts.

In relenting, Britain had little to lose and much to gain. The cuts were comparatively modest—indeed, the settlement on preferences was nothing like that which would have followed from the ambitious "horizontal approach" for which both sides had pushed near the end of the war. Further, American concessions would provide generous and much needed breathing room for their balance-of-payments problem.

The British delegation resubmitted the offer on preferences on October 14. On October 17, 1947, the General Agreements on Trade and Tariffs was finally signed. Under a multilateral agreement of sixteen tariff schedules, 106 bilateral agreements—covering seventy per cent of world trade and half of global imports—were extended to the signatories. On January 1, 1948, the GATT began its formal implementation.

Conclusion

For the first time since Lend-Lease, politicians in London and across the Commonwealth saw these final Anglo-American commercial proposals as a clear win for their agendas. The adversarial Cripps was praised by the British Foreign Office for restoring "equilibrium in our relations with the Western Hemisphere, and particularly the United

44 Chargé d'Affairs Stone to Pearson, October 10, 1947, vol. 5798, 266(s), NAC (Wilcox). See also *Foreign Relations of the United States,* 1947, Volume I, pp. 1009-10, and Cabinet 79th Conclusions, October 9, 1947 (FO 371 62320, UE9591/37/53), Inverchapel to Foreign Office, Octover 10 1947 (FO 371 62321, UE9531/37/53), Inverchapel to Foreign Office, October 10, 1947 (FO 371 62321, UE9531/37/53), and U.K. delegation to Foreign Office, October 11, 1947 (FO 371 62321, UE9564/37/53), British Public Record Office; all cited in Zeiler, pp. 119-20.

States."[45] But the results of the GATT were also seen as a clear win *against* the agenda of the United States, or at least the agenda of the State Department, which had sought since the signing of Lend-Lease to end the Ottawa system of imperial preferences. Through the GATT the Commonwealth had loosened the "theological straitness of American [trade] doctrine," declared the *Economist*. [46] Canadian Prime Minister Mackenzie King presented it as a victory for Canada since the U.S. had cut tariffs affecting over 80 per cent of Canadian exports.[47] New Zealand echoed these sentiments. The Minister of Finance believed it to be a "good bargain," as New Zealand's Labour government was very satisfied in having fending off American attacks on Commonwealth preferences.[48] The Australians, ironically for the Americans, portrayed the GATT as a victory for free trade against U.S. protectionism. The Australian cabinet concluded that "a serious endeavor [had] been made to open the United States' market to imports."[49]

Indeed, the United States had, perhaps for the first time, *given* significantly more concessions than they had taken. In real terms, the U.S. had dropped its average import tariff rates to mid-nineteenth century levels of 25.4 per cent. According to Zeiler, in doing so, it had given about two concessions for each one received.[50] In this, our "lower-case loophole" described at the end of Chapter III takes on a special importance in the history of the GATT. The "CONTRACTING PARTIES" designation in the GATT implied no requirement for future talks, and since none were ever called "members," "the GATT" as an organization did not exist legally. After the Geneva negotiations, the man responsible for this linguistic

45 Foreign Office to U.K. delegation, October 20, 1947, FO 371 62325, UE10310/37/53, British Public Record Office, cited in Zeiler, p. 123.
46 "Tariffs and Trade" and "Trade under the New Tariff," *Economist* (November 22, 1947), cited in Zeiler, p. 123.
47 Prime Minister's Office, Press Release, December 29, 1947, (reel H-1522), cited in Zeiler, pp. 123-24.
48 "Tariff Pact," *Evening Post*, October 30, 1947, DO35/3730, BPRO, cited in Zeiler, p. 123.
49 Cabinet Agendum 109F: GATT, October 24, 1947, vol. 22, CRS A2700/XMI, AA, cited in Zeiler, p. 123.
50 Zeiler, p. 121.

manipulation, John Leddy of the State Department Office of International Trade Policy, commented that "the whole thing would have been torpedoed" by protectionists and moderates alike, were it to have gone before Congress for ratification.[51]

The results of the GATT did in fact represent a sound defeat of the wartime State Department's long-fought battle to end the Ottawa system of preferences. A symbolic loss was the resignation of William Clayton following the negotiations. Press reports from the time indicate that he left because of his advanced age—he was sixty-seven—and following pressure from his wife. Canadian Prime Minister King noted, however, that Clayton resigned because he was "unwilling to be a party to appeasement on the preference issue."[52]

The State Department was not particularly bothered by this loss. The GATT, and much of American foreign economic policy, would not be defended on the basis of free trade or economic interest alone, or even mostly. Rather, by the end of 1947, American foreign—and foreign economic—policy was justified primarily on the grounds of Cold War diplomacy. Therefore, officials had "no need to apologize for the bargain we have struck," as Lovett of the State Department concluded. By opening U.S. markets to imports from Europe, the concessions at Geneva were the "greatest assistance which we can render to world economic recovery."[53]

It was no matter that the U.S. had not ended, or even severely weakened, Commonwealth preferences. They had greatly improved the economic futures of, and American diplomatic ties with, the nascent social democracies of Britain and Western Europe. They had given the world confidence in the ambitious Marshall Plan and Truman

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51 Leddy OH, 53-63, HSTL; Frederick Victor Meyer, *International Trade Policy* (New York: Croom Helm, 1978), pp. 126-28, cited in Zeiler, p. 122.

52 Thomas W. Zeiler, "GATT Fifty Years Ago: U.S. Trade Policy and Imperial Tariff Preferences," *Business and Economic* History, 26 (Winter 1997), p. 716.

53 Lovett to Arthur Besse (National Association of Wool Manufacturers), December 9, 1947, *Department of State Bulletin*, December 21, 1947, pp. 1220-21, cited in Zeiler, p. 126.

Doctrine. They had strengthened the moral and practical legitimacy of Western liberalism and capitalism against that of Eastern socialism and communism. For the new State Department, the GATT was just one of many anti-communist initiatives that would help to "win" what Orwell foresaw in 1945 as the upcoming "cold war"—in his words, "the peace that is no peace."

Conclusion

"'The path is straight. We are at the edge.
Down in the village the little bell chimes.
Roosters on the fences greet the light
And the earth steams, fertile and happy.

'Here it is still dark. Fog like a river flood
Swaddles the black clumps of bilberries.
But the dawn on bright stilts wades in from the shore
And the ball of the sun, ringing, rolls.'"

Czeslaw Milosz, "Recovery", Warsaw, 1944

Multilateralism and its Discontents

So what to say in conclusion to the near decade of Anglo-American collaboration on economic multilateralism which we have just chronicled? How does one evaluate the success of the agreements this collaboration produced when, at the end of 1947, global economic disequilibria prevented their full implementation and proper functioning?

As stated in the introduction, in an analysis of Anglo-American attempts at free trade multilateralism, it may be helpful to begin with an analysis of what the results of these negotiations and agreements did *not* accomplish. When the State Department embarked upon its first efforts at a multilateral world order with the British through Article VII of Lend-Lease, their objective was deceptively, and in the end, naively, simple: the "elimination" of preferences in exchange for the "reduction" of tariffs, through "mutually advantageous" agreements. Only this would create the economic conditions for political peace—a free world through free trade. "If the British and the United States governments could not agree to do everything within their power to further after the termination of the present war, a restoration of free and liberal trade policies," Undersecretary of State Sumner Welles remarked during the Atlantic Charter negotiations, "they might as well throw in the sponge and realize that one of the greatest factors in creating the present tragic situation in the world was going to be permitted to continue unchecked in the postwar world.[1] This objective remained remarkably consistent throughout the war, for American and (many) British planners alike. But the optimism contained in the commercial proposals of 1943 and 1944 lessened as the war came to a close. By 1946, it had all but vanished.

The acrimonious negotiations at Geneva between lead American negotiator William Clayton and lead British negotiator Sir Stafford Cripps—and the substantial compromises on discriminatory trade practices made by the Americans—stand in sharp contrast to the time when Anglo-American proposals for free trade multilateralism were both hopeful and mutually agreeable. It should not be forgotten that the world came close to inheriting such a vision in the final two years of war. The first draft proposals leading to the General Agreement on Trade and Tariffs and International Trade Organization fully embraced the objectives Article VII. In fact, the "horizontal approach" to the tariff-preference issue, which proposed a "radical diminution of Imperial Preferences" in exchange for drastic cuts in American tariffs, was the proposal of Sir Anthony Overton, Churchill's Secretary of the Board of Trade.[2] Even though the State Department doubted that Congress would be willing to approve an "across-the-board" approach to cutting tariffs—rather than the selective process prescribed by the Reciprocal Trade Agreements Act—the Overton Report was enthusiastically embraced by the State Department. Of course, the Report angered socialists,

1 Sumner Welles, *Where Are We Heading* (London: Harper and Brothers, 1947), pp. 13-14, cited in Richard C. Gardner, *Sterling Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Order* (New York: Columbia University Press, 1980), p. 45.

2 United States Department of State, "Report of the Committee on Postwar Commercial Policy," January 6, 1943, cited in Thomas W. Zeiler, *Free Trade, Free World: The Advent of the GATT* (Chapel Hill: The University of North Carolina Press, 1999), p. 29.

Tories, and the Labour Party, who objected to ending preferences for a number of reasons. But a majority of the British Cabinet favored the Report in 1943 and 1944. Harcourt Johnson of the Department of Overseas Trade actually thought that the cuts in preferences were too timid. But even for the more ambivalent, the requirement was less about mutual advantage than it was about mutual sacrifice. As Nigel Ronald of the Foreign Office commented, the Overton Report contained the "sort of things we and the Americans and others will have to swallow if we are to attain the sort of world which we profess to be seeking to promote."[3]

In 1947, the year in which a definite agreement on preferences and tariffs was reached, the Overton Report was but a distant memory in the thousands of hours and hundreds of Anglo-American proposals concerning the postwar commercial order. If we judge the success of these efforts by the goals of the primary State Department officials by whom they were advanced, then we must conclude that the Anglo-American Loan and the GATT were at best disappointing, and at worst, substantial failures. The system of imperial preference—Hull's "greatest injury, in a commercial way, that has been inflicted on this country," and Clayton's "evil practices...of trade discriminations"—was not eliminated, or even significantly weakened. On the contrary, the GATT enshrined the right for countries to maintain, and even introduce new, preferences and other discriminatory trade practices, in a number of generously defined conditions. Of course, these provisions also allowed the United States to continue its own discriminatory trade policies and protectionist measures, issues on which the free-trading State Department was far from consistent, and about which they possessed little power to change. The Loan, for its part, did little to reverse Britain's horrendous balance-of-payments status, while the failed experiment in convertibility only

[3] Nigel Ronald minute, Feburary 21, 1943, FO 371 31531, U1546/1395/70, British Public Records Office, cited in Zeiler, p. 31.

worsened Anglo-American relations—and right in the middle of the Geneva negotiations.

Regardless, implementing the Charter for an International Trade Organization included in the GATT agreements was still an objective of the State Department at the end of 1947. Most all of the planning had been completed at or before the London Conference in October 1946; at the negotiations in Havana in early 1948, the delegates would some final points on discrimination in the use of quantitative restrictions and, for the first time, special exceptions for developing countries to use restrictions to promote balanced development. Most importantly, the Charter would include the finished GATT, so that it could become a fixed part of international law under the United Nations.

The results for discriminatory restrictions satisfied no one. As Gardner explains, "On the one hand, they paid tribute to the principle of non-discrimination and provided for review of departures from that principle after 1 March 1952. On the other hand, they allowed wide scope for discrimination during the transition period—with no assurance that the transition period would ever end." On the issue of exceptions for developing countries, the Americans lost outright. As capital exporters, they had demanded standards on the treatment of private investment by developing countries. What they received were wide exceptions allowing for all sorts of restrictions and rights, including expropriation without full compensation.[4] Clair Wilcox, the American delegate, complained that "instead of promising to stimulate the flow of private capital, [it] threatened to check it."[5]

When negotiations for the Charter were finally completed in March 1948, a year after the GATT negotiations had begun in Geneva, the U.S. Congress had had more than enough of the State Department's empty wartime promises. The American century had commenced:

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4 Gardner, p. 366.
5 Clair Wilcox, *A Charter for World Trade* (New York, 1949), p. 146, cited in Gardner, p. 366.

preserving America's power to act unilaterally was more important than limiting the powers of others to do the same. As the Chamber of Commerce stated in opposition to the Charter, "It places the United States in a permanent minority position owing to its one vote-one country voting procedure. Because of that, membership in the I.T.O. Based on this Charter would make it impossible for the United States to engage in an independent course of policy in favor of multilateral trade."[6] In what one Italian journalist called "a second-class funeral," on December 6, 1950, the State Department issued the following press release: "The interested agencies have recommended, and the President has agreed, that...the proposed Charter for an International Trade Organization should not be resubmitted to Congress."[7]

Anglo-American commercial planning did lead to one desired outcome of State Department planners: the economic integration of Western Europe. However, this did not have the effect on world trade patterns as intended by American multilateralists. By 1948 Britain had developed export surpluses across the European continent, but still maintained a massive import surplus from the United States. European nations, in turn, had developed dangerous surpluses and deficits between each other based on their relative levels of destruction. Germany, in particular, imported nearly everything it consumed, while its export levels were the smallest across the Continent.[8] *All* European nations, though, were still running unsustainable import surpluses from the United States, something Marshall Plan aid would be slow to counter.

These were hardly the conditions for multilateral trade. Therefore, the economic

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6 *Italian Economic Survey* (Rome) January-Feburary 1951, p. I, cited in William Diebold Jr., "The End of the I.T.O.," *Essays in International Finance*, 16 (October, 1952), p. 2; Executive Committee of the United States Council of the International Chamber of Commerce, *Statement of Position on the Havana Charter for an International Trade Organization* (May 9, 1950), pp. 2-3, cited in Gardner, p. 377.

7 *Bulletin*, xxiii, December 6, 1950.

8 Alan S. Milward, *The Reconstruction of Western Europe: 1945-51* (London: Methuen & Co. Ltd, 1984), p. 220.

integration they produced was hardly multilateral. Rather, viable multilateral trade would require stable exchange rates; stable exchange rates would require deflation. But deflation would prevent continued economic development and the use of Keynesian fiscal stimuli—now the consensus for what would become the social democracies of Western Europe. In these conditions, bilateral trade agreements removed the need for exchange stability and increased fiscal and monetary autonomy for activist macroeconomic management. As Milward notes, “Even though bilateral trade agreements were thought of in principle in most countries as only a temporary safeguard until a more stable and 'normal' pattern of international trade and payments should emerge, by the end of 1947 a far greater proportion of Western Europe's trade was being conducted through such restrictive devices than at any time in the 1930s.”[9]

According to the logic of Clayton and Hull, this was an economic disaster that, if not reversed, would likely result in political and human disaster. But the State Department of 1948 was not the State Department of the preceding years. “Political peace through economic security” was still the *raison d'être* of America's foreign economic policy, but achieving “economic security” did not necessarily mean the homogenization of Western Europe's foreign economic policy along unpopular or strict *laissez-faire* trading principles. Rather, the Most Favored Nation provision of the GATT, which extended the bilateral tariff concessions negotiated at Geneva to all parties, would be enough for the kind of economic multilateralism preferred by the State Department's new guard. As long as discriminatory Western European trade was discriminatory *within* Western Europe—and still provided markets and, through former or existing imperial connections, access to raw materials for American exports—the State Department would not risk its new anti-Soviet (or pro-

9 *Ibid*.

American) alliances for an antiquated or presently impracticable free trade dogma. Instead, the dogma of free trade *rhetoric* in the form of Cold War propaganda would serve to adequately conceal any actual inconsistencies in economic thought.[10]

The results of Anglo-American financial planning are perhaps more difficult to judge, firstly because they are not all together separate from the results of commercial planning. That is to say, the International Monetary Fund and International Bank for Reconstruction and Development, or World Bank, were supposed to start liberalizing currencies and lending short- and long-term aid *before* the implementation of commercial multilateralism. But in 1945 and 1946, economic disequilibria in Britain and Europe scared the conservative (and American chosen) leaders of both institutions into retreat. The Fund was only an instrument for "promoting exchange stability" under more normal conditions. But with the unprecedented balance of payments issues of the early postwar years and Britain's failed sterling convertibility, every one of the Fund's members but the United States and some of its

[10] It is important to note that, as the Cold War escalated and the Truman Doctrine became normalized and expanded, the same free trade propaganda would increasingly be used to disguise far more serious inconsistencies than the fine points of commercial policy. Instead, it was invoked to justify, publicly and privately, the support of countless autocrats, dictators, and guerillas, all of whom opportunistically raised the banner of anti-Communism while remaining just as hostile to the political (and economic) values American liberalism. For all his faults, William Clayton deserves the complement "liberal idealist." Just as much, Harry Dexter White (or John Maynard Keynes) earns the honorary "liberal realist." But many of the Cold Warriors who followed are far too intellectually and morally inconsistent to be called liberals of any stripe. There is no real ideology that can justify many of the actions of the State Department of the 1950s and beyond into the Cold War. Even an imperial ideology requires some measure of self-interested benevolence. It would almost be a compliment to call men like Eisenhower's Secretary of State, John Foster Dulles, a "cynical realist." But that might still imply some more profound vision beyond the interests of the United Fruit Company or Shell Oil.

Of course, America acted imperially long before the Cold War, in fact developing the methods of neoimperialism in Latin America before other Western powers began to abandon their formal empires after the War. But the State Department of the Cold War formalized these methods—embodied in the Truman Doctrine—to make the support of anti-Soviet (and in today's Middle East, anti-Islamist or secular) autocrats the crux upon which the majority of American foreign policy is based. Considering U.S. policy preceding and during the recent democratic uprisings across the Middle East and North Africa, it is a path dependency of which we have sadly yet to break. It may be a viable strategy for a hyper-realist global power (e.g., China or Russia), but for a liberal-realist and ambitious global leader, it is only self-sabotage and hypocrisy.

Latin American allies introduced new currency and import restrictions.[11] Since the Fund's resources "were to be used only for the purposes of the Fund and not contrary to its articles," it would be "a very real danger" were the Fund's resources to be used "in large part by countries in the process of reconstruction."[12]

By mid 1949, the Executive Directors of the Fund admitted its impotence as a short-term lender in the face of long-term problems, concluding that "dependence on bilateral trade and inconvertible currencies is far greater than before the war."[13] In theory, reconstruction loans from the Bank would be used to restore equilibrium, thereby preventing such restrictions and creating the conditions under which the Fund could operate effectively. However, the Bank itself possessed a rather small amount of available lending capital. American planners had expected most of its initial financing to come from bundles of private capital investments, which the Bank would then finance at low rates. But economic, and of course social and political, disorder, gave traders and investors little confidence in European bond markets. Even the Americans' new operatives at the Bank, all straight from Wall Street,[14] could not restore this confidence. Anyway, by that time, it was increasingly known that the United States was preparing its own comprehensive solution to more adequately provide for reconstruction and stability.

The Bank and the Fund thus failed to fulfill the primary objectives of American multilateralists, that is, to provide for reconstruction and the conditions for balance-of-payments equilibria, and to enforce the free convertibility of currencies and non-

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[11] Garnder, p. 298.

[12] *First Special Report of the National Advisory Council on the Operation and Policies of the International Monetary Fund and International Bank for Reconstruction and Development*, House Doc. No. 656, 80th Cong., 2nd sess. (May 18, 1948), cited in Gardner, p. 297.

[13] *Fourth Report of the Executive Directors* (Washington, 1949), p. 3, cited in Gardner, p. 298.

[14] As noted in Chapter IV, in February 1947, the United States installed at the Bank John J. McCloy, a Wall Street lawyer, and Eugene Black and Robert L. Garner, both Wall Street financiers, as President, Vice-President, and United States Executive Director, respectively.

discrimination in trade, respectively. Harry White admitted this fact in the spring of 1948, shortly before his resignation. "A candid appraisal of the contributions which both institutions have so far made toward the stated objectives," he confessed, "would force us to the conclusion that achievement has been much less than anticipated."[15] By that time, the Fund had virtually ceased lending, not resuming until a relative equilibrium was reached in the early part of the next decade. The Bank, meanwhile, initially sought to work with the Marshall Plan to provide assistance. While maintaining that "until the form and content of the European Recovery Program...had taken shape, the Bank could not make large loans to Europe," the Directors also declared it "the intention of the Bank to supplement ERP...primarily by financing projects which involve permanent additions to production capacity."[16] But the Bank could not compete with the grants and low-interest loans of the Marshall Plan. Therefore, rather than assisting Europe in its reconstruction, the Bank made an important shift. "Somewhat modestly at first," Gardner writes, "it turned instead...to the job of helping underdeveloped countries in their programmes of economic development."[17]

But this appraisal overlooks a crucially important, and always implicit, objective of Treasury and State Department planners for the Fund and Bank: *control* over the institutions of financial multilateralism. The Fund may not have been able to implement the free convertibility of European currencies; likewise, the Bank may not have been sufficient to create equilibrium. But the decision to suspend their operations—and the very conditions under which they would be permitted to return—was made entirely by the Americans. Many in fact desired the Fund to act during the postwar balance-of-payments crisis. The Europeans,

[15] Rough draft of speech introducing an amendment to the Fund Agreement, May 19, 1948, *White Papers*, cited in Gardner, p. 305.
[16] *Third Annual Report of the Executive Directors* (Washington, 1948), p. 74, cited in Gardner, p. 303.
[17] Gardner, p. 304.

particularly the British, felt a bit cheated in 1947, when so much planning and so many resources, economic and political, had been devoted to institutions which, by special request of the Americans, lay dormant during the very crises for which the British and others believed they had been designed. The *Economist* objected, “To see the International Monetary Fund—the chosen instrument for 'promoting exchange stability'—playing an almost passive role in the international payments crisis that is now engulfing the world is hardly conducive to create the necessary goodwill and confidence which the new institution will need if it is to satisfy the great purposes for which it was founded—and for which, after all, such heavy hard currency expenditures have been incurred.”[18] Revealingly, the decision that the Bank would not be a large source of reconstruction aid to Europe was announced by its new executives handpicked from Wall Street by Washington. As Dean Acheson asserted after America withdrew its financing for the United Nations Relief and Rehabilitation Administration, the U.S. would no longer grant funds for European reconstruction “under conditions which would leave little or no effective control by the grantor of these funds.”[19]

This shortsighted analysis of the success of the Fund and Bank to achieve their economic objectives dismisses another important American victory: the *rules* of financial multilateralism. Indeed, it was *because* the Americans had the final say on nearly every issue discussed at the Bretton Woods Conference that these institutions could not function under European financial disequilibria, a view obscured in the disappointment expressed by American officials. At the discussions, the British view was for most participants the more desirable, as it stressed the need for provisions assisting nations with balance-of-payments problems and punishing nations that maintained large trade surpluses at their expense.

18 *Economist*, September 6, 1947.

19 *Department of State Bulletin*, xv (Dec. 8, 1942), p. 1007, cited in Gardner, p. 296.

Keynes (and the British) correctly predicted that unless the balance-of-payments problem was sufficiently addressed, European payments disequilibria and dollar shortages would overwhelm the demands of American financial multilateralism. But the Americans disagreed. On the first night of the conference, in a private meeting with the American delegation,

> the other countries had suggested that pressure should be put on creditor countries, and by that they meant mainly the United States. They expected that the United States would continue to export more than it imported, and to drain the world's gold. So they wanted these creditor countries to adopt a policy which would put less pressure on the exchange of the debtor countries, and 'enable them to sell more goods here. We have been perfectly adamant on that point. We have taken the position of absolutely no, on that. And that has created a good deal of discussion and will continue to create some.'[20]

And so, in 1947, the Fund did not lend Britain and Europe dollars for their destructive shortages.

Of course, the Americans had never meant the Fund to undertake any efforts that did not result in the liberalization of financial policies. "It has been our belief from the very beginning," White said to Keynes at Savannah, shortly before the latter's death, "that the Fund constitutes a very powerful instrument for the coordination of monetary policies for the prevention of economic warfare and for an attempt to foster sound monetary policies throughout the world." But the views of Keynes "and those of his Government stem from something that goes very far back, from something that ran right through the discussions with regard to the proposals that are before us from the very beginning." White continued,

> The British view, in my judgment, was based more on the concept that the Fund should play a role somewhat similar to that indicated in the International Clearing Union, that the greater emphasis should be upon provision of short-term credit, that it should provide the necessary funds whereby a country, when it felt the need of foreign exchange, would be able to

[20] Armand Van Dormael, *Bretton Woods: Birth of a Monetary System*, (London: The Macmillan Press Ltd, 1978), p. 171.

> acquire it. ...They believed that there should be as little discretion as possible in...the role of the Fund to determine whether or not policies pursued by any member governments were or were not in accord with certain principles.[21]

White reiterated that "the real problem is, shall you have a Fund which is competent to meet these various problems which are before us or shall you have an automatic source of credit."[22] This failure to address British and European balance-of-payments disequilibria, however, ensured that in 1947, the United States would have neither.

In Secretary Morgenthau's farewell address at Bretton Woods, he listed two "fundamental conditions under which commerce among the nations can once more flourish." We have just shown how the Bank failed at the second condition, that is, "long-term financial aid must be made available at reasonable rates to those countries whose industry and agriculture have been destroyed." But first, "there must be a reasonably stable standard of international exchange."[23] The standard decided upon by the Americans—gold, pegged to the U.S. dollar—granted to U.S. monetary policy, for better or for worse, enormous responsibility for the strength and soundness of much of the world's currencies.

Keynes and the British were consistently opposed to going on to a gold or dollar standard. In fact, Keynes had been developing his own proposal, the bancor, which was to be a supranational currency that would operate similar to the dollar in White's scheme.[24] But

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[21] Document 27, *Selected Documents, Board of Governors Inaugural Meeting*, cited in Van Dormael, pp. 299-300.

[22] *Ibid*, cited in Van Dormael, p. 301.

[23] *Proceedings and Documents of United Nations Monetary and Financial Conference, Bretton Woods, NH, July 1-22, 1944* (Washington, DC: Department of State, 1948) 2 vols, pp. 1224-8, cited in Van Dormael, p. 222.

[24] As the reader might imagine, the author has been occasionally struck with a sense of irrelevance in the process of drafting this thesis. But international events, namely, our currency standoff with China, lift these esoteric and forgotten debates back into our political consciousness. In fact, the lost proposals of Keynes at Bretton Woods are significantly influencing China's current position in this debate. Keynes's bancor, for instance, directly informed the proposals by Zhou Xiaochuan, the head of China's central bank, for a supranational currency to replace the dollar. In 2009, "Mr. Zhou said that the proposal would require 'extraordinary political vision and courage' and acknowledged a debt to John Maynard Keynes, who made a similar suggestion in the 1940s." ("China calls for a new reserve currency," *Financial Times*, March 29, 2009)

Keynes (and others) still rejected giving the dollar a special status, though he did indicate in preliminary discussions that White's answer to his bancor, the unitas, might be acceptable. Nevertheless, “there seems to be no evidence that the Americans discussed the subject with any other delegates. However, though the Statement of Principles, as it was submitted to the Bretton Woods conference, clearly stated that 'The par value of a member's currency...shall be expressed in terms of gold,' White knew that the international bankers were extremely anxious to see the dollar become the international currency of the future.”[25]

The British feared, however, that if the U.S. were to go into a depression, the rest of the world's currencies would be at the mercy of U.S. monetary policy. In one of the most important linguistic manipulations in economic history, the United States secured this status. The draft from Atlantic City had contained the phrasing “gold and gold-convertible exchange.” While Keynes maintained that no gold-convertible currency “at present exists,” he was unaware that “White had decided that these words were simply the equivalent of 'dollars'.” In fact, “[White] and his staff had already submitted to Secretary Morgenthau a memorandum in which the references to 'gold-convertible currency' and 'holdings of convertible exchange' had been replaced by 'dollars'.”[26] As Kolko concludes, the Fund's creators “designed it not merely to implement disinterested principle but to reflect the United States' control of a majority of the world's monetary gold and its ability to provide a large part of its future capital,” while the Bank “was tailored to give a governmentally assured framework for future private capital investment, much of it would be American.”[27] In the view of Morgenthau, the two institutions would create a world “in which international trade

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[25] Van Dormael, p. 201.
[26] Van Dormael, p. 165.
[27] Joyce and Gabriel Kolko, *The Limits of Power: The World and United States Foreign Policy, 1945-1954* (New York: Harper & Row, 1972), p. 16.

and international investment can be carried on by businessmen on business principles." The dollar-based gold standard would provide the monetary foundation for this world. "You can't do business in an environment of disorderly currencies," the Secretary continued.[28]

The United States was thus unduly negative in its evaluation of the Bretton Woods institutions. It was the Americans' fault that they had not anticipated, or adequately prepared for, the economic, social, and political crises of the early postwar period. By the time the U.S. responded in a comprehensive way—that is, until the Marshall Plan and Truman Doctrine—the crises were too serious for the Americans to achieve their earlier goals. This neglect is what prevented the Fund from implementing freely convertible currencies, and the Bank from attracting private capital for reconstruction investment. The American directors of these institutions had lost faith in their ability to respond to the crisis, at least in a way that would fulfill the increasingly political (i.e., anti-Soviet) objectives of U.S. foreign economic policy.

But as with the results of Anglo-American commercial multilateralism, it was ultimately the *tempering* of American *laissez-faire* objectives—a necessary and natural corrective considering the economic condition of Britain and Europe—that secured the acceptance of the most effective and least self-interested ideas of the Americans. Men like Clayton, Hawkins, and White were free-traders, but they were also New Dealers. They were still skeptical of significant aspects of Keynesian domestic demand management, the preferred approach of British officials. However, both sides were in full agreement on the need to maintain high (and sometimes full) employment, and U.S. officials were quite (or duly) reasonable vis-à-vis British domestic economic objectives. The problem arose only in

[28] *Report of the Secretary of the Treasury on the state of the finances* (Washington, DC: Department of Treasury, 1946), p. 380.

Britain's trade policy, namely, its system of imperial preference. British officials could be just as stubborn and self-interested as Clayton and the rest, as was proven during negotiations for the GATT. But it was ultimately their political courage in pursuing ideologically flexible, but still viable and productive, agreements—and, if necessary, deliberate misunderstandings—that discouraged the most selfish or naïve tendencies of U.S. officials while still moving the world another step closer towards a more hopeful world system of global economic cooperation and coordination, however imperfect it would surely prove to be.

In a sense, it was the very failure of the State Department to achieve their commercial and financial objectives in the early postwar era that allowed for the development of Western European social democracy. The U.S. was not able to end all or even most discriminatory trade practices and currency restrictions, but it did succeed in moderating and establishing the rules under which such policies could be introduced and maintained. As Europe re-industrialized under the Marshall Plan—the Americans' grand corrective to their reversed logic for multilateralism, wherein liberalized trade and currencies were the first conditions, rather than the last result, of European reconstruction—the worst of these policies generally disappeared. What followed was the tremendous, and relatively shared,[29] economic growth of the 1950s, 1960s, and early- to mid-1970s.[30] Capital and labor had made a compromise; so had the state, the market, and democracy. In other words, the goals and methods of Keynesian demand management had become the goals and methods of Western capitalism.

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[29] That is to say, among the United States, Britain, and Western Europe, rather than across the developing world. This is an issue upon which we have so far said nothing, but which is crucially important to judging the *moral* success of these transformative economic proposals and ideas. Much of this growth came at the expense of horrible labor conditions and anti-development strategies enforced upon the developing world, whether by their own anti-democratic political leaders or, as was often the case, by anti-democratic political leaders who received full economic, military, and political support to sell the national interest and pocket the proceeds.

[30] One could begin to discuss the 1973 OPEC shock, the end of the gold standard, the rise of the monetarists, etc., but anyone who has read this far has certainly suffered more than enough.

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