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The Trials of Multilateralism: America, Britain, and the New Economic Order, 1941–1947

Randall B. Woods

The great conflict that began in 1939 and ended in 1945 destroyed the European balance of power in both a strategic and economic sense. Cataclysmic in its destructive power, World War II left the international community, and especially its European members, battered, gasping for breath, and searching desperately for a new order that would usher in an era of physical, economic, and social security. As policymakers in Washington and London grappled with the task of recasting the international economic system, however, they found that they were constrained by domestic politics as well as by competing national visions over what kind of system would best serve the recovering nations of Europe. The United States sought to maintain the economic advantage that the war had given it; the British were reluctant to relinquish their position as the world's greatest economic and financial power. Through a process of tough negotiation, compromise, and some coercion, these two states hammered out an international economic order that, despite its many faults, served to underpin the most rapid global economic expansion in history,

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and contributed to the ultimate success of Western capitalism in the Cold War conflict with communism. The story presented here reveals that even in times of grave international crisis and disruption, national economic rivalries among allies are to be expected; yet they can be overcome through judicious leadership and compromise.

Britain's vision for the postwar economic order rested on the foundations of "new liberalism." The concept, consisting of a pragmatic blend of state socialism, private enterprise, planning, and countercyclical deficit spending, transcended party lines in Britain, with its conservative adherents calling themselves reform Tories and its Labor advocates, liberal socialists. The approach seemed tailor-made for the war-damaged postindustrial societies of Western Europe because it promised social security without undermining democracy or diminishing individual liberty. But alas for Britain, which hoped to ride the crest of the new liberalism to a position of leadership in the European community, only America could provide the resources necessary to make this healing nostrum available to the continent.

As Paul Kennedy demonstrates in *The Rise and Fall of the Great Powers,* the United States emerged from World War II as the only true superpower. While the conflict ravaged much of Europe and Asia, America grew stronger. Its productive capacity actually increased by 50 percent during the war, its GNP rising from $88.6 billion to $135 billion.[1] Such economic power, especially when placed alongside the rest of the world's war-damaged and underdeveloped economies, made America's relative might analogous to that of Britain in 1815. According to Kennedy, and more recently Melvyn Leffler, the economic and strategic expansion of the United States following World War II was inevitable simply because of its preponderance of power.[2] The key question was how America would define its leadership role. In the United States during World War II, a battle still raged between the new liberalism and the old. With the coming of World War II the New Deal had gone into remission in America. Even those who advocated merely countercyclical deficit spending of a temporary

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nature to smooth out the bumps in the business cycle, were driven underground by the champions of laissez-faire and free enterprise. Not until 1947, when Europe appeared on the verge of economic disintegration and the forces of international communism seemed ready to spread westward and engulf the entire continent, did America decide to abandon its commitment to free trade and help foster European recovery. Moreover, the United States did so not by funding a global multilateral trading system but by encouraging the Europeans to form themselves into an integrated system that could effectively compete not only with the Soviet bloc but with the colossus of the New World as well.

Intimidated by the rising conservative tide in the Congress and among the American people, Franklin Roosevelt, Harry Truman, and their advisers searched for foreign policy strategies that would placate conservatives and at the same time ensure social justice, economic security, and physical safety both at home and abroad. The answer to their dreams appeared out of the past: multilateralism, that British-bred and British-led system of payments and trade that had prevailed in the Western world during the last quarter of the nineteenth century. Those members of the Roosevelt-Truman foreign policy establishment responsible for economic matters embraced multilateralism as a technique that would raise living standards at home and abroad without accelerating collectivist trends, while those concerned with armies and boundaries viewed multilateralism as the economic phase of balance-of-power realpolitik. But so strong was the conservative impulse in the United States that nationalists, bureaucratic imperialists, and special interests modified multilateralism into a machine to enrich America. As such it proved counterproductive to Anglo-American efforts to restrain Soviet imperialism and prevent the spread of communism into Western and Central Europe.

No matter how compelling the drama of World War II, Anglo-American leaders from 1941 to 1946 could not escape elections, nor could they avoid the socioeconomic issues that usually dominate domestic politics. Ever sensitive to the mood of the American people, which grew increasingly conservative during the

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course of the war, the administration of Franklin D. Roosevelt searched for a mechanism that would prevent unemployment in the United States and abroad after the war, rehabilitate strife-torn Europe, and simultaneously deflect charges from Republicans and southern Democrats that it was taking America and the world further down the road toward state socialism. The formula that the president and his advisers turned to as a panacea for the nation and the world's socioeconomic ills was multilateralism, a concept that called for a mutual, simultaneous reduction of trade barriers and elimination of currency controls by the United States and its trading partners. Goods and currencies, their value pegged to each other at a fixed rate, would flow freely across international boundaries, creating an interdependent world economy with each region specializing in the production of the goods and services it produced best. Multilateralism, Washington believed, would prevent unemployment in postwar America, rehabilitate war-torn areas in Europe and Asia, and raise living standards in the developing world.[3] In Roosevelt's view the concept was non-ideological and as such would allow him to avoid a divisive debate over how to distribute scarce resources. To his mind and those of other multilateralists there was no conflict between international cooperation and domestic growth.

Because Great Britain was the second largest non-communist trading nation in the world, and operated a relatively closed imperial trading bloc, it was the key to realization of the Roosevelt administration's multilateral dreams. At the Ottawa Conference in 1932 the United Kingdom and other members of the Commonwealth and empire had formed a trading conglomerate within which member nations awarded one another's exports preferential treatment. The drain on Britain's financial and material resources caused by World War II compelled the Exchequer and the Board of Trade to strengthen this bloc and generally to accelerate the trend toward governmental control of international finance and foreign commerce. The war cabinet authorized long-term bulk purchasing agreements with exporters of primary products, strictly limited imports from nations outside the sterling

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bloc, and refused to make sterling freely convertible into gold and dollars, thus limiting the ability of its merchants and those of the empire to buy from third parties, such as the United States. American policymakers perceived that if Britain used the leverage of blocked sterling balances to maintain and strengthen its trading and monetary union into the postwar period, multilateralism would never come to pass.[4]

As the war progressed, it seemed that the United Kingdom would do just that. During the two years from 1939 through 1941, when it stood virtually alone against the forces of international fascism, Great Britain exhausted its gold and dollar resources as it acquired the material and munitions with which to fight. Passage of the Lend-Lease Act in 1941 eased the strain on British finances, but the Exchequer was never able to recover. By July 1945 British gold and dollar resources had dwindled to $1.8 billion, while its external liabilities mounted to $13 billion. (At this point the United States had accumulated more than $21 billion in gold bullion at Fort Knox.) If the United Kingdom lowered its trade barriers without rebuilding and modernizing its industries and if it made sterling freely convertible, as multilateralism required, it would be drained of gold and dollars in the blink of an eye. Such an eventuality would mean not only the collapse of the internal economy but a British strategic withdrawal from Europe and the Middle East.[5]

With good reason, then, did Prime Minister Winston Churchill contemplate the future with a deep sense of foreboding as 1944 opened. Britain was in trouble, the Conservative Party was in trouble, and he was in trouble. World War II was destroying the traditional European balance of power, accelerating the United Kingdom's decline, and aggrandizing Britain's allies-cum-rivals, Russia and the United States. The United Kingdom faced the threat of financial and commercial domination by America and strategic eclipse by Russia, whose troops were then poised to occupy Eastern Europe. At home, the destruction inflicted by Nazi bombing, the collectivization spawned by the war effort, and memories of the depression had created an irresistible de-

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mand among Britons for measures designed to guarantee their economic and social security. The popular clamor for food, homes, and work alarmed the prime minister quite as much as Britain's declining international status because it pointed to a Labour Party triumph in the first general election after the war. The Conservatives, crippled by their historic inability to solve the unemployment problem, were in no better position to meet the political challenge from the left than the nation was to deal with the two rising superpowers.

One thing was clear to Churchill and his advisers, however: a simple continuation of imperial preference and protectionism was not going to solve the massive economic problems facing the country after the Axis powers had been defeated. Apprehensive though Churchill was at the specter of U.S. domination, he came to see Britain's salvation as well as his own and that of the Conservative Party in the establishment of a multilateral trading system buttressed by a massive program of American aid. A continuation of lend-lease or an interest-free credit during Phase II, the period between V-E Day and Japan's surrender, would allow Britain to reconvert part of its economy to civilian production and then to compete with the United States for foreign markets as the war wound to a close. In addition, such an arrangement would, he believed, enable Britain to retain its empire in the eastern Mediterranean and the Middle East, and make it possible for the Conservatives to provide the British electorate with an increased standard of living.[6]

The person charged with creating an international economic order in which Britain could safely do business was John Maynard Keynes. From 1941 until his death in 1946, Keynes served as chief adviser to the British Treasury on matters of wartime and postwar economic policy. Although 1941 saw him committed to protection and national policies to secure full employment, events late that year and early the next led Keynes to abandon his previous position and embrace multilateralism. Like Churchill and the Conservatives, he understood the overriding need for American aid to rehabilitate the British economy and to se-

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cure the nation's strategic interests on the continent and the eastern Mediterranean.[7] He also understood the dangers multilateralism posed to British markets and financial reserves. Keynes believed he could design institutions, indeed, fashion a new international economic order, that would simultaneously satisfy America's multilateral cravings and protect British interests. "For your private information," he wrote an American acquaintance in 1941, "I . . . am working [on] . . . a Utopian Plan which would solve all our problems on international lines. I call it Utopian because it is the sort of thing that never seems to happen. But it is entirely practical and requires nothing more for its success than a mental attitude on the part of the powers that be."[8] Keynes perceived correctly that in a multilateral world the United States would dominate every market, driving its competitors—especially Great Britain—into bankruptcy and draining its trading partners—again, especially Great Britain—of dollars and gold. What Keynes proposed was the creation of institutions that would provide debtor nations with the capital they needed to rehabilitate their economies and compete with the United States, and the gold and dollar resources they required to survive free convertibility.[9]

During 1943 and 1944 the British economist designed the International Clearing Union, an organization whose members would contribute to a huge central fund that would be used to finance international trade. Nations whose currencies were bought would have their accounts debited, and those that sold their currencies would be credited. Countries like the United States that ran huge trade surpluses with other members and thus accumulated massive reserves of dollars and gold would forfeit those reserves once they reached a certain level. The surplus funds would then be made available to debtor nations to support their currencies and to make their industries and agricultural systems competitive.[10]

The United States would have none of Keynes's Clearing Union plan. During World War II a battle raged within the Roosevelt administration over foreign economic policy. True multilateral-

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ists like Harry Hopkins and commercial experts in the Department of State wanted to provide Britain and the other creditor nations with the liquidity—gold, dollars, or credit—necessary for them to compete. Economic nationalists like Senator Robert Taft of Ohio and Treasury Secretary Henry Morgenthau, Jr., opposed a generous aid program either because they were genuine isolationists or because they looked forward to a world economy that would allow the United States a competitive advantage.[11]

Hopkins, special adviser to the president, was well aware of the political and economic possibilities of an active foreign loan policy. William L. Batt, a senior official on the War Production Board, Lauchlin Currie, deputy administrator of the Foreign Economic Administration, and Charles Taft of the State Department all assumed that "the condition of the economy of the United Kingdom is a matter of direct concern to the United States, and that our overall policy will take the U.K. welfare into consideration, in our own best interest," as Batt wrote Hopkins.[12] In the spring and summer of 1944 this informal network of advisers scattered throughout the bureaucracy began to articulate a variety of justifications for massive aid to Great Britain during Phase II and into the transitional period after Japan's surrender. Unlike most Americans, they understood that Britain was not economically self-sufficient. Foreign trade was its lifeblood. In order to pay for the $4 billion worth of goods it imported each year, Britain would have to export; in order to do that, it would need help rebuilding and redirecting its industrial plant. Without a healthy economy, Britain would find it impossible to carry out its occupation duties in postwar Europe. In addition, the Hopkins group argued, failure to aid the United Kingdom in a substantial way would prolong and even stimulate British imperialism, both economic and political. And, of course, they saw an economically healthy Britain as the key to a properly functioning multilateral world.[13] These economic internationalists were swimming against the tide, however.

In the aftermath of Pearl Harbor, isolationism—defined both as non-intervention in European affairs and as preservation of con-

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gressional prerogatives in foreign policy making—was forced into temporary eclipse. But the isolationists had no intention of allowing the Roosevelt administration full rein in foreign policy. They equated internationalism with surrender of American national sovereignty, executive control of foreign policy, and distribution of the nation's wealth among the less fortunate nations of the world. Republican congressional leaders like Arthur Vandenberg, Robert Taft, and Gerald Nye had opposed lend-lease in 1941 because they believed it would lead directly to United States involvement in war. They could hardly take that position after Pearl Harbor, but when the aid program came up for renewal in 1943, Republicans called for a comprehensive investigation. Senator Hugh A. Butler of Nebraska compared lend-lease to "the dole" and denounced it as a global Works Progress Administration.[14] In the fall of 1943 five members of the Senate Military Affairs Committee journeyed to Europe to investigate the American aid program. They reported subsequently to Congress that charges of widespread waste and mismanagement in the delivery of aid to the Allies, particularly the British, were true. The Senators accused Britain of using lend-lease supplies to win friends and influence people at the expense of the United States in the oil-rich Middle East and other strategically crucial areas.[15] During the 1944 presidential campaign, former GOP standard-bearer Alf Landon accused Roosevelt and his minions of indulging themselves in "mystical dreams" of raising the living standards of all the "heterogeneous" peoples of the world, at the expense of the American taxpayer.[16]

The parsimony so apparent among the nation's politicians was an accurate reflection of popular attitudes. A secret report prepared by Samuel Rosenman and his staff in late 1943 advised FDR that recent surveys showed that the American people were almost twice as interested in domestic as in international affairs. Two-thirds of those polled believed that the United States should not furnish aid to foreign countries if it would lower the standard of living in postwar America, and about half of those questioned believed that it would.[17]

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In tacit alliance with the nationalist-isolationists in Congress were Henry Morgenthau, Jr., and his subordinates in the United States Treasury. The Treasury was determined to preserve America's monopoly of the world's supply of gold and dollars made possible by the war and to take advantage of the nation's superiority in money and material to establish an international financial system dominated by the United States. That Morgenthau wanted to transfer control of the national and international economy from private to public hands, from New York to Washington, made him no less a nationalist. (What made the alliance all the closer was that Morgenthau and midwestern Republicans were determined to end Wall Street's control of both the domestic and international financial structure.) As Keynes was designing his apparatus for international currency stabilization in the spring of 1942, the United States Treasury advanced its own plans for a stabilization fund and international bank for reconstruction and development. The principal difference between the Keynes plan and the American structures designed by Harry Dexter White was that the former aimed at securing British financial independence while the latter were intended to ensure United States domination of international finance.[18] That the Treasury's primary motive was the transfer of world financial leadership from London to Washington became clear as Morgenthau and White labored throughout 1943 and 1944 to hold British gold and dollar balances to a bare minimum.

By the time the Allied nations met at Bretton Woods, New Hampshire, in the summer of 1944 to design an economic order for the postwar world, economic nationalists from the Treasury Department were in control of the American delegation.[19] As a result, the institutions coming out of the Bretton Woods Conference—the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)—were constituted so as to entrench and protect American domination of the new economic order. The IMF was a clearing union that established a central fund from which members could borrow to finance trade, but only on current account. Moreover, all debts

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had to be repaid. There was to be no international income redistribution, no global "Share Our Wealth" program, as Morgenthau put it.[20] The IBRD, funded at a paltry $9.1 billion (the Allies and the Axis were then spending $8 billion dollars a month destroying the world), would do no more than guarantee loans made by creditor nations like the United States to debtor nations like Britain and Peru. Finally, countries that maintained artificial controls on their currencies or that retained quotas, tariffs, and preferences would be disqualified from participating.[21]

Washington's commitment to commercial multilateralism was no less a fiction than its commitment to authentic financial multilateralism. In the midst of its campaign to persuade its allies to agree to a simultaneous, across-the-board reduction in trade barriers monitored by an international trade organization, the White House submitted to Congress a strengthened version of the Reciprocal Trade Agreements Act (RTAA). This legislation, the alleged centerpiece of the administration's trade liberalization program, passed both houses in the summer of 1945 by record margins, with the vote cutting across partisan, geographic, and ideological lines. Robert Taft voted for it. So did a number of other conservative Republicans even though the State Department represented it as part of a broad program of action on the international economic front.[22] That vote was made possible not by the conversion of economic nationalists and the guardians of special interests to the principle of free trade, but by their realization that RTAA as amended was a servant rather than an enemy of U.S. economic interests, narrowly defined. In the first place, the measure guaranteed national as opposed to international control of the tariff-making process. The RTAA provided for selective, item-by-item reductions, not across-the-board percentage cuts dictated by a multilateral convention or authority.[23] Moreover, the legislation contained a mechanism for the protection of domestic interests in every case—public hearings coupled with the "peril point" provision.[24] According to this mechanism, the Tariff Commission would recommend higher rates to the president if low-

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ered schedules negotiated under RTAA in any case endangered the well-being of an American industry.

Keynes was troubled by the course of Anglo-American commercial and financial negotiations during 1944 and 1945. He understood the dangers inherent in the Bretton Woods structures: that they would strip war-weakened and developing nations like his of the protective devices necessary to preserve their markets and their currencies. Liquidity was the key to making any multilateral system work, and the Bretton Woods agreements did not provide that liquidity. Instead of protesting the IMF and IBRD, however, he acquiesced in their creation, even claimed them as his own and passionately recommended them to his government. He continued to believe that he could make the Americans see the light and that at the very least the United States would provide Great Britain, sure to be its principal ally in the dangerous postwar world, with the capital necessary to get back to its feet and compete.[25] He was wrong.

Less than a year after the close of the Bretton Woods Conference, the war in Europe was over. In July 1945 Britons elected a new government. Though they valued Churchill's services as wartime leader, British voters believed that his and the Conservative Party's laissez-faire, free enterprise philosophy rendered them unfit to preside over peacetime affairs.[26] They chose instead to give the Labour Party under Clement Attlee a clear majority. Not surprisingly, Labourites, particularly the left wing headed by doctrinaire socialists Aneurin Bevan and Emmanuel Shinwell, were deeply suspicious of multilateralism, seeing in it a plot by American capitalists not only to ensure U.S. dominance of the international economic system but to defeat socialism in Britain as well.[27] The moderate leaders of the party, Attlee and Foreign Secretary Ernest Bevin, were not particularly enamored of the concept either, but they were desperate that the United States not retreat into isolationism, once again leaving Britain alone to deal with economic chaos and potential military aggression on the continent.[28] Moreover, they, like Churchill, recognized that if the

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public's demand for food, work, and homes was to be met, Britain would have to secure a large postwar loan from the United States. Keynes, who remained in place as chief adviser to the Treasury, agreed and, in addition, saw a generous American loan as a means to make multilateralism palatable and save the IMF and IBRD.[29]

Throughout the fall and winter of 1945 a team of British financial and commercial experts under Keynes met in Washington with officials of the new Truman administration to work out details of a postwar credit. What Keynes and his colleagues wanted was a multibillion-dollar interest-free loan that could be used to jump-start the British economy. They promised to remove trade barriers and dismantle exchange controls but not for at least five years, and then only if Britain showed a favorable balance of trade. What they in fact received in the financial agreement of 1946 was a $3.75 billion loan at an interest rate of 1.62 percent. In return for the credit, the Attlee government agreed to recommend to Parliament passage of the Bretton Woods agreements and to accept the full obligations of the system within a year. Congress eventually approved the pact on July 15, 1946, and Britain was thus forced to accept full convertibility of sterling on current account in midsummer 1947.[30] Within six months of convertibility coming into force, British gold and dollar reserves were exhausted; with bankruptcy staring it in the face, the Attlee government made plans for a severe austerity program at home and a strategic withdrawal abroad.

It was not, then, that multilateralism did not work during the crucial period from 1944 to 1947. It was never really tried. The forces of xenophobia, isolationism, and nationalism that dominated American politics during and immediately after World War II succeeded in converting multilateralism into a blunt imperial instrument. The goal of relatively free trade, in which creditor nations provide liquid capital to debtor nations in order to maintain continual equilibrium in trade and payments, was in theory a worthy one. The architects of multilateralism in Washington and London erred not in designing their system but in continuing

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to press for its acceptance after it had been subverted by special interests, Congress, and the United States Treasury. In their determination to have half a loaf, Anglo-American multilateralists saddled Britain with a scheme that brought it to the verge of bankruptcy and that hampered Europe in its effort to fend off the forces of international communism. Fortunately for Great Britain and Western Europe, however, World War II, unlike World War I, was not followed by a twenty-year period of American isolationism.[31]

In the wake of the financial agreement of 1946 British officials found themselves stretched on a Procrustean bed. The nation had only three means available to pay for its imported food and raw materials: money earned from services such as shipping and insurance, from foreign investments, and from manufactured exports. But the war had crippled the nation's merchant marine and forced the liquidation of over half of its foreign investments. At war's end many of Britain's industries, particularly those engaged in production for export, were outmoded and capital poor. By December 1946, despite the American loan and a severe austerity program that included the rationing of bread, Britain had reached only its prewar level of production. At this point, nature chose to demonstrate its indifference to human suffering. The winter of 1946–47 turned out to be one of the harshest in modern history. Temperatures dropped below zero, and snow fell in record amounts, paralyzing the transportation system. By February 1947 more than half the nation's factories lay idle as the mining of coal came to a virtual standstill. World War II and the elements were even less kind to the rest of Europe. The vagaries of the weather hit continental Europe with equal severity, just at a time when a yawning dollar gap was opening up: Europe, eager to import U.S. goods, as yet had no means to pay for them. The result was a deep economic crisis that threatened to deliver the coup de grâce to the still fragile social fabric of postwar Europe.

Despite neo-isolationism and congressional parsimony, widespread sympathy for Europe's plight developed in the United States in 1946–47. Accounts appeared in the *New York Times*

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and other nationally syndicated papers of ragged, starving children, teenaged prostitutes, and disintegrating families; such tales aroused the nation's humanitarian instincts. A number of Americans were aware, moreover, that Europe had been their nation's primary trading partner prior to the war and that an economically enfeebled Europe would retard America's growth. Finally, there were those in the United States, particularly congressmen and government officials, who believed America would have to come to Europe's rescue in order to fend off the twin threats of Soviet imperialism and communist subversion. The only reason that members of the conservative coalition voted for the financial agreement of 1946, ungenerous and short-sighted as it was, was that the State Department justified it as necessary to strengthen Britain for the forthcoming struggle against the Soviet Union and the forces of international communism. Quite simply, in 1946 American conservatives, who had concluded that communism posed a greater collectivist menace to free enterprise than socialism, joined with liberals, who had decided that the Soviet Union rather than Great Britain represented the forces of imperialism and autocracy, to support a program of foreign aid to save the social democracies of Western Europe.[32]

By the spring of 1947 Congress and the American people had come grudgingly to support those American policymakers who were arguing that modified multilateralism was not sufficient to achieve the reconstruction of Europe. Instead of continuing to press London and the other European capitals to participate in an international economic free-for-all with the United States, officials of the Truman administration set about helping the continent to develop an integrated economy modeled on the internal American market. The system would eliminate internal trade barriers and monetary controls and lead to the creation of a European economy that could stand up ideologically and physically to the threat posed by international communism and, not coincidentally, better compete with the United States.[33]

With the economic situation in Western Europe deteriorating daily and the popularity of the Italian and French Communist

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parties growing apace, Secretary of State George Marshall directed his staff to work out a program of aid. The fruits of their labor, subsequently known as the Marshall Plan, were made public in a commencement address the secretary delivered at Harvard University on June 5, 1947. In his speech Marshall reviewed the devastation, pestilence, and insecurity that plagued Europe. He called upon Britain and the nations of the continent to frame an integrated plan for Europe's recovery. When it had devised a scheme for economic rehabilitation, Europe could count on the United States to supply "friendly aid." There were stipulations: the United States would not fund a collection of national shopping lists from Europe—there would have to be an integrated plan—and the scheme must provide for the economic reconstruction of Germany.

On July 12, 1947, representatives of sixteen nations met in Paris to discuss European reconstruction.[34] At the urging of the British and the Italians, France shelved its objections to a rehabilitated Germany, accepting the argument that an economically stable Germany, contained by a non-communist European community, was safer than an impoverished and alienated state outside that community. The Paris conference prepared and submitted its plan for European reconstruction in the last week in September. It envisioned the continuation of a Committee on European Economic Cooperation (CEEC) to negotiate priorities, quotas, and aid levels with the U.S. implementing agency, and it promised to work toward all of the goals Marshall had outlined. The following spring, after a concerted propaganda campaign by the Truman administration on behalf of peacetime aid to Europe, Congress passed the Economic Cooperation Act of 1948. The bill authorized an appropriation of $5.3 billion for the first twelve-month period of the program. These funds were to be disbursed and administered by a new agency, the Economic Cooperation Administration (ECA).

The ultimate goal of the European Recovery Program (ERP) was the establishment in Western Europe of healthy national economies that would be independent of outside assistance. In its re-

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port the CEEC had committed itself to four major undertakings in pursuit of that goal. The participating nations were to make every effort to increase industrial and agricultural production; to establish and maintain internal financial stability; to expand foreign trade; and to fashion mechanisms of economic cooperation.[35]

Ironically, the European beneficiaries of Marshall Plan aid were skeptical of any scheme impinging on their national sovereignties. They were particularly resistant, therefore, to the last two objectives of the ERP, the creation of a customs union and a currency clearing scheme. Leading the way in opposing U.S.-led efforts to force integration through these mechanisms was the Labour government of Clement Attlee. During the latter half of 1947, a global shortage of dollars, the fuel and grain shortages that followed the winter crisis of 1946–47, and the rising costs of imports from the United States combined to slow the British recovery almost to a halt. Coming as they did on top of the Exchequer's July decision to honor the terms of the Anglo-American Financial Agreement, these developments created a catastrophic drain on the nation's dollar and gold reserves. Indeed, by August those reserves were dwindling at a rate of $176 million a week.[36] Participation in a customs union and a currency clearing agreement, Treasury and Board of Trade officials argued, would only make matters worse. Britain continued to conduct twice as much business with the Commonwealth as it did with Western Europe. By turning westward, the United Kingdom would sacrifice trade with the Commonwealth without offsetting gains on the continent, where British goods faced stiff competition from those produced by French, Italian, and, potentially, German industries. Incorporating the Commonwealth into a European union would not work because it would lead to the scrapping of empire preference and a trading system built on sterling rather than dollars.

American planners met the objections of the British and others jealous of their national sovereignties by agreeing to emphasize increased production and inflation control in the short run and to confine such matters as a customs union and monetary clearing

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agreement to the planning stage.[37] Washington would insist on a supranational planning authority, but it would be temporary, with the power only to allocate resources, set production targets, and theorize about further integration. American officials such as the newly appointed undersecretary of state Robert Lovett believed that getting bogged down in rigid schemes for currency stabilization and a customs union would only exacerbate tensions with the European governments and delay the economic recovery, which was the ultimate guard against communism.

The CEEC (renamed the Organization for European Economic Cooperation in 1948), sometimes cajoled and sometimes coerced by the ECA, made great strides forward in both industrial and agricultural productivity. The millions of dollars in machine tools, tractors, seed, and fertilizer distributed by the ECA had a pump-priming effect on Europe's economy. As a result, by 1951 Europe had actually surpassed the target of a 30 percent increase in aggregate industrial production. Gains in agricultural production were not as spectacular but still stood at 11 percent above the 1938 figure by 1951–52. During this period the ECA attempted to utilize its control over counterpart funds—local currencies put up by national governments to match U.S. aid—to force participating governments to balance their internal budgets and restrain the growth of wages. Altogether, the ECA approved the release of $7.56 billion in local counterpart funds, nearly all of which was used to finance deficits on current account or to pay off old debts. Inflation persisted, but given the ERP's emphasis on increased productivity and investment, ongoing price rises were perhaps inevitable. Resurrection of commerce within the European community was the third major objective of the Marshall Plan. In September 1950 European participants concluded the Agreement for the Establishment of the European Payments Union. During the eight and one-half years of its existence the union financed $46.6 billion worth of intra-European trade.

The European Payments Union was also part of the fourth objective of the Marshall Plan—the institutionalization of economic cooperation among members of the OEEC, leading, if possible, to

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the political unification of Europe. The Truman administration and Congress strongly favored such steps because they assumed that economic integration would lead to self-reliance, and that both economic and political unification would pave the way for the strongest possible defense against the forces of international communism. The OEEC itself did not prove an adequate forum to pursue economic integration, however. From its inception, the OEEC was hamstrung by a dispute among its members as to its proper function. Led by France, a group of Europeanists called for a truly autonomous body, in which members relinquished part of their national sovereignty, that would operate centralized institutions. Great Britain and several other states objected vigorously. The Attlee government conceived of the OEEC as an instrument for intergovernmental consultations and negotiations rather than as a supranational agency with the authority to tell member states what to do. In the end, Britain and its allies triumphed. In truth, during the life of the Marshall Plan the OEEC served merely as a coordinating agency for individual national aid requests submitted to ECA by the participating states.

What emerged from the European-American dialogue that began in 1947 was an economic order that focused first on the rehabilitation of the national economies of Europe with limited moves toward European integration. The IBRD and the IMF were left to deal primarily with the developing world. As Alan Milward and others have pointed out, the $13.3 billion (the final figure is still in dispute) distributed under the Marshall Plan was necessary because multilateralism as modified by the Bretton Woods and Anglo-American financial agreements did not work.[38] He does not dispute the argument made by historians Michael Hogan and Charles Maier that American policymakers opted for the "politics of productivity" over outdated and potentially divisive free trade, laissez-faire mechanisms, but argues that Marshall Plan aid was only marginally important. The nations of Europe were already on their way to recovery when the United States intervened. What he implies, correctly, is that Washington had at long last embraced the new liberalism—a pragmatic blend

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of state socialism, free enterprise, planning, and countercyclical deficit spending—an approach that Britain and the other states of Europe had been espousing for years. Although he underestimates the importance of the ERP in priming the European pump, Milward points to an important fact: the success of the Marshall Plan was due to its origins in a nation with a mixed economy and political institutions rooted in democracy and individual liberty, which was willing to extend aid to nations with roughly similar institutions and economies. Whether authentic multilateralism—that is, a global system characterized by minimal trade barriers and currency stabilization agreements, in which creditor nations supplied the liquidity to make the entire system run—could have served in lieu of the new liberalism remains a moot point. Given the history of political internationalism, however, it most probably could not.

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