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How Global was the Post-war International Order?

When the Second World War ended, there not a strong drive to try to return to the pre-war baseline in 1938, in contrast to the experience after the First World War. Many believed that an idealized nostalgia for the unregulated globalization of the 19th century had led policymakers to be overly timid in their response to the post-war economic transition in 1919. Without adequate institutional guardrails, economic rivalry had poisoned the political environment and contributed to renewed military conflict. Officials in the League of Nations emphasized this lesson, as they prepared to hand-over authority to the new United Nations. In 1945, they reflected:

> *It was generally believed at the end of the last war that something like the pre-war pattern of international economic relationships could be quickly restored and that no special international action was required for the purpose.*[1]

Looking ahead to a new period of post-war reconstruction, they argued that peacemakers should seek to revive investment, but they must do so under a new institutional regime.

The peace settlement was seen as an opportunity to recast the world economy, and the planning began almost as soon as conflict broke. This meant that the economic expansion which came in the 1950s-1970s was not a simple return to the first globalization of the nineteenth century. After 1945, "re-globalization" was framed by more deliberate institutional intervention at the national and international level. This regulatory action was spread across a series of new institutions which were only loosely affiliated with the UN:

- **The International Monetary Fund (IMF):** provided a framework to stabilize currencies.
- **The International Bank for Reconstruction and Development (World Bank):** facilitated international investment.
- **The General Agreement on Tariffs and Trade (GATT):** reduced trade barriers.

These three institutions were responsible for maintaining the core infrastructure of the world economy in the areas of monetary policy, finance, and trade and will be the focus of this case.

They operated alongside several other bodies in the UN system, such as the Economic and Social Council and the International Labour Organization, which provided a platform to debate economic policy in a broader perspective and became a channel to criticise the limitations of the IMF, the World Bank, and the GATT.

In 1945, the peace negotiations that had followed the First World War were still in living memory. Many of the officials who negotiated the IMF, the World Bank, and the GATT had been in Paris in 1919, including the British economist, John Maynard Keynes. In 1945, Keynes and the other peacemakers no longer argued for the preservation of the twin pillars of the nineteenth-century global economy: the gold standard and free trade. The task ahead, they argued, was to craft new institutions to perform the same basic functions in a more complex regulatory and political environment. All currencies need not be pegged to gold, but it was still essential to establish a stable framework to facilitate payments across borders. In trade, governments were permitted to exert more influence than they had in nineteenth century as long as trade controls were not applied in a discriminatory manner that would divide friends and foes. There was strong support for freer trade (if not full free trade) especially in the United States, where officials hoped that global commercial expansion would heal political and economic divisions in a post-war world.

Plans for international economic institutions were chiefly intended to address two main policy concerns, rooted in memories of the tumultuous interwar period. Firstly, the experience of the Great Depression and the infectious spread of hardship from country to country had produced a firm belief in international economic interdependence. Secondly, the rocky economic transition out of the First World War – marked by a boom-and-bust recession, uneven recovery, and mass unemployment—raised fears that the end of the Second World War would bring sharp national economic crises. Without adequate safeguards, an isolated post-war shock in a large industrial economy would be transmitted rapidly across the international economic system and produce a global depression.

World leaders were particularly concerned about the destabilizing potential of the US economy. The United States was set to end the war with large capital reserves and strong export capacity, as it had in 1919. Would the country adopt a more cooperative approach in its foreign economic policy? Would it allow creditors to earn the money they needed to repay loans by exporting to the US market? Would the United States remain on the side-lines of international economic institutions as it had done in the League of Nations? Or would US leaders be willing to bind themselves in a formal multilateral framework under the new United Nations?

It is important to appreciate the strong institutional focus on managing the problem of US economic strength to appreciate the gaps and tensions in the post-war international economic system. The system was designed to address concerns about an overly strong dollar, and it faltered when a weak dollar became the overriding problem by the late 1950s. Moreover, many leaders argued the post-war focus on monetary stabilization and free trade did not respond to economic concerns about development outside the North Atlantic. As the international community expanded rapidly to include new postcolonial states in the 1950s and 1960s these critical perspectives gained more influence, building on unfulfilled demands during the initial post-war negotiations.

Wartime Planning for Post-war Order

Post-war economic planning developed directly out of the Allies' system of wartime cooperation, led by Britain and the United States. When war broke, Britain initially purchased war material from the United States according to a "cash and carry" principle which required full payment for any military supplies. This forced Britain to sell off overseas investments on a large scale, reducing its post-war influence.[2] As Britain ran out of overseas assets to sell off and came close to defaulting on its payments to the United States, British officials argued that US assistance could no longer proceed on a cash basis.[3]

In response, the US President Franklin Roosevelt and his team devised a novel formula, "Lend-Lease," which would allow the British to "borrow" war material from the United States without payment. There was no realistic expectation that the United States would actually reclaim battle-worn equipment after the war, but the pretence allowed US firms, guided by the government, to build up an armaments industry that was that was adapted to the future security priorities of the United States while meeting immediate British needs. As Roosevelt explained, "if the British wanted a new factory for additional shells, or went above present orders, if we take that order over, we would do the financing of the factory just the way we have done it for ourselves."[4] Thus, the US government used the war to fuel a massive expansion in the domestic armaments industry, even before it formally joined the conflict.

Above all, "Lend-Lease" was a strategy to avoid the unproductive war loans that had weighed on the world economy after the First World War. When announcing the policy to the Washington policy elite, Roosevelt declared:

> *Now, what I am trying to do is to eliminate the dollar sign. That is something brand new in the thoughts of practically everybody in this room, I think–get rid of the silly, foolish old dollar sign.*[5]

In other words, Roosevelt wanted to provide military aid without demanding direct repayment. This was an important moment in the history of international policy when the United States shifted its sovereign lending policy from a commercial to a political basis. This change laid the groundwork for the United States to develop a large-scale program of foreign aid after the Second World War, starting with the Marshall Plan.[6]

Crucially, although the United States did not ask to be repaid in money for the material that it provided under Lend-Lease, it did demand repayment in the form of political concessions, setting a durable precedent for international aid. Under the terms of Lend-Lease, the US government could demand "payment or repayment in kind or property or any other direct or indirect benefit which the President deems satisfactory." Roosevelt used this provision to push Britain and the other Allies to return to stable exchange rates after the war and to support the "free and healthy flow" of international trade.[7]

From his base in the British Treasury, Keynes, argued that these two policy goals would be very difficult to combine during the period of post-war transition. Britain would need dollars to import goods for reconstruction but would have limited capacity to earn that money. For, war finance had sapped Britain's currency reserves and bombing had badly hit its industrial capacity. Keynes believed the country could only maintain a somewhat stable monetary system if it imposed severe restrictions on trade and capital outflows in order to conserve scarce dollars and raw materials. These constraints also applied to the other European Allies, but Britain raised particular concern because it was an important financial hub and it was the head of the world's largest colonial empire.

Indeed, the British imperial economy was a central point of contention in post-war planning. US leaders strongly objected to the policy of "imperial preference," whereby the United Kingdom and the other territories of the British Empire granted one another preferential tariff reductions and other advantages in order to encourage trade within the bloc. Such arrangements had developed in a scattershot way across the British Empire and became more systematic in the 1930s. After Britain and its imperial partners left the gold standard in the 1930s, it established a regime of monetary solidarity within a "Sterling Bloc," which reinforced trade preferences. Given that the British Empire was an important export market for the United States and a source for many key raw materials, the US State Department had been working hard to break down imperial preference in the years before the war.[8] Lend-Lease provided a new opportunity to force this issue.

The "terms and conditions" for the United Kingdom to receive aid under Lend-Lease bound it to "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." [9] Keynes reacted strongly against this provision, complaining that the reference to discrimination "saddled upon the future an ironclad formula from the Nineteenth Century." The US proposal "contemplated the impossible and hopeless task of returning to a gold standard where international trade was controlled by mechanical monetary devices and which had proved complete futile." He predicted that the post-war order would require more deliberate management of trade and money, in part because he knew that Britain would end the war with a large balance-of-payments deficit. Keynes was not deeply committed to imperial preference, but he believed that Britain and the other belligerent states would need to use the full range of trade and currency controls to maintain a stable balance of payments after the war. [10] He explained:

> *my so strong reaction against the word "discrimination" is the result of my feeling so passionately that our hands must be free to make something new and better of the post-war world; not that I want to discriminate in the old bad sense of that word—on the contrary, quite the opposite.*[11]

Keynes's interlocutor in the US State Department, Dean Acheson, argued that it was essential to secure British concessions on imperial preference in order to maintain support for the Lend-Lease program among an American public that was sceptical of the war. However, the British Empire encompassed a range of views on imperial preference and British officials in London could not act alone to set policy in this area. For, India and the Dominions (Canada, Australia, New Zealand, South Africa) all had autonomous control over trade policy and were also central partners in the war effort. There was widespread public concern in the Dominions – especially in Australia and New Zealand – that the end of imperial preference would bring an inflow of US goods and threaten local industrial employment.[12]

Settling International Monetary Policy at Bretton Woods

Wartime planning initially focused on eliminating trade discrimination, reflecting the priorities of the US State Department, but it was international monetary policy that was settled first at the Bretton Woods Conference of 1944. This event gathered representatives from 44 states for three weeks in a wooded resort town in New Hampshire to establish the terms for the IMF and the World Bank. Together, these two institutions were referred to as the Bretton Woods System. The IMF played an organizing role in the post-war world economy by providing a framework to stabilize currencies, creating a secure basis for international trade and investment. This was not a return to the gold standard of the nineteenth century in a more institutionalized form. The IMF regime allowed greater flexibility for governments to manage national economies in line with welfare goals than the more rigid gold standard of the nineteenth century.

The IMF operated according to a system of "adjustable pegs." All participating governments set fixed exchange rates, defining the value that national currencies were convertible to gold (or convertible to dollars, which were convertible to gold). However, they were allowed to adjust these exchange rates, in dialogue with the IMF. The IMF system allowed for greater flexibility in exchange rates than the traditional gold standard, and it also gave governments more policy space by allowing capital controls. The final component of the IMF system was the stabilization fund. All members paid into this fund, according to fixed quotas, and these quotas also formed the basis for voting rights in IMF governance structure (See Annex 2). Members had the right to withdraw foreign currencies from the fund in order to compensate for a payments imbalance or to shore up national reserves and preserve a stable exchange rate.[13]

The Bretton Woods settlement was the culmination of several years of negotiations. Debate centred on how flexible national exchange rates should be and how long governments should be given to stabilize their currencies with support from temporary trade and currency controls. Due to the strong financial pull of New York and London, the United States and Britain loomed large in this process, with John Maynard Keynes taking the lead on the British side. These countries' weight in the international financial system was reflected in the voting rights that were allocated in the IMF (see Annex 2). Monetary and financial negotiations were not conducted in a transatlantic tunnel, however. Leaders from around the world presented competing visions of the post-war world economy at Bretton Woods. Not all these plans made it into the institutional settlement, with many feeding into critical reform discourse directed against the IMF and the World Bank in the 1950s and 1960s.

Keynes believed that the unbalanced position of the United States was an important threat to the global economy as a whole and many leaders around the world shared his concern. He did not think that the US government had reckoned with the severe disparities in international trade and finance that would weigh on the world economy after the war. The Lend-Lease program ensured that the Allies would not be saddled with heavy war debts, but US aid did not cover the full cost of the war. The belligerent states sold off most of their financial assets to American buyers to help fund the war effort. At the same time, US industry and agriculture had expanded considerably to meet wartime demands in Europe. This would leave the United States with a very large export capacity after the war and a strong creditor position. It was, of course, in a similar place after the First World War and that experience fundamentally shaped expectations about the US role in post-war order after 1945. Keynes reflected that "the United States never succeeded in effecting the re-orientation of her domestic economy required by the changed circumstances in which she found herself after the last war." He believed that the "necessary task after this war will be still more severe."[14] Mexican economic experts stated the problem more bluntly, underscoring the fact that non-belligerent states were also concerned about lopsided US economic power.[15] They complained:

> *Fundamentally, the case of Yankee protectionism is the rare case of a country that the whole world owes, that wants and demands to be paid, but in declining to buy that which its debtors produce, it in reality impedes payment.*[16]

Economic leaders around the world sought to ensure that the United States would not abuse its economic and political influence coming out of the war. They assumed that the dollar would be strong and stable, and a central goal in the Bretton Woods negotiations was to the ensure that the United States would share these institutional advantages as widely as possible. The dollar became the lynchpin of the international monetary system – and the default reserve currency – at a time when few anticipated that the United States would lose its predominance in international markets. Yet as Japan and Europe recovered from the war and expanded their exports rapidly in

the 1950s, they began to earn more dollars. The balance of dollars that was held abroad exceeded the US gold reserves in 1960, and after that point currency speculators began to doubt that the US government would be able to maintain the gold value of the dollar at $35 per ounce. The widespread belief that the dollar was weaker than officially advertised put pressure on the US government to devalue the dollar, threatening the large currency reserves that other governments held in dollars. Thus, it is essential to appreciate the overwhelming strength of the dollar in the original configuration of the IMF in order to understand why the system struggled to accommodate a weak dollar, leading to the eventual collapse in 1971.[17]

In the run-up to Bretton Woods, Keynes helped concentrate international attention on creditor countries, especially the United States. During the war, Keynes proposed an International Clearing Union (ICU) to force countries like the United States with high exports and large stocks of capital to offset these surpluses by buying imports from the rest of the world or making productive investments. If the United States or another country ran up a surplus in its balance of payments, it would earn credits in its national account at the ICU, which could be paid to any other member in order to cover imports. If a country consistently held a surplus in the ICU, policy adjustments would be imposed in order to force it to spread this bounty more broadly. For example, it could be required to strengthen the value of the currency so that it could buy more imports. Keynes's plan for the ICU also included a series of measures to force "deficit" countries – those that borrowed or imported too much – to bring their balance of payments back into equilibrium. For example, they could be forced to lower the value of their currencies to reflect the level of economic activity and to spur growth by making their exports cheaper on international markets. However, Keynes was primarily focused on surplus countries because historically they had been more problematic. The traditional gold standard had forced deficit countries to balance the books, but surplus countries such as the United States managed to sustain an unbalanced position for a long time by hoarding gold and exporting more than they imported.

Keynes did not see the ICU as practical policy. It was an "ideal scheme" that would illustrate the high level of innovation that was required to re-establish a stable and open international payments system while "avoiding those features of the old system which did the most damage." He fully admitted that his plan was "utopian" in the sense that it "assumes a higher degree of understanding, of the spirit of bold innovation, and of international co-operation and trust than it is safe or reasonable to assume." Nevertheless, the plan would demonstrate to the US government the full implications of their preferred trade and monetary policy. It was a tactical move that forced a US response by saying: "now that you are fully seized of the essential elements of the problem, what alternative solution do you offer us?"[18]

When confronted with Keynes's ideal scheme, the US government countered with a somewhat different set of carrots and sticks. The central point of negotiation concerned how much money the ICU (which became the IMF over the course of negotiations) should have in its coffers to compensate for temporary imbalances between members. This was an important innovation in the post-war monetary system. International institutions such as the League of Nations had coordinated currency stabilization loans from bank to bank, but this was the first time that an international institution would have a large pot of money to directly disburse funds. While Keynes's plan had provided for a stabilization fund of up to $26 billion to offset international imbalances, the US Treasury proposed a more modest $5 billion. In the end, they agreed on a fund of $8.8 billion, which was much closer to the US figure than the British one. The final agreement also allowed for some adjustment of fixed exchange rates, though less than Keynes initially demanded.[19]

Monetary policy was closely linked to other areas of post-war economic planning. Indeed, all the officials involved repeatedly insisted that a stable monetary system was not an end, in and of itself. It was a framework to support post-war reconstruction in Europe and development beyond the industrialized North Atlantic. At Bretton Woods, these non-monetary concerns were primarily addressed through the World Bank. Unlike the IMF, the World Bank did not have large funds at its disposal to make direct loans. Instead, it focused primarily on coordinating private lending through banks. This institution developed out of earlier plans for an Inter-American Bank, and Latin American delegations were influential in its formulation.[20]

At Bretton Woods, Latin American delegates raised two key points of concern, which were only partially addressed. Firstly, they wanted to ensure balance between the Bank's twin commitments to the "the restoration of economies destroyed or disrupted by war" and "the development of productive facilities and resources in less developed countries." The Mexican delegates said they did not want "to impose on the Bank a rigid fifty-fifty rule," but effectively demanded as much. Keynes proposed a somewhat vaguer compromise for the final wording, specifying that the Bank would give "equitable consideration to projects for development and projects for reconstruction alike."[21] As seen in Annex 4, the overwhelming majority of the Bank's early loans were directed towards Europe, but in the 1950s the funds were spread more evenly across Africa, Asia, and Latin America.

Further debate focused on the purpose of the loans. The political loans of the 1920s had made bankers very wary of "unproductive" lending. Many officials argued that the Bank's loans would only attract substantial private investment if they were used to finance "specific productive projects" such as railroads. Investments in this type of hard infrastructure would boost economic growth and generate further private investment opportunities. Dissenters argued that the Bank should have a broader mission to support the development of social institutions in fields such as education or public health. These investments might not yield direct commercial profits, but they would still raise the overall productivity of the labour-force. This division between an economic or social understanding of development investment did not break neatly along national lines. In both donor and recipient countries, leaders who had close ties to the financial sector tended to favour a narrower understanding of productive investment.[22]

Trade Politics: from the GATT to the ITO to the GATT

Post-war trade policy was not settled at the Bretton Woods Conference and instead developed through a series of later gatherings (see Annex 1). The first international trade negotiations after the war were limited to twenty-three countries. They sent delegations to Geneva to conduct a round of parallel bilateral negotiations in 1947. Altogether, there were 123 separate bilateral negotiations conducted simultaneously, reducing 45,000 tariffs in total. To bring order to this process, the participating states signed up to a common set of guidelines, the General Agreement on Tariffs and Trade (GATT). This text included definitions to explain what trade discrimination meant, while also setting procedures to enforce the concessions made in the Geneva negotiations. Most importantly, the GATT framework established the principle that all trade concessions would be shared in common among all members. Negotiating partners would thus have assurance that any deal they concluded would not be undercut by future negotiations which offered better advantages to another partner. Although all concessions were pooled among the GATT members, the original bilateral pairing that negotiated the deal could be expected to benefit more than others because countries were encouraged to focus their demands on the most

important products for their foreign trade. Alongside these general principles, the GATT also set the terms to phase out British imperial preference, without fully eliminating the practice. [23]

The GATT was supposed to be a temporary placeholder agreement that would be replaced by a fuller International Trade Organization (ITO).[24] Shortly after the first round of GATT negotiations concluded, new talks to finalize the ITO Charter were held in Havana from November 1947 to March 1948. Fifty-three national delegations came to Cuba, which meant that more than twice as many countries were represented there, compared to the initial tariff negotiations in Geneva. While voting in the IMF was weighted in favour of Britain and the United States (see Annex 2), the ITO was set to operate according to the principle, "one country, one vote." At the Havana Conference, wider participation in the institutional process helped broaden the plans for the ITO. The conference debated over 800 amendments to the original draft agreement with the net result that development was enshrined as a central goal of the planned ITO.[25]

At Havana, a key topic of debate was whether removing barriers to international trade would stimulate growth in the developing world, as promised by free traders. "Diversification" was the watchword for these discussions, and this generally meant expanding from agricultural production into manufacturing, according to the prevailing theories economic development at the time. Profit margins were believed to be higher for processed goods than for unprocessed raw commodities – agricultural or mineral – and so developing countries sought policy tools to break into new areas of manufacturing. This could mean moving up the value chain to process primary commodities after extraction, for example by refining oil or milling wheat. It could also mean expansion into the supply industries that underpinned resource extraction, for example by producing the drills for mining or the tractors for farming. Or, diversification could mean moving into wholly new areas of manufacturing, such as textiles.

The issue of development had been part of post-war trade debates from the outset. At an early preparatory meeting in spring 1946, an Indian delegate, R.K. Nehru, provided a comprehensive defence of development in the post-colonial world as India prepared for independence:

> *the obligation of countries with undeveloped economies to develop their resources could only be fulfilled by instruments such as developmental tariffs and quantitative controls, and by adequate safeguards. India was wedded to economic planning as opposed to free enterprise…The creation of temporary unemployment was unavoidable in economic progress, though the ultimate result was greater employment. A developing country was thus likely to cause immediate unemployment in other countries in the industries it was developing…Developed countries should be obliged to make reasonable adjustments in their own industries.*[26]

R. K. Nehru's cousin, Jawaharlal Nehru, would soon become India first prime minister and launch an ambitious programme of centralized state-led development. In essence, R.K. Nehru was arguing that the international economic system should not merely tolerate trade controls but should actively support India's interventionist policies by facilitating the adjustment of production between developed and developing economies.

Debates over development at Havana centred on how trade expansion could be configured to support diversification in developing countries. Many leaders in the United States and Europe suggested that free trade would support diversification by expanding markets for all producers.

In other words: rising tides would lift all boats. In contrast, many leaders in the developing world insisted that established producers had an overwhelming advantage in a regime of generalized free trade and newcomers would need institutional support in order to compete effectively against these incumbents. Many demanded wider scope for national protection of infant industries while some also favoured international agreements to keep the prices for basic commodity prices high enough to provide funding for new areas of production.[27]

The Havana Conference struggled to achieve a workable compromise on primary commodity production in part because there were many different lines of cleavage. Latin America was a central focal point for development debates because it was the largest bloc of non-colonial states and relied heavily on export revenues from primary production. States in the region disagreed, however, about what type of trade support would be most useful. While Argentina demanded the right to use quotas and other non-tariff restrictions, the Mexican delegation favoured traditional tariffs. The Latin American delegations were also divided over whether they should favour mineral extraction or agriculture.[28]

The final Havana Charter did not satisfy all these demands, but it did explicitly prioritize development above free trade. It made provision for international commodity agreements, a tool to give primary exporting countries more institutionalized control over global market conditions. It also added a new allowance for preferential "free trade areas" in order to enable the formation of interdependent regional blocs. Although this provision was presented as a tool to facilitate development beyond the North Atlantic, it could equally be used to consolidate commercial solidarity in the rich world, including regional integration in Western Europe.[29]

The Havana Charter offered a fleeting vision of international unity in a post-war world that was rapidly growing more divided under the shadow of the Cold War. As ideological opposition to socialism grew stronger in the United States, many national leaders argued that the ITO was animated by a dangerous "full employment dogma."[30] They believed that it would give cover for national intervention in domestic labour markets, saddling new social costs on employers. In the domestic battle between protectionists and free traders in the United States, the ITO fell between two stools. The new provisions to support economic development and full employment raised the ire of free traders, who preferred the simplicity of the GATT. On the other side, protectionists thought that the ITO was still too liberal and would leave the US government powerless to support domestic producers through tariffs. [31]

The ITO project was doomed when US leaders withdrew support in 1950. Most other states saw US participation as an essential precondition for the ITO to move forward. Indeed, a large share of the demands for tariff concessions from the United States in the first round of trade negotiations in 1947 had been directed towards the United States (see Annex 3). The United States was the single largest export market in the world, and so the ITO would have little weight without it. This left the GATT, which was originally intended as a temporary stop-gap agreement, as the central skeleton for the post-war trade order.

Conflicting Visions of Employment and Prosperity

Promoting employment and social welfare were central goals for trade and monetary policy, and also key points of disagreement. The prominence given to employment in post-war debates partly reflected Keynes's influence on economic theory and policy. In the 1930s, he made a

strong case that the traditional orthodox response to a recession – balancing the budget – would no longer work. Instead, called for interventionist fiscal policy to boost domestic demand by combatting employment. He memorably declared "Look after unemployment, and the Budget will look after itself."[32] By the late 1940s support for state-led policies of full employment was widespread throughout the industrialized world.

There was a divergence between the United States and the United Kingdom over how much importance should be assigned to full employment. Full employment had become the central lodestar for post-war British economic policy from an early stage in the war. In 1944 the government adopted a formal commitment to the "maintenance of a high and stable level of employment after the war."[33] In contrast, the US government watered down its support for full employment after the war, as business interests grew more powerful in the US Congress and concerns about "state socialism" and intervention in domestic labour markets grew.[34] This current of opinion grew stronger as the Cold War began to gather momentum and dangers of post-war inflation became more real. It helps explain the failure of some of the more ambitious post-war economic projects, such as the ITO.[35]

Although there was some disagreement over how much weight should be assigned to full employment, the post-war institutional settlement did provide governments with substantial space to promote domestic welfare. In the realm of monetary policy, the IMF allowed governments to maintain capital controls indefinitely. This would ensure that investors could not punish a government which lowered interest rates to stimulate domestic growth or which generated inflationary pressure through high social spending. The investors' predictable impulse would be to transfer their money to a country with higher interest rates and lower inflation, but capital controls limited such movements. In the realm of trade policy, the GATT provided less support for national welfare than the defunct ITO. Nevertheless, the GATT did still include provisions on "safeguarding" and "anti-dumping," which enabled national governments to shelter domestic industries that faced stiff foreign competition. These provisions were designed to allow governments to prevent a sharp uptick in sectoral unemployment and to devise adjustment mechanisms to help workers and firms adapt gradually to market competition. Thus, the concept of full employment had a central place in post-war institutions.[36]

There was, however, a global debate about whether the idea of full employment had relevance beyond the North Atlantic. It did not translate in a straightforward way to countries where primary production predominated and where formal wage-based industrial employment was less common.[37] Carlos Lleras Restrepo from Colombia aptly summarized the problem during the ITO negotiations:

> *For the United States, full employment is to be achieved by the expansion of world trade within a system of economic freedom. For us, the words 'full employment' have a special and quite different meaning. What, indeed, can it mean to us that all our workers are employed, so long as they work in the least productive branches of economic life for wages ten times lower than those of other nations? And how can we ensure stability in this 'full employment' if we are limited to producing a commodity which is exposed, as coffee, is, to such violent fluctuations of price and volume of consumption on the international market.*[38]

During the ITO negotiations, Restrepo and other leaders from the developing world defended political intervention in commodity markets to help smooth volatile price swings. This would give states that depended on the exports of primary commodities such as coffee a secure flow of income which could then be used to support diversification into other areas of production that

would bring higher profit margins. When the ITO failed, there were efforts to build more space for inter-governmental commodity regulation in the GATT and in competing international forums.[39]

Looking Ahead

After 1945, post-war international economic institutions helped facilitate a smoother economic transition than in the 1920s, marked by high rates of economic growth. However, there were many unanticipated issues that provoked new debate and innovations.

The post-war "dollar gap" – the difference between importing countries' currency needs and their available reserves – was much larger and more persistent than post-war institutions were designed to accommodate. The policy options – raising interest rates to attract dollar investments or devaluing currencies to make exports more attractive on dollar markets – would have undermined living standards and fuelled political conflict. The United States covered the transatlantic dollar gap by providing Europe with roughly $13 billion in assistance under the Marshall Plan. This allowed European governments to preserve trade restrictions and currency controls much longer than originally planned. The World Bank also loaned money to Europe to fund post-war reconstruction, as a supplement to the Marshall Plan (See Annex 4). This largesse provided financial space for a system of regional trade integration to develop in Western Europe in the framework of the European Coal and Steel Community and later the European Economic Community.[40] On the other side of the Atlantic, a sizeable dollar gap impeded foreign trade and regional integration in Latin America. In the absence of a Latin American Marshall Plan, other international bodies stepped in to shape development policy, notably the UN Economic Commission for Latin America (CEPAL).[41]

Overall, the world trade gained momentum by the beginning of the 1950s, leading to a spectacular economic boom.[42] In the 1950s, the massive armaments drive that accompanied the outbreak of the Korean War boosted prices for primary commodities and industrialized goods. Nevertheless, the benefits of post-war growth were spread unevenly around the world, and the biggest winners were in Western Europe and Japan. This provoked renewed debate about global economic inequality and development, as the international community expanded rapidly to include many new post-colonial states.[43]

The Bretton Woods institutions enjoyed strong formal authority over governmental policy, but they did not have a monopoly over international debate. The IMF, the GATT, and the World Bank developed in active dialogue with other international economic institutions such as CEPAL. These institutions shared a common interest in determining if and why growth rates were lower in economies that were dependent on the export of primary commodities. In CEPAL the Argentine economist, Raúl Prebisch, developed a very influential analysis of this question focusing on declining terms of trade. Concretely, he was concerned that the export price for industrial goods increased more rapidly than for basic commodities. This meant that over time, countries that depended on primary production could import less in exchange for the same volume of exports. This insight supported a new institutional approach that diverged from the Bretton Woods template. The IMF and the GATT relied on traditional tools of monetary and trade policy – raising interest rates or lowering tariffs. In contrast, CEPAL advocated fundamental "structural" interventions that would shift what kinds of goods were produced and consumed where and by whom.[44]

The critical approach that first emerged in CEPAL was further developed in a new UN Conference on Trade and Development (UNCTAD) that began to meet regularly in the 1960s. UNCTAD challenged GATT's focus on negative trade integration and the underlying view that if trade barriers were removed, unfettered market forces would equalize levels of economic prosperity. Prebisch became the leader of UNCTAD and pursued a two-pronged approach. Firstly, he argued that some form of international "compensatory financing" should be devised to bridge the widening terms of trade between manufacturers and primary producers. Secondly, governments should use these transfers to fund new manufacturing and the resulting exports should be given preferential treatment on international markets.[45] Calling for system-wide discrimination to shift the balance of benefits stemming from trade placed Prebisch, as the head of UNCTAD, in a novel institutional position. He declared:

> *By definition of my mandate, I am looking for arrangements which will favour the position of the developing countries. This is what the mandate of UNCTAD is about. Now, I have to be impartial towards all parties in the United Nations community, and we are striving to be impartial at all times. But as for neutrality, we are not more neutral to development than WHO is neutral to malaria.*[46]

In sum, UNCTAD broke the fiction that the international trade system was a club of equals based on the norm "one country – one vote" and it placed the issue of economic inequality at the heart of policy.

In the financial sphere, development debates focused on the activities of the World Bank. The Bank's early leadership came from the upper echelons of the US financial elite, which ensured that it had access to Wall Street Banks but aligned international financial policy with their preferences. There were many voices across the UN system arguing that the Bank should abandon its narrow focus on "productive" infrastructural investments and also support social programmes. "Damn it!" the Bank's vice-president fumed in 1951, "we can't go messing around with education and health. We're a *bank*!"[47] Nevertheless the World Bank came under greater pressure to widen its work geographically and operationally, partly due to Cold War competition (see Annex 4). In the 1960s, the Bank responded by adding a new step to its loan procedure. In addition to a check for financial soundness, the Bank also verified that new loans would meet broad goals of economic development. This shift was supported within bank by a new research unit.[48]

The evolution in trade and financial policy over the 1950s and 1960s reflected broader shifts in the UN system. In 1955, the UN Secretary General, Dag Hammarskjöld, called for a reorientation of international economic policy. He summarized "the major task of the UN" as follows:

> *We have now gained considerable insight into the problem of bridging a gap which may emerge between effective demand and the capacity to produce in developed countries. We have yet to acquire adequate experience and wisdom, however, in the matter of closing the large divide between productive capacity and human requirements in underdeveloped countries. This is the major long-term problem facing our generation, the greatest economic challenge to nations, both individually and collectively.*[49]

A new language of "economic development" started to displace the concerns about "full employment" which had underpinned the original formulation of the IMF, the World Bank, and GATT. This opened debate about whether and how these institutions could be adapted to respond to wider demands for reform.

Reading Questions:

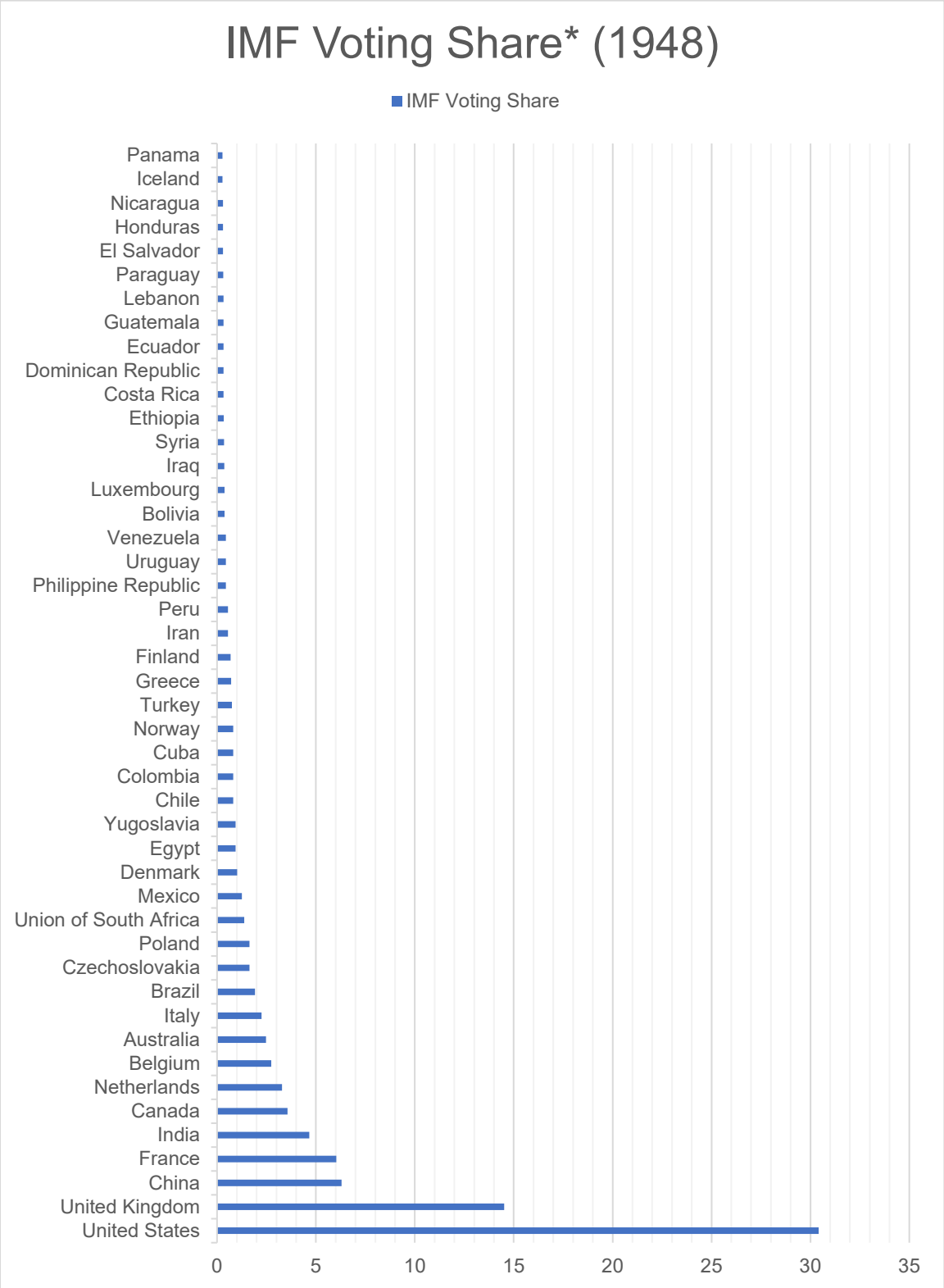
1. How did the international role of the United States change from the post-war settlement in 1919 to the post-war settlement in 1945?
2. What were the main points of debate in post-war negotiations over monetary and financial policy?
3. What were the main points of debate in post-war negotiations over trade policy?
4. How did the principles of "full employment" and "economic development" shape post-war economic policy?

Annex 1: Timeline of Post-war Negotiation

Bretton Woods	**United Nations Monetary and Financial Conference**
	July 1-22, 1944
	44 national delegations
	Outcomes: International Monetary Fund (IMF) International Bank for Reconstruction and Development (World Bank)
Geneva	**GATT Negotiations, Round 1**
	April 10-October 30, 1947
	23 national delegations
	Outcomes: General Agreement on Tariffs and Trade (GATT), 45,000 tariff reductions (negotiated bilaterally)
Havana	**United Nations Conference on Trade and Development**
	November 21, 1947-March 24, 1948
	53 national delegations
	Outcomes: the Havana Charter for an International Trade Organization (ITO) *never ratified*

Annex 2: Weighted voting in the IMF

*Note that vote share reflected contributions to the IMF's Special Reserve Fund.



Data Source: International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1948 (Washington, DC: International Monetary Fund, 1948), 100-103.

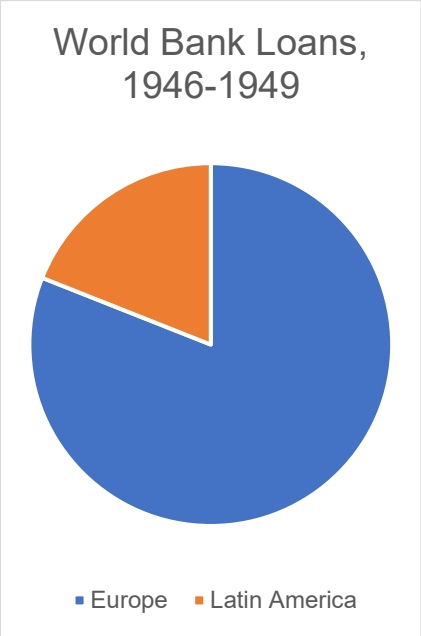
Annex 3: Expectations for Post-war US Leadership in International Trade

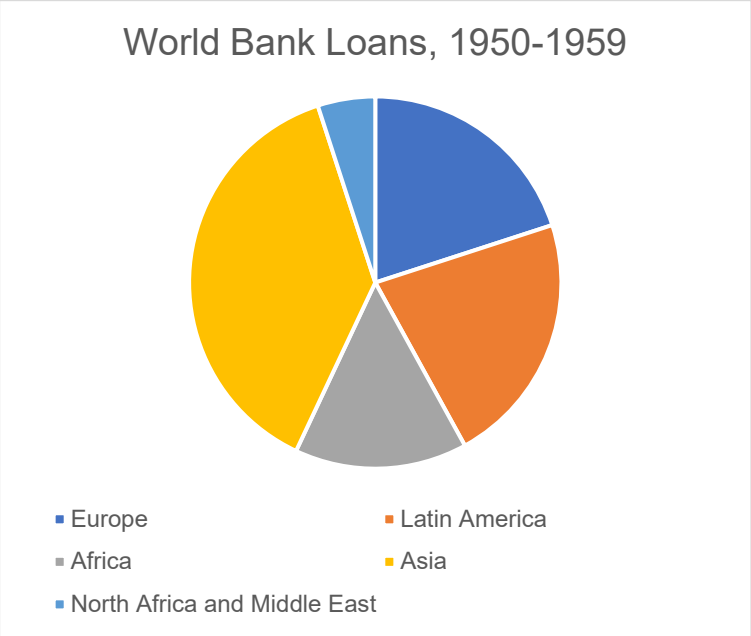
1947 Negotiations, General Agreement on Tariffs and Trade

Member country	Total requests for trade concessions	Percentage of total requests that were directed at the United States
Australia	105	46 %
Benelux	567	37 %
Brazil	290	53 %
British Colonies	28	100 %
Canada	1030	67 %
Ceylon	49	24 %
Chile	30	100 %
Czechoslovakia	430	51 %
France	1506	79 %
India	85	42 %
Lebanon/Syria	25	72 %
New Zealand	384	12 %
Norway	108	28 %
South Africa	90	32 %
United Kingdom	759	58 %

Data source: Judith Goldstein and Robert Gulotty, "Trading Away Tariffs: The Operations of the GATT System," World Trade Review 21, no. 2 (May 2022): 144, https://doi.org/10.1017/S1474745621000458.

Annex 4: Early World Bank Lending





Data source: Daunton, *The Economic Government of the World,* 315.

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