

# The New Trend of Historical Study on Postwar World Economic Order

——A Review of Randall B. Woods'  
“The Trials of Multilateralism: America,  
Britain, and the New Economic Order,  
1941-1947” ——

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Many scholars have done research on the formative process of postwar world economic order. There are now detailed studies on such important topics as the Lend-Lease Act, the Bretton Woods Conference, the Anglo-American financial agreement, the Marshall Plan, etc.<sup>(1)</sup> On the other hand, the fragmentation of this research makes it difficult to grasp the formative process in its totality. The article by Randall B. Woods which I take up here, provides a useful framework to understand this process in its entirety.<sup>(2)</sup>

The most important feature of Woods' view is his grasp of the process between the Lend-Lease Act, the Bretton Woods, and the Anglo-American financial agreement as the period when the United States searched for “multilateralism” ( old liberalism ) and of the Marshall Plan as the turning point of American foreign policy to “new liberalism.” Using this division, he finds the beginning of the new economic order, which would create the most rapid global economic expansion in history and contribute to the ultimate success of Western capitalism during the Cold War, not in the Bretton Woods system ( IMF and World Bank ) created by American “multilateral”

approach, but in the “new liberalism” policy of the Marshall Plan. Therefore, the most important element which steered the postwar economic order to success was the abandonment of “multilateralism” and the embracement of “new liberalism” by the United States. He attempts to describe this process, focusing on Anglo-American negotiations from 1941 to 1947. In my short essay, I shall evaluate his argument and raise several points requiring further examination to appreciate the formative process and essence of postwar world economic order.

According to Woods, the nucleus of American postwar planning from 1941 to 1947 was the policy of multilateralism. This policy aimed at the construction of a worldwide multilateral free trade system. It meant the creation of an international specialization system based on Ricardian competitive advantage and interdependent world economy through the free flow of international goods and capital. It would be possible by mutual reduction of trade barriers, elimination of currency controls, and creation of a stable exchange rate system. American multilateralists believed that such an economic system would accelerate domestic and international growth simultaneously and rehabilitate war-torn areas in Europe and Asia. It was the breaking up of the Sterling Bloc that they recognized as the key to the realization of a multilateral system.

On the other side, the British Government, especially the Exchequer and the Board of Trade, strengthened the Sterling Bloc during wartime. Nevertheless, Churchill and Keynes recognized the limitations of the Sterling Bloc and believed that the key to postwar British restoration lay in a massive program of American aid. Only such aid

would enable the British to revive their internal economy and retain their empire in the eastern Mediterranean and the Middle East. Therefore, the nucleus of Keynes' postwar plan was to create a new economic order that would simultaneously satisfy American multilateral demands and protect British financial and economic position in the world economy. To Keynes, a multilateral system meant a world system in which America would dominate every market and drive its competitors, especially Britain, into bankruptcy. Thus, he tried to create a new system in a which the United States would have to provide nations participating in a multilateral system, especially Britain, with enough capital to rehabilitate their economies, compete with American production power, and keep up their currency value and free convertibility. The masterpiece of his plan was the International Clearing Union. If the member countries in the Union ran excessive trade surpluses over a certain level, this organization would confiscate this excess part as a penalty and provide it for debtor countries as a fund for their currency stabilization and reconstruction of their industrial and agricultural system. The purpose of this plan was to impose on the United States, the biggest creditor with huge trade surpluses, the duty to furnish international liquidity institutionally.<sup>(3)</sup>

Within the Roosevelt administration, there was a battle over such supply of liquidity: a battle between economic internationalists who insisted on providing positive aid as the precondition of the multilateral system, and isolationist-economic nationalists who opposed a generous international aid program and insisted on creating a world economic system that would provide the United States with an overwhelming competitive advantage. The former was based in the State Department, and the latter was in Congress and the Treasury

Department under Secretary Henry Morgenthau, Jr. It is noteworthy that the Treasury was the promoter of economic nationalism. According to Woods, the policy line of the Treasury, which finally produced the Stabilization Fund Plan designed by Harry Dexter White, was to establish an international financial system dominated by the United States, taking advantage of American monopoly of the world supply of gold and dollars; and to end Wall Street control of both the domestic and international financial structures and to take away the leadership of world finance from London to Washington. The Treasury strategy controlled the American delegation in the Bretton Woods Conference and influenced the character of the Bretton Woods system fundamentally. The IMF and the World Bank were able to provide very limited international liquidity and in fact functioned as organizations that forced participating nations to accept a free and multilateral system of trade and settlement without supplying sufficient funds to them. This system only strengthened the American position in the world economy. The Anglo-American financial agreement in 1946 also followed this strategy of the U.S. Treasury. The collapse of the British and European economies in 1947 was the inevitable result of the American policy.

Woods' conclusion on the multilateral approach from 1941 to 1947 is as follows: The goal of multilateralism, in which creditor nations provide liquid capital to debtor nations in order to maintain continual equilibrium of trade and payments and to keep a relatively free trade system, was in theory a worthy one; but in the political process, such multilateralism was subverted into the machine to strengthen American dominance in international finance and economy, by the economic nationalists who dominated American politics. The true multilateralists failed to assume leadership and press for their policy

of providing generous liquidity against nationalist tendencies. Under these conditions, the multilateral system was destined to fail, and it was the Marshall Plan based on "new liberalism" approach that overcame this failure.

The Marshall Plan was aimed at the realization of huge American international aid to foster European recovery under the framework of an integrated European system, instead of a global multilateral free trade system. This plan, in contrast with Bretton Woods, was promoted by the State Department. Despite the addition of the new political purpose of controlling international communism, the plan was aimed at creating a new European economy that could effectively compete with the United States. This plan received support by conservatives who had formerly opposed generous international aid, because of their Cold War conception and thinking. In the Economic Cooperation Act of 1948, which was the legislative base of the Marshall Plan, four major undertakings were pursued: to increase European industrial and agricultural production; to establish and maintain internal financial stability; to expand inter-European trade; and to fashion supranational agencies of economic cooperation. While the last undertaking was not developed sufficiently because of the objections of the British and other European countries, and the Organization for European Economic Cooperation ( OEEC ) remained an agency for intergovernmental consultation and negotiations rather than a supranational institution, other undertakings produced certain fruits. Woods' article discusses that huge American aid to produce liquidity had a pump-priming effect on industrial productivity, fostered financial stabilization, and developed inter-European trade through the European Payments Union. After taking up the arguments of Alan Milward ( who maintained that the Bretton Woods

did not work and ended in failure ) and of Michael Hogan and Charles Maier ( who insisted that there was a political conversion from laissez-faire to the "politics of productivity"<sup>(4)</sup> ), Woods concludes the following: The Marshall Plan was an attempt to create a new economic order that focused first on the rehabilitation and independence of the European economies with limited moves toward European integration, and it meant the American political conversion from multilateralism aimed at a global multilateral economic order to the new liberalism. This conversion was the most decisive factor which produced the most rapid global economic expansion and led the postwar international economic order to great success.

The above are the main points of Woods' article. As we have seen, the most distinctive feature is his attempt to grasp the formative process of postwar economic order in the framework of policy conversion from multilateralism to new liberalism. Though the concept of "new liberalism" needs more adequate explanation and proof, it is very interesting that, in this division, he places the Bretton Woods system as a disfunctional system based on a modified form of multilateralism and the Marshall Plan as the political and institutional starting point of the successful postwar economic order. The second interesting point is that, describing the intra-agency competition within the U.S. Government clearly, he places the Treasury Department as the driving force of economic nationalism and the Bretton Woods system led by this agency as a device only to enrich America exclusively and strengthen its domination of international finance. This means that the IMF and the World Bank did not provide war-weakened Europe and developing countries with enough liquidity

to restore their economy and society and to correct their imbalance of international payments and that these organizations functioned as a machine only to compel them to accept a multilateral free trade system and strip them of necessary devices to protect their domestic markets and currency value. As a conclusion, the Bretton Woods system contained no international income redistribution system and no global "Share Our Wealth" program. Such Wood's view has a fascination for me because I had assumed some elements of economic internationalism in the Treasury's recovery plan designed by Harry White.

On the other hand, there are some questions about his framework which emphasizes the importance of a policy conversion from multilateralism to new liberalism. First, it seems to me that the shift in policy support forces was also decisively important for the success of the Marshall Plan. The fact that conservatives, who had opposed the generous supply of liquidity and "succeeded in converting multilateralism into a blunt imperial instrument", switched to supporters of huge aid to Europe because of Cold War thinking in the latter half of 1940's was crucial for the success of the internationalist policy led by the State Department. If there had been no strong support of conservative force, the "new liberalism" policy might have faced the same problem and repeated the same failure as the multilateralism policy did. In the other words, it appears that the problem of providing liquidity was solved for the first time under the new conditions of Cold War.

Second, it seems to me that certain continuous aspects of U.S. policy should be taken into account as well as discontinuous aspects. It may be possible to grasp one of the basic lines of American foreign policy toward postwar economic order as the development of the State

Department's economic internationalism, that is, as a continuous and accumulating process from the Reciprocal Trade Policy in the 1930's, to the multilateral plans in wartime, and to the Marshall Plan in the postwar period. To give an example, the unsuccessful experience of the Reciprocal Trade Policy toward individual European countries seemed to provide the important background for the State Department to insist on treating Europe as a unit for postwar recovery plans. The failure of bilateral trade agreements to take each country in a multilateral free trade system one by one would have convinced the State Department of the close inter-European economic relations which could not be treated separately. In fact, there are many documents in Harley A. Notter's files ( Notter Files ), who held various positions within the State Department's offices and committees engaged in postwar planning,<sup>(5)</sup> to show that the State Department tried to create a postwar restoration plan in the framework of "integrated Europe" in the early 1940's which Woods defines as the period of "multilateralism".

Most probably, in the process from the Reciprocal Trade Policy to the Marshall Plan, policymakers in the State Department had come to recognize the following: To build the multilateral world system they desired, they would have to provide debtor and developing countries with something like an international "safety net" to guarantee their economic and social stabilization. The Reciprocal Trade Policy and the wartime plans of the State Department might be considered the first attempts to create a multilateral system with a safety net in a form of liquidity by the opening of the American domestic market and a large supply of international recovery aid. Thus, the Marshall plan was the final and most successful attempt to create a multilateral system within Europe, providing a safety net by which European economies



could have the protection and encouragement of their industries to compete effectively with the U.S. economy and its “productivity”. In contrast to Woods' framework of the conversion from multilateralism to new liberalism, it is possible to discern continuous and expanding elements of the State Department's economic internationalism, from the standpoint of the development of policy and theory toward the stabilization of the world economic system. Of course, such a safety net had never been built in the 1930's and 1940's because of the strong opposition of American protectionism and economic nationalism to seek exclusive American interests in the world economy.

The above is my comment on Woods' article. In the end, I have one more word about the present-day world economy in relation to this subject. The one-sided demands of a multilateral free trade system without a safety net for economy and society, remains the most barbarous and injurious form of world market integration. It seems to me that the recent globalization which seeks the liberalization of trade and finance intensifies these questionable tendencies. It definitely lacks the view of fair international income distribution and necessity for a social and economic safety net. The failure of the WTO ministerial conference in 1999 and the demonstration in Genoa against the G8 summit in 2001 reveal the limitations of such one-sided multilateralism.

#### Notes

- (1) For example, Warren F. Kimball, *The Most Unsordid Act: Lend-Lease, 1939-*

- 1941, Baltimore, Johns Hopkins University Press, 1969; Alan P. Dobson, *U.S. Wartime Aid to Britain, 1940-1946*, New York, St. Martin's Press, 1986; idem, *The Politics of the Anglo-American Economic Special Relationship, 1940-1987*, New York, St. Martin's Press, 1988; R.S. Sayers, *Financial Policy, 1939-1945*, London, 1956; Sir Richard Clarke, *Anglo-American Economic Collaboration in War and Peace*, Oxford, 1982; L.S. Pressnell, *External Economic Policy since the War, Vol. I: The Post-war Financial Settlement*, London, 1986; David Reynolds, *The Creation of the Anglo-American Alliance, 1937-1941: A Study in Competitive Cooperation*, London, 1991; Richard N. Gardner, *Sterling-Dollar Diplomacy: Anglo-American Cooperation in the Reconstruction of Multilateral Trade*, Oxford, 1956; B.M. Rowland, ed. *Balance of Power or Hegemony: The Interwar Monetary System*, New York, 1976; Armand van Dormael, *Bretton Woods: Birth of a Monetary System*, London, Macmillan, 1978; Susan A. Aaronson, *Trade and the American Dream: A Social History of Postwar Trade Policy*, University Press of Kentucky, 1996.
- (2) Randall B. Woods, "The Trials of Multilateralism: America, Britain, and the New Economic Order, 1941-1947," in Paul Kennedy and William I. Hitchcock, ed. *From War to Peace: Altered Strategic Landscapes in the Twentieth Century*, New Haven and London, Yale University Press, 2000. This article is based on his book, *A Changing of the Guard: Anglo-American Relations, 1941-1946*, Chapel Hill and London, University of North Carolina Press, 1990.
- (3) On the Keynes study, Skidelsky recently finished the last volume of his Keynes biography. Robert Skidelsky, *John Maynard Keynes, I: Hopes Betrayed, 1883-1920, II: The Economist as Saviour, 1920-1937, III: Fighting for Britain, 1937-1946*, Macmillan, 1983, 1992, 2000.
- (4) Allan S. Milward, *The Reconstruction of Western Europe, 1945-1951*, London, Methuen & Co.Ltd, 1984; Michael J. Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952*, Cambridge University Press, 1987; Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in Charles S. Maier, ed. *The Cold War in Europe: Era of a Divided Continent*, Princeton, Markus Wiener Publishers, 1991.
- (5) Notter compiled a book from the records of many World War II Committees. The book was published by the State Department; The Department of State, *Postwar Foreign Policy Preparation, 1939-1945*, Washington, 1949.

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