HEGEMONY AND INTERNATIONAL ECONOMIC STABILITY:

EVIDENCE FROM THE INTERWAR PERIOD

A Thesis Presented to the Research School
of Pacific Studies of the Australian National University
for the Degree of Master of Arts in International Relations

by

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CHAPTER ONE

INTRODUCTION
IN RECENT years, hegemonic stability theory, which argues that international economic openness and stability are dependent on the existence of a single dominant state capable of managing the international economy, has become increasingly prominent. This theory took off with the publication of Charles Kindleberger's *The World in Depression* (1), a study of the economic history of the interwar period, which concluded that the intensity and duration of the Great Depression was a result of a lack of international economic leadership. As he put it, "For the world economy to be stabilized, there [had] to be a stabilizer - one stabilizer" (2). Unfortunately, the old stabilizer - Britain - could no longer lead and the United States, the only country that could, would not (3). Hence the resulting international economic disorder of that period.

This conclusion has been elaborated upon and applied to other periods by several political scientists and economists (4). It is now something of the conventional wisdom that a single stabilizer or hegemon is necessary for the international economy to be stable and open. The theory has both explanatory and prescriptive elements. It claims to explain the causes of instability and based on this explanation it provides solutions - namely that a hegemon should perform certain functions for the international economy. These, according to Kindleberger, include:

1. maintaining a relatively open market for distress goods;
2. providing countercyclical, or at least stable long-term lending;
3. policing a relatively stable system of exchange rates;
4. ensuring the coordination of macroeconomic policies;
5. acting as a lender of last resort. (5)

A state which is capable of providing these functions and has the will to do so is described as a hegemon.

This generalized hegemonic stability theory claims to be deductive, its propositions being derived from a study of the economic history of the past century. The period is usually divided into four segments (not including the two World Wars): (6)

1860-1913: Stable, open international economy under British hegemony.

1919-1939: Unstable and closed international economy; no state willing to play the hegemonic role.


1971-: Growing instability and closure of the international economy as the United States becomes less able and less willing to provide hegemonic leadership.

There are several ways in which one could evaluate the validity of hegemonic stability theory. One could, for instance, adopt a historical approach and examine the four periods in detail to answer the following questions:

1. Did Britain in fact play the hegemonic role ascribed to it between 1860 and 1913 and, if it did, was it this that explains the stability of that period?

2. How much did the absence of a hegemon contribute to the
3. How has the changing economic status of the United States affected the functioning of the international economy in the postwar period?

This historical approach has the obvious advantage of being comprehensive and it would certainly provide a thorough assessment of hegemonic stability theory. However, it requires a detailed knowledge of a vast and complex sweep of economic history and is beyond the scope of a short thesis - not to mention my own abilities. I shall therefore adopt a different and more limited approach.

One of the important claims that arises from hegemonic stability theory is that the decline of a hegemon and the resulting lack of leadership are the principal causes of the emergence and persistence of international economic disorder. This is supposed to hold true for the 1920s and 1930s and also for the post 1971 period. If it turns out that international economic disorder can be better accounted for by factors other than the absence of a hegemon it will mean that the theory is either incorrect, or only partially valid, requiring substantial qualification and revision.

In this thesis I shall attempt to examine the causes of international economic instability in the interwar period with a view to determining first, whether or not hegemonic solutions to the economic crisis were at all possible and second, whether or not hegemonic stability theory adequately explains the period’s economic instability.
On the question of the possibility of hegemonic solutions, my argument is that after the First World War, of all the Great Powers, only the United States had the potential to provide the international economy with hegemonic leadership. To some extent it did do this, mainly in the financial sphere, by providing the capital which helped to facilitate international trade and restore financial stability.

This hegemonic leadership, however, had several limitations. The most significant of these was that, given of the self-contained nature of its economy, the United States was structurally incapable of providing a market for distress goods. This meant that even if the United States had fully attempted to act in accordance with the policy prescriptions of the theory its actions could not have had a significant impact on the existing structure of world trade and the payments. A second limitation was that after 1933 the United States government proved politically and economically incapable of sustaining even its limited hegemonic policies in the face of deteriorating domestic and international economic conditions and strong domestic demands for nationalistic policies. Thus, the only possible hegemon of the interwar period was itself incapable of fully providing the international economy with hegemonic leadership and consequently fully fledged hegemonic solutions to the crisis were not possible.

The question of whether or not hegemony or the lack of it explains economic conditions of the interwar period is more complex. The fact that the international economy collapsed despite the exercise of limited hegemony could suggest one of two things: first, that hegemony might not have been as important a determinant of economic
conditions as hegemonic stability theory claims, or second, that limited hegemony gives only limited order. My argument is that the first of these suggestions is true; the second possibly so, but only coincidentally: no causal connection between hegemony and disorder can be drawn. This is borne out by my analysis of the timing of changes in United States economic policies and the collapse of the international economy which shows that the two major turning points in United States foreign economic policy - 1933 and 1935 - lagged behind changes in the international economy (7). The reversal of the limited hegemonic policies, pursued since the close of the First World War, occurred only as late as 1933, three years after the international economy had collapsed in 1930, and the gradual return to more liberal, hegemonic policies came only after signs of international economic recovery, beginning in 1935. This relationship between the state of the international economy and United States foreign economic policies can be represented as follows, where the arrows represent the direction of causality for the main turning points:

<table>
<thead>
<tr>
<th>International Economy</th>
<th>U.S. Economic Policies</th>
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<tr>
<td>1919-29: Relatively Stable</td>
<td>Limited Hegemony</td>
</tr>
<tr>
<td>1929-33: Closed and Unstable</td>
<td>Limited Hegemony Continued</td>
</tr>
<tr>
<td>1933-35: Closed and Unstable</td>
<td>Nationalistic reaction</td>
</tr>
<tr>
<td>1935-39: Gradual Recovery</td>
<td>Return to Hegemonic policies</td>
</tr>
</tbody>
</table>

Thus, the causality assumed by the hegemonic stability theory - that the ending of hegemony precedes economic disorder - does not hold for the period; in fact, the direction of causality is quite the opposite. The theory’s independent variable turns out the be the dependent one, thus calling into question its explanatory logic.

A second set of reasons for assuming that hegemony may not have been
the key variable in explaining the state of the international economy is discussed in the third chapter of this thesis. In it, I provide a synthetic examination of some alternate factors that explain the economic crisis. Its significance for theory is that it shows that the roots of economic instability lay in factors hegemony could have done little to overcome. These factors included: the disruption to the international economy caused by the First World war; long-term structural imbalances in the international economy; domestic structural problems in several leading economies (including the United States), which made domestic, let alone international stabilization difficult; international political tensions; and, ironically, the counter-productive effects of the pursuit of hegemonic policies in a context that may not have required them.

The conclusions that follow from this analysis are:

a) There is no necessary causal relationship between the absence of a hegemon and international economic instability.

b) There are factors other than hegemony that determine the openness and stability of the international economy.

It is worth noting, however, that this is only a limited critique of hegemonic stability theory, since it does not address the question of the role of a hegemon in creating an open and stable international economic regime. That is, it does not address the theory's historical validity for the 1860-1913 or the 1945-1971 periods. What this thesis does question is the theory's explanation of the breakdown of stable and open economic systems. And this is significant for two reasons: first, it establishes historical truths about why the international economy was unstable in the interwar
period, and second, by doing so it shows up the historical inaccuracies of some hegemonic stability theorists' explanations of the economic disorder that has emerged since the early 1970s (8). These explanations have relied heavily on an analogy with the situation of the interwar period. America's present decline is supposed to mirror Britain's earlier decline, and there is a fear that just as in the 1930s, when the United States refused to perform the required hegemonic functions, so too today no country seems willing or able to fill the hegemonic gap. This thesis shows that the analogy is misplaced, since the interwar period's economic problems were not caused by a lack of hegemony but by a complex set of factors, several of which were unique to that period, and it implies that explaining current economic problems will require a examination of this period on its own terms paying attention to its own unique circumstances. Reasoning by analogy with the interwar period will not suffice.
CHAPTER TWO

WAS HEGEMONY POSSIBLE?

The answer to each of these questions will by and large determine the degree to which hegemonic stability theory provides an acceptable explanation of the economic difficulties of the period. With regard to the first two questions, I argue that the history of the period shows that while the United States was in fact with a potential hegemon, it lacked certain structural factors which the political will to be fully effective in this role. The lack of a hegemon emerged in the 1920s but suffered a dramatic impetus in the 1930s. The inability of the early proto-hegemon, encumbered by the United States to maintain a stable and open international economy, together with the reasons why it dropped its hegemonic policies in favour of some national, bipolar or even twin bipolar, world, suggest a two-fold conclusion: a hegemon was not a sufficient condition to avoid the economic crisis of the 1930s, and in neither case, from this, hegemonic policies explaining the condition of the international economy. It was the condition of the international economy itself a large degree explains American hegemonic policies. On the third question, I argue that hegemony was relatively personal to the
TO EVALUATE the adequacy of hegemonic stability theory’s explanation of economic instability in the interwar period, three key questions need to be addressed. First, could any of the economies provide hegemonic leadership similar to that of Britain during the later half of the 19th century? Second, even if there was a potential hegemon, were the economic and political constraints such that even a strong hegemon could not have stabilized the international economy? Third, was there in fact any significant correlation between the economic difficulties of the period and the presence or absence of an active hegemon?

The answer to each of these questions will by and large determine the degree to which hegemonic stability theory provides an acceptable explanation of the economic difficulties of the period.

With regard to the first two questions, I argue that the history of period shows that while the United States was in some ways a potential hegemon, it lacked certain structural features and the political will to be fully effective in this role. Its career as a hegemon flowered in the 1920s but suffered a dramatic reversal in the 1930s. The inability of the early "proto-hegemony" exercised by the United States to maintain a stable and open international economy together with the reasons why it dropped its hegemonic policies in favour of more nationalistic ones after 1929 suggest a two-fold conclusion: a) hegemony was not a sufficient condition to avoid the economic crisis of the 1930s, and b) rather than hegemonic policies explaining the condition of the international economy, it was the condition of the international economy that to a large degree explained American hegemonic policies. On the third question, I argue that hegemony was relatively marginal to the
economic difficulties of the period; they were rooted in domestic policies of various countries and in structural imbalances of the international economy. These conclusions will by justified in what follows.

POTENTIAL HEGEMONS AFTER WORLD WAR I

BRITAIN

At the end of the war it was widely held that after a short period of adjustment the international economy would return to normality, that is, to the patterns of trade and exchange that existed before the war. This view was perhaps nowhere more strongly held than in Britain. Britain had been the archetypal hegemon before the war, though its centrality in the international economy had probably peaked in the 1870s. Nevertheless, it was assumed that it could continue to manage the international economy after the war much as it had done previously (1).

Britain was, however, no longer really able to play the role of hegemon due to major economic changes caused by the war. The war had been expensive for Britain. It was financed through the liquidation of its American assets and by borrowing heavily from the United States and the Dominions (2). In addition, the government incurred a large domestic debt: only about 20% of Britain's war expenditure came from revenue sources; the rest was borrowed (3).

Financing of war expenditure from domestic borrowing need not in
itself have been inflationary, had it come from genuine savings. However, most came from the creation of new money, with the consequence that the price level at the end of the war was three times what it had been at the beginning (4). Under the rules of the gold standard Britain would have been obliged to deflate its economy in order to maintain prewar parity. But it was politically impossible to start the peace with a depression, so rather than deflate, the pound was allowed to float and convertibility was suspended. It lost value rapidly going from $4.76 down to $3.40 (5). The fall in the value of the pound and the suspension of convertibility reduced confidence in the pound thereby limiting its international role. The United States was the only country that remained on the gold standard, consequently, the pound began to be supplanted by the dollar as the world’s main reserve currency. This indicated that the centre of economic power and stability had shifted across the Atlantic during the course of the war.

In Britain, the years till 1925 were dedicated to restoring the pound to its prewar parity of $4.76. This policy, supported by the "unanimity of informed business, financial and political opinion", (6) was designed essentially to restore the City to its prewar role as the centre of international finance.

This restoration required far more than just the return to parity. The fact was that the prewar position of Britain in the international economy rested on conditions which no longer existed. Before the war Britain was a major exporter of textiles, ships, engineering goods and coal. In turn, it imported raw materials. It was also the major supplier of capital in the international economy. After the war Britain’s ability to export capital was reduced due to
a more precarious balance of payments position caused by a decline in its traditional exports and an increase in its imports. By 1929 British exports fell by 19% on their prewar volume, even though world trade had grown by 27%, and Britain’s share of world exports declined from 13.9% in 1913 to 10.8% in 1929 (7).

One consequence of this was that new overseas capital issues averaged only £115 million between 1920 and 1929 compared with £200 million in the decade before the war (8). The real value of these capital exports had declined even more. The capital that Britain did export did not come from a current account surplus but increasingly from short term loans drawn from other financial centres. Britain borrowed short and lent long. This was an acceptable practice —indeed it is normal banking practice — so long as there was sufficient confidence in the pound. In turn this depended on the sufficiency of gold reserves held by the Bank of England.

Before the war British gold reserves were by no means sufficient to cover all its debts. However, this did not affect confidence in the pound since the British economy was seen to be sound and, more importantly, there was no other rival international currency. This had changed after the war: the British economy was no longer sound, its overseas debts were larger, and the pound was now rivalled by the dollar. Consequently, Britain found it increasingly difficult to retain previously invested funds or to attract further investment from foreigners. Much of the world’s supply of capital now came from the United States and France (9). Thus, a major aspect of a hegemonic role — the supply of international capital — proved to be somewhat beyond Britain’s capacity in the interwar period.
Another feature of a hegemon is that its economy should be able to absorb the exports of other countries and so help sustain the flow of international trade and payments. This had been the case with Britain at least since the repeal of the Corn Laws in the 1840s.

The interwar period, however, saw a significant reversal of Britain's traditional policy of free trade. Britain lost many of her traditional export markets after the war, either because of the growth of industry within the markets, (for example, in India with the growth of the textile industry), or because third countries (mainly Japan and the United States) had supplanted it (10).

The full extent of the set-back to British exports was temporarily obscured by the removal of the German challenge to British commercial interests immediately after the war (11). But as the German economy revived following the stabilization of the mark in 1924 it resumed its natural dominance in eastern Europe and began making inroads into the Latin American market. Faced with this competition, British thinking began to change. Free trade no longer seemed a viable policy and, increasingly, an "imperialist" school emerged, which stressed the economic importance of the Empire. With exports languishing it became increasingly clear that Britain could no longer cope in a free market environment. Britain therefore withdrew its commitment to a liberal non-discriminatory international order retreating into a protected system of Imperial Preferences. This involved raising tariffs around the Empire to maximize its exports to India and the Dominions (12).

The formation of this Empire trade block was Britain's response to its decline from a hegemon to a middle ranking economic power. In
effect, Britain acknowledged that, despite its heroic attempts to restore London to its former role as the centre of international trade and payments, it could no longer manage the international economy single-handedly. Indeed, far from being able to ensure the continued existence of a liberal international economy, Britain found it difficult to keep even its own economy open and stable. In the future liberal minded statesmen saw that the only way to return to an open international economic order was under American leadership (13).

FRANCE

The possibility that France might play a hegemonic role was always very slight because of the structure of its economy, its economic ideology, the instability of its governments (24 changes between 1930 and 1940), and the fact that it was probably the country which suffered the most physical damage as a result of the war (14).

French economic policy was very closely tied to its security policy. It was assumed that German reparation payments would provide not only for the repair of the damage caused by the war, but also help sort out the financial chaos caused by the enormous expenditures incurred during the war. It was also hoped that reparations would help ease France's security concerns by stifling German recovery and growth (15).

France, even more than Britain, relied on deficit financing to pay for its war effort. As a consequence that there was a five-fold increase in price levels from 1913 to 1919. Like Britain, France
did not return to the gold standard; it preferred to allow the franc to depreciate rather than experience domestic deflation. This depreciation and accompanying inflation did not have an altogether negative impact. Inflation actually helped reconstruction and facilitated growth, due to easily available credit, and depreciation helped boost exports (16).

Nevertheless, the franc had to be stabilized, mainly because lack of confidence in it had caused a massive flight of capital, soaring inflation, rapidly depreciating currency and large budget deficits. While this capital flight helped lubricate the international payments system, it could hardly be regarded as responsible provision of international liquidity as would be expected of a hegemon and once the franc was stabilized under Poincare, French capital began to return, causing major difficulties for Britain, though it helped the franc return to convertibility in 1926 (17).

Even after the stabilization of the franc in 1926, French monetary policy did not conform to what would be expected of a hegemon. The French had never been happy with the gold exchange standard set up at the Genoa Conference of 1922. They saw it as an attempt by Britain and the United States to retain the advantages they enjoyed by having the pound and the dollar as international currencies. Soon after returning to the gold standard France began to convert large quantities of its London sterling reserves into gold. It also sterilized the inflow of gold (18) and so made it difficult for deficit countries to export to France. These policies undermined British efforts to continue international lending, and reduced confidence in the pound. Thus, in terms of facilitating international exchange the French seemed to be spoilers of the
system (19).

This negative assessment of French policy was, however, only how the British viewed it - which is essentially the perspective adopted by hegemonic stability theorists. From the French point of view the policies demanded by Britain (to maintain French balances in London and stop sterilizing gold inflows) were merely devices designed to serve Britain's interests. "The British were, in effect, asking the French to underwrite the reserve role of the pound and the international investment position of the City - both of which the French viewed as dangerously unsound" (20).

Whatever the merits of the French argument, the fact remained that its policies restricted Britain's ability to play the hegemon. At the same time France did not assume a hegemonic role herself: the franc did not acquire a significant international role and because of the French policy of sterilizing gold inflows international trade and liquidity did not expand.

The structure of the French economy was in any case not ideally suited to absorb large quantities of imports. France had never been as deeply involved in the international economy as Britain, and it was far more self-sufficient in raw materials and agricultural produce. As important, France was not as industrialized as Britain and therefore needed less imports to fuel its industry.

Not having the same degree of dependence on the international economy, France, unlike Britain in its hegemonic era, found that policies designed to stabilize the international economy were not
necessarily compatible with its domestic economic interests. Its politicians made it clear that French interests overrode international ones and insisted that, "the French economy and currency must first be restored before France would take an active interest in the rehabilitation of other nations." (21)

Thus, France was not, could not have been, and did not want to be a hegemon.

GERMANY

In some ways Germany was the most likely of the European powers to assume the role of a hegemon. Its relative share of world manufacturing output was by 1913 higher than either Britain or France, and its total industrial potential (estimated from a combination of iron/steel production and energy consumption) was even higher, as the tables below indicate: (22)

Table 1

<table>
<thead>
<tr>
<th></th>
<th>1913</th>
<th>1928</th>
<th>1938</th>
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</thead>
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<tr>
<td>Britain</td>
<td>13.6</td>
<td>9.9</td>
<td>10.7</td>
</tr>
<tr>
<td>France</td>
<td>6.1</td>
<td>6.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Germany</td>
<td>14.8</td>
<td>11.6</td>
<td>12.7</td>
</tr>
<tr>
<td>United States</td>
<td>32.0</td>
<td>39.3</td>
<td>31.4</td>
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Table 2

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<tr>
<th></th>
<th>1913</th>
<th>1928</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>127</td>
<td>135</td>
<td>181</td>
</tr>
<tr>
<td>France</td>
<td>57</td>
<td>82</td>
<td>74</td>
</tr>
<tr>
<td>Germany</td>
<td>138</td>
<td>157</td>
<td>214</td>
</tr>
<tr>
<td>United States</td>
<td>298</td>
<td>533</td>
<td>528</td>
</tr>
</tbody>
</table>
The problem for Germany was that its potential was never fully realized. The conflict between Germany's potential and its actual situation in part explains the "German Problem". At the heart of the issue was the German perception that the old European balance of power was made obsolete with the emergence of a small number of World Powers - the United States, Russia, and the British Empire. Germany saw no reason why it should be restricted within its European boundaries, and it therefore sought to expand into eastern Europe and build an extra European commercial and political Empire. This naturally brought it into conflict with Britain and France (23).

The main point from our perspective is that being a late comer to the game of Empire building and industrialization, Germany never had a strong commitment to the ideals of liberal economics which were an essential part of Britain's period of hegemony. This was partly due to the fact that German industry and its exports often came into conflict with British interests which were protected by the power of the British state - usually in the form of closed colonial markets - or by the fact that British industry was initially stronger and more competitive than German industry. Consequently, Germany had traditionally adopted protectionist rather than free trade policies and had a relatively high degree of state involvement in its economy, neither of which were conducive to the development of a liberal hegemonic role (24).

These features may have been modified had Germany been given the opportunity to integrate itself into the international economy on an equal basis with Britain and France. However, this smooth integration did not occur, with the consequence that Germany waged
two wars to achieve its aims (25).

The result of the First World War for the German economy was disastrous. It lost 13% of its prewar territory, 10% of its population, 15% of arable land, 75% of iron ore deposits, 44% of pig iron, 38% of steel, and 26% of coal production. On top of all this it was made to pay reparations, initially set at $33 billion (26).

Faced with these difficulties, the relatively weak Weimar Republic resorted to deficit financing with severe inflationary consequences. It was not until 1924 that the mark was stabilized and only in 1925, with the Locarno Treaty and the Dawes Plan in place did the German economy begin to stabilize. Thus, in the first half of the 1920s Germany was in no position to really manage its own economy successfully, let alone provide a managerial function for the international economy.

The second half of the 1920s saw considerable improvement in the German economy. It was, however, extremely dependent on the inflow of American capital. Germany incurred long term debts of some $7.5 billion during the 1920s, with capital imports for 1927 alone exceeding $1.03 billion. This capital was necessary to cover reparation payments and also to provide hard currency to pay for imports. However, capital inflows declined sharply after 1928, falling from nearly $1 billion that year to $482 million in 1929 and $540 million in 1931 (26). This capital shortfall exerted a powerful deflationary impact on the German economy.

Increased exports may have provided a solution to Germany's payments difficulties. Germany had the potential to export far more than it
did, but few countries were willing to accept imports on the scale necessary to finance Germany's reparation payments, and in any event, international demand was extremely weak from 1930 onward. With hard currency in short supply Germany was forced to turn to barter trade, especially with eastern Europe, so beginning the formation of a relatively closed trading bloc (28).

Without the ability to export capital, and being unable to pay for imports except on a barter basis, German foreign economic policy was in many ways the opposite of what would be required of a hegemon. And the shift emphasis from civilian to military goods after 1933 only made these restrictive policies more necessary. This was because resources from traditional export industries were diverted to unproductive armament industries causing a further reduction in hard currency earnings. By 1938 Germany had only 1% of the world's gold and financial reserves and a strict regime of currency controls, barter arrangements, and special deals become necessary (29).

Thus, Germany in the interwar period was a thwarted world power. It had failed to become fully integrated into the international economy and was forced increasingly into the formation of an exclusive economic sphere of influence. Needless to say, this was not liberal hegemonic policy, nor did it assist the efforts of other powers to preserve the open international economic order.

THE UNITED STATES

The United States was one of the few countries that benefited
economically from the First World War. During the course of the war it changed from being a debtor to a creditor nation. New York overtook London to become the centre of world finance, and the dollar, backed by 48% of the world’s gold reserves, began to take over the pound’s role as Key Currency (30). The United States economy was already the largest in the world before the war (see tables 1 and 2 above) but the war accelerated its relative growth.

During the 1920s the United States experienced an unprecedented expansion which saw the development of large scale industry based on the most modern technology. The manufacturing boom drew in large quantities of raw materials - rubber, tin, petroleum, etc., and the competitiveness of American industry saw a vast expansion of exports, especially cars, agricultural machinery, and office equipment. This trading network was aided by the growth of American capital exports and investments. America overtook Britain as the world’s main source of capital, indeed, it nearly doubled British capital exports during the 1920s as the table below indicates: (31)

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Britain</th>
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<tbody>
<tr>
<td>1924</td>
<td>969</td>
<td>590</td>
</tr>
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<td>1925</td>
<td>1076</td>
<td>419</td>
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<td>1926</td>
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<td>670</td>
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<td>1929</td>
<td>671</td>
<td>447</td>
</tr>
<tr>
<td>Total</td>
<td>6429</td>
<td>3301</td>
</tr>
</tbody>
</table>

The extent of American economic dominance is difficult to overstate;
as Kennedy puts it:

It still remains staggering to note that the United States in those years was producing a larger output than that of the other six Great Powers taken together and that her overwhelming productive strength was further underlined by the fact that the gross value of manufacturers produced per head of population in the United States was nearly twice as high as in Great Britain or Germany... (32).

Thus, the United States seemed to be the most likely hegemon after the war. It was the largest, most productive and technically advanced economy in the world. It was the foremost supplier of capital to the international economy and, as we shall see in the following section, it was, contrary to conventional beliefs, quite deeply involved in managing the international economy and finding solutions to international political conflicts for the most part of the interwar period.

AMERICAN INTERNATIONAL POLICY AFTER THE FIRST WORLD WAR

American foreign policy in the 1920s was characterized by two dominant aims. The first was a desire to create and sustain a stable and open world economy - one that would enable the rapid expansion of American trade and investments. The second was a desire to minimize the domestic costs that may have resulted from pursuing the first aim. There was no doubt in the minds of policy makers that in the event of a conflict between domestic and foreign aims it was their duty to "prosper America first" - as President Warren Harding put in his inaugural speech in 1921 (33).

The existence of these two aims and the relative priority they were
given have important implications for evaluating the adequacy of hegemonic stability theory. First, to the extent that hegemonic policies were pursued but still failed to avoid economic instability it suggests that the explanation of instability must lie elsewhere. Second, since United States’ hegemonic policies were pursued only insofar as they did not conflict with its domestic political priorities, it meant that the only potential hegemon in the interwar period was itself not fully capable of providing the international economy with the necessary hegemonic management. (It was also limited in its pursuit of hegemony by the structure of its economy, as we shall see in a separate section). In short, hegemony was only marginally related to the coming economic crisis and because the pursuit of hegemonic policies were only possible in a limited way, the policy prescriptions of hegemonic stability theory amounted to wishful thinking. And to the extent that impossible hegemonic solutions were attempted at the expense of alternative, non-hegemonic ones, they would have been counter productive.

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It has often been taken for granted that the interwar period was for the United States one of political and economic isolation, symbolized by its refusal to join the League of Nations, and by the infamous Fordney-McCumber and Smoot-Hawley tariffs. This period of isolation is supposed to contrast markedly with American policy of deliberate involvement in European and world affairs after the Second World War. Evidence of this involvement is found in the Marshall Plan, the UN, the setting up of the IMF and the World Bank, and later, the creation of NATO. This contrast in American policy is the essence of what Gaddis has called the "Great Cycle" theory of
history, and it is central to the historiography on which hegemonic stability theory is built (34).

As a rough generalization this juxtaposition of the two post-war eras is not completely wrong. The reality is, however, more complex. In some respects the main difference between the two post-war eras relates not so much to the fact of American involvement but the form that involvement took and the degree of commitment behind it. The "Great Cycle" theory also tends to ignore important differences between the 1920s and the 1930s. The first post-war decade saw a good deal of American involvement in European affairs, though this was reversed in the early 1930s only to be resumed in the latter part of that decade.

American involvement in the interwar period saw an emphasis on private sector involvement, encouraged by the government and often coordinated by the New York Federal Reserve Bank. This form of involvement reflected the prevailing opinion as to the proper balance between government and business, and also gave the executive branch of government a means of being involved without being seen to be involved. This was important since large segments of public opinion, and the majority of Congress, opposed American involvement in European affairs (35).

By the end of the Second World War, however, the experience of the Great Depression, the emergence of the Soviet Union as a major power, and new perceptions regarding the importance of Europe to America's economic and security interests, changed public and Congressional opinion on the need for unreserved involvement in European affairs. Consequently, the second post-war era saw a far
greater role for government and a firmer commitment by the United States to continue its involvement, even if it meant short term domestic costs (36).

In the years after the First World War the United States pursued a policy of attempting to balance its desire to fulfil its international obligations with the need to protect domestic interests and take heed of the majority public opinion which was not in favour of involvement in European affairs. Because there was no strategic threat to the United States, economic concerns dominated its foreign policy. The major theme of American policy was the "Open Door", which was a policy aimed at creating a "stable and peaceful international order conducive to the expansion of American exports, the protection of American overseas investments, the control of foreign supplies of raw materials, and the dissemination of American ideals and values." (37).

Europe was central to the achievement of these aims since many business, financial and agricultural leaders recognized that without European recovery the international economy and consequently American exports could not expand. Prior to the war Europe took 60% of American exports, 83% of her crude material exports and 71% of all foodstuff exports. These sectors were the ones hardest hit by the slump of 1920-22, so it was natural that their plight focused policy makers' attentions on the restoration of European prosperity. In addition, the restoration of European purchasing power was seen as essential for the economic development of Latin America and other tropical regions, as Europe was their main export market. These were some of the areas where America hoped to expand its exports (38).
This orientation towards the reconstruction of the European and international economies was a reflection of the changed status of the United States caused by the war. It had changed from a net debtor to the largest creditor nation, being owed over $10 billion, mostly as a result of allied war debt obligations. Its exports which stood at $2.5 billion at the beginning of the war rose to $8 billion by 1920, and imports increased from $1.75 billion to $5 billion over the same period. The proportion of world trade going to the United States grew from 8.3% to 12.9% from 1913 to 1922, and there was a five fold increase in its manufactured exports between 1914 and 1921 (39).

These changes did not go unnoticed by business and government leaders. Their perception of the growing interdependence of the world economy and of the interrelationship between export expansion and the health of the domestic economy was sharpened by the experience of the short but intense post war slump of 1920-21, (caused by the exhaustion of pent up postwar demand and tight monetary and fiscal policies designed to control rapidly rising inflation). American concern for the health of the international economy, rooted in self-interest, was championed by those sectors which were most involved in it - cotton, copper, rice, rye, tobacco, wheat, zinc, tin and, increasingly, automobiles and machinery manufacturers. The government was also interested since, among other things, the still electorally significant agricultural sector was doing relatively poorly. The prosperity of American agriculture, more so than Europe's, was dependent on export markets.

Another factor which pushed the United States towards an
internationalist role was a perception of its own growing dependence on foreign raw materials. The Commerce Department was of the opinion that "foreign trade is of greater importance to our manufacturing industry in furnishing its raw materials than in providing markets for finished products" (40). The growing awareness of the dependence of American industry on imported raw materials led the Hoover administration to take steps to combat the efforts of foreign government sponsored cartels which controlled the marketing of products like rubber.

Oil was the commodity that caused the greatest concern and the American government fought for and encouraged oil companies to secure foreign oil supplies on an equal basis with their European (mainly British) rivals. Other commodities which were seen as important were rubber, wood pulp, tin, nitrates and nickel.

The Navy was a major contributor to the sort of thinking that stressed the importance of securing access to raw materials. It is an indication of the seriousness with which policy makers took the policy of the Open Door that throughout the 1920s Japan and Britain were seen as prospective enemies, not because they threatened vital security interests but because they were a threat to the commercial ambitions of the United States. Navy's War Plans Division even recommended plans for a possible war with Britain. Its director wrote in 1927: "History [indicates] that the world's two greatest nations eventually fight to decide superiority and relieve trade competition." (41).

The realization that domestic and international prosperity were linked led the United States to take steps to maintain and expand
American exports by encouraging foreign demand. This was done through several measures. The War Finance Corporation was reactivated in 1921, but when it proved unable to cope with the agricultural slump the Treasury and the New York Federal Reserve Bank attempted to become more deeply involved in Europe’s financial stabilization. This called for a substantial increase in the outflow of American capital. The Edge Act, which permitted a wider range of institutions to engage in foreign lending, was an important aspect of this.

American officials were aware that potential payment problems were expected to emerge as a consequence of the economy’s persistent balance of payments surplus. Private foreign lending was therefore encouraged to provide America’s trading partners with funds to pay for American goods. This was, however, seen as a temporary solution. What was really required was the revival of the European economy. This required, among other things, the financial and economic rehabilitation of Germany. To this end America provided capital to stabilize the mark after the hyperinflation of 1923, and influenced the Europeans to accept the Dawes Plan, which was a proposal made by a committee chaired by American banker, Charles Dawes, which established a new schedule of annual reparation payments, to be monitored by a newly established Reparations Agency. Recognizing Germany’s weak payments position, the Plan also made provision for a loan of 800 million gold marks. By allowing Germany to fulfil its Treaty obligations and raising confidence in the German economy the Plan encouraged the inflow of large amounts of capital which in turn enabled reparation payments to run smoothly (42). The United States also put pressure on France and Germany to accept the Locarno Treaty, which provided a settlement to security
questions relating to Germany's western border (43).

There are significant similarities in American policies towards European economic reconstruction and Germany's place in the European order in each of the two post war eras. In their analyses of the causes of the two World Wars, American policy makers have stressed the importance of economic autarky in discouraging growth and setting the stage for German hegemony on the continent. The solution according to them was for Germany to be reintegrated into an open and revitalized European economy - one that was itself a part of a global liberal economy - large enough to contain Germany's power and ambition (44). The efforts of the United States to revive the European economy and encourage European integration after the Second World War are well known. Similar policies were pursued after the First World War. Charles Maier describes them in a comparison of the two periods:

...Some of the same dilemmas and solutions marked both recoveries. By the mid-1920s Americans were finally helping ease Europe's postwar balance-of-payments difficulties by the enthusiastic purchase of European bonds. At the same time leading bankers on both sides of the Atlantic pressed for currency stabilization and monetary convertibility on the basis of the gold standard: the Reichsmark was anchored in late 1924, sterling in April 1925, the lira in 1927, and the French franc (legally re-established exclusively on a gold base) in 1928. The laboriously negotiated tariff compromises and trade treaties of the latter 1920s along with such inter industry agreements as the Entente International de l'Acier advanced the integration of the major Continental steel and chemical producers. Agreements between industries across frontiers encouraged mergers and concentration within the component national economies. In a similar sequence after World War II, the European Recovery Program of 1948-51 and subsequent Mutual Security assistance provided American credits to compensate for Europe's massive dollar deficit. The European Payments Union, the product of negotiations extending from 1948 to 1951, worked toward renewed currency convertibility. The Coal-Steel Community of the early 1950s reinforced the capitalist revival of the second postwar period (45).

Even though economic considerations were important, American foreign
policy in the 1920s was not driven simply by the desire for economic gain. There was a belief that the pursuit of a liberal open economic order was compatible with and indeed reinforced, peace and equity. "Were it not for commerce, there would be no civilization," said President Harding (46).

A corollary of this view was that expenditures on armaments were a major cause of "financial chaos, fluctuating exchange rates, commercial stagnation, and economic dislocation." (47). Peace and political stability were seen as prerequisites for growth and economic stability.

These beliefs led the United States to become deeply involved in promoting arms control agreements. The major achievement was the Washington Naval Agreement which saw Britain, Japan and the United States agree on limiting their fleets, and provided for consultation among them on matters related to the Pacific. The other major treaty sponsored by the United States was the Kellogg-Briand Pact of 1928, outlawing the use of force as a means of settling national disputes.

These efforts indicate that the failure of the United States to join the League did not mean it was no longer involved in political and security concerns of the rest of the world. The reasons why the United States did not join the League are complex. According to Leffler it was because Wilson did not have sufficient awareness of prevailing trends in internationalist thought in the United States. By creating a political rather than an essentially legal institution he went against long established distrust of the use of political machinery by statesmen schooled in the old diplomacy. Most
internationally oriented business and peace organizations thought that rather than a political organization, an "interrelated set of sound judicial institutions, wise economic policies, and enlightened multinational cooperation in the private sector" was needed (48).

Similarly, William A. Williams has shown that the differences between proponents and opponents of the League do not correspond to a simple internationalist - isolationist dichotomy since the actions of most of those who fought participation in the League belies this simple classification. "The so-called isolationists of the twenties ... were in fact busily engaged in extending American power", while "the later policies of many who favoured adherence to the League cast serious doubts upon the assumption that they were willing to negotiate or arbitrate questions that they defined as involving the national interest" (49). What was at issue according to Williams, was not the League itself, but the appropriate national response to what appeared to be a crisis of capitalism - the changing international and domestic division of labour, dissatisfied farmers, the growth of organized labour, and the weakening of colonial empires.

The implication of all this is, to quote Williams again, that "The widely accepted assumption that the United States was isolationist from 1920 through 1932 is no more than a legend... Far from isolation, the foreign relations of the United States from 1920 to 1932 were marked by express and extended involvement with - and intervention in the affairs of - other nations." (50).
The argument and narrative presented above, shows that there is good reason to dismiss the isolationist interpretation of American history for the 1920s. Enough has been said to indicate that the United States did have significant elements of a hegemonic policy in place. However, two important aspects of American policy detract from this picture of purposeful hegemony. The first was that in terms of tariff policy, the United States was fairly restrictive—not what would be expected of an ideal hegemon. The second was that the internationalist orientation of the United States did not survive the coming of the Great Depression, again indicating that as a hegemon the United States did not act in a counter-cyclical manner to stabilize the international economy.

Both these aspects have important implications for the argument I am advancing. First, as indicated at the beginning of this section, the fact that America did not, and indeed could not, have acted as a fully functioning hegemon means that the policy prescriptions of hegemonic stability theory were not possible. Evidence of this is presented in the following section which shows that the payment imbalances of the interwar period were only marginally related to American foreign economic policy: even if the United States did follow the trade policy prescriptions suggested by hegemonic stability theory it would not have significantly affected balance of payments outcomes. This, of course, means that the imbalances had structural rather than policy related causes. Second, with regard to the abandonment of the limited hegemonic policies pursued by United States until the depression, I shall show that the change in policy was not the causal antecedent of the depression but rather vice versa: it was the depression that caused changes in American hegemonic policies.
UNITED STATES TARIFFS AND PAYMENT IMBALANCES OF THE 1920s

One of the principal problems of the interwar international economy was that of persistent balance of payments imbalances. The United States was the main surplus nation. Current account deficits incurred by other countries in their trade with the United States were financed by capital exports from the United States and to a lesser extent Britain and France. These capital exports for the most part did not contribute to the development of export industries in deficit countries which might have corrected the payment imbalances, therefore some sort of adjustment was required since the outflow of funds from the United States could not go on indefinitely.

The solution suggested by hegemonic stability theory and several economic historians was for the United States to have adopted different economic policies - lower tariffs and closer adherence to the rules of the gold standard (51). Trade restrictions, it is argued, were a major cause of payments imbalances. Had the United States followed hegemonic policies similar to Britain's before the war, the result would have been a stable and open international economy.

This line of reasoning is flawed since it does not take into account the very different economic environment of the 1920s compared to the prewar period, and it ignores the fact that the United States had a very different domestic economic structure compared to Britain.

To test whether changes in tariff policies would have had a
significant impact on international payments it is necessary to estimate the price elasticity of United States import demand and the potential market for the main categories of imports. Price elasticities are important because the tariffs affect demand through price variation. If it turns out that demand was price inelastic then tariff changes would have little effect on import levels. The potential market is important since if items produced in the United States were significantly more competitive than those produced elsewhere then small changes in price cause by tariff policies would not lead to a substitution of domestically produced goods by imports (52).

In an important analysis of the cause of the United States trade surplus in the 1920s, Falkus has argued that only a major change in the structure of the United States economy could have produce a reversal of its trade surplus. America's economic structure had evolved over several decades and therefore the trade surplus was not simply the product of post-war economic policies (53).

The most significant feature of the United States economy in this context was that it was virtually self sufficient in both industrial goods and primary products. This made it difficult for other countries to find large markets that were not already supplied by domestic producers. As a consequence the United States had a very low ratio of imports to GNP, which was evident well before the 1920s, as the table below indicates: (54)
Table 4

Imports as a % of GNP

<table>
<thead>
<tr>
<th></th>
<th>U.S</th>
<th>U.K.</th>
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<tbody>
<tr>
<td>1889-93</td>
<td>6.0</td>
<td>26.6</td>
</tr>
<tr>
<td>1892-6</td>
<td>5.7</td>
<td>25.6</td>
</tr>
<tr>
<td>1897-1901</td>
<td>4.3</td>
<td>25.6</td>
</tr>
<tr>
<td>1902-6</td>
<td>4.4</td>
<td>27.5</td>
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<tr>
<td>1907-11</td>
<td>4.4</td>
<td>28.1</td>
</tr>
<tr>
<td>1909-13</td>
<td>4.2</td>
<td>28.6</td>
</tr>
<tr>
<td>1921-25</td>
<td>4.1</td>
<td>25.7</td>
</tr>
<tr>
<td>1926-29</td>
<td>4.3</td>
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</tbody>
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What is more, the United States also had an extremely low marginal propensity to import, that is, out of a given increment in national income only a small proportion would be spent on imports. The marginal propensity to import of the United States from 1924-38 is estimated at 0.07 compared with an average of 0.3 for most European industrialized countries (55).

Two categories of country had deficits with the United States; first, the primary producing nations, and second, the industrial nations of Europe. With the first group, United States demand was limited to a few commodities that could not be grown in the United States or which were not found there in large quantities. The principal agricultural imports were therefore tropical products - coffee and bananas being the main ones. Petroleum and copper were the main industrial raw materials that were imported. Agricultural producers from temperate regions - eastern Europe and Australasia (which suffered the worst payments imbalances) - could not export to the United States since they competed directly with products where the United States was competitive (wheat, beef, etc.) (56).
Most imported primary products that had a market in the United States did not face tariffs. These included raw silk, rubber, copper, paper, petroleum, and coffee. The primary products of temperate regions did face tariffs, but they were in any case not competitive. The only primary product to be significantly affected by tariffs was sugar. The tariff was designed to protect the domestic sugar beet industry. However, sugar produced in the Philippines was imported duty free (57).

The situation with regard to industrial products from Europe was not very different. Long term developments were making European exports less competitive compared to domestically produced goods. As Falkus explains:

Well before the First World War the major trends in United States foreign trade were moving against industrial countries in general, and against European countries in particular. The United States was increasingly a net exporter of manufactured products; the surplus, already substantial before the First World War, was considerably enhanced as a consequence of the war and the proportion of manufactures in the United States exports rose rapidly. There was a relative decline in Europe's share of United States imports of manufactured products, and European exports to the United States were more and more concentrated on specialized, high-quality goods which were largely supplementary to rather than competitive with the output of the United States. (emphasis added). (58)

This long term trend was given impetus by the war. Over its course the United States developed industries which previously were stifled by overseas competition (industrial chemicals being the most significant of these); it increased the scale and efficiency of its manufacturing; and it developed several new industries, notably automobiles and business machines that would form the basis of its industrial supremacy for decades to come.
These developments meant that the United States came to have an absolute advantage in the production of most industrial commodities. The average productivity of American workers was considerably higher than their European counterparts. It has been estimated as being twice as high on average, and three to four times as high in motor-cars, radios, iron and steel products, and machinery (59). This sort of productivity advantage, combined with more advanced technology resulted in the United States market being virtually monopolized by domestic producers, regardless of tariffs. Sewing machines are a good example. In 1914 The United States exported $11.49 million but imported only $0.59 million. The corresponding figures for 1921 were $7.31 million for exports and only $0.40 million for imports. In both 1914 and 1921 there were no tariffs on sewing machines, indicating the irrelevance of tariffs to the United States trade balance in machinery. A tariff of 15-30% was imposed in 1922, but it was obviously unnecessary (60). This is not an isolated example. Similar findings were reported by the official Temporary National Economic Committee in a study of 1,807 products in 1937. Tariffs were found to affect only a small number of commodities - just 14% of the total sample (61).

This finding is strengthened by studies of the effect of exchange rate variations on United States imports. Exchange rate variations have a similar price effect as do tariffs, therefore demand variations resulting from exchange rate changes can be used to estimate the likely affect of tariffs. The evidence is that exchange rate variations did not affect levels of exports to the United States: Belgium and France both had major depreciations against the dollar yet this did not improve their export
performance, while Italy and Switzerland which did not depreciate had similar export performances compared to the countries that did, indicating that price levels of imports were poorly correlated to import demand (62).

The single most important factor that determined the level of exports the United States was the level of its national income. The correlation between the two was estimated to be 0.92 (63). Thus the only way the rest of the world could have significantly increased its exports to the United States would have been by having the United States grow even faster. This was unlikely, especially in the years till 1929, as the United States was already experiencing an unprecedented boom.

Even if the United States could have grown faster, the question remains whether the rest of the world could have increased its output sufficiently to take advantage of this faster growth. Falkus suggests that the supply elasticities for most manufactured and agricultural goods would not have allowed for greatly increased exports; consequently, it would seem that payment imbalances could not really have been avoided (64). Thus, the policy prescription of hegemonic stability theory — or rather the blame it apportions to American trade policy — is somewhat misplaced since it was the structure of the United States economy rather than policy which explains the patterns of trade between the United States and the rest of the world.
American economic policies during the 1920s and 1930s showed far greater variability than they did after the Second World War. As we have seen, for most of the 1920s under Republican administrations, the United States tried to balance international and domestic aims. The result was that its foreign economic policy had elements of liberal internationalism while at the same time retaining more nationalistic elements such as tariffs which, though formally restrictive, had little real impact on economic outcomes.

Even though it was recognized that the United States stood to gain a great deal from the continued existence of the liberal international economic order, the importance of the international economy to the United States was not overwhelming. The United States, as we have seen, remained remarkable self-sufficient, and for all the absolute increase in its international economic involvement, its foreign economic interests did not become proportionately more important. For example, manufactured exports as a proportion of total production actually decreased from 10% in 1914 to 8% in 1929 (65).

In addition, the United States faced no strategic threat and consequently it was rational for it to see its international role as definitely subservient to domestic interests.

This, in part, explains the lack of consistency in American internationalism in the 1920s and also the shift in emphasis towards greater protection with the introduction of the Smoot-Hawley tariff at the onset of the Depression in 1930.
As the Depression took hold the Hoover Administration began to shift its emphasis from stressing international business opportunities to a more autarkic stance. The Administration was, however, fairly unwilling to implement restrictive policies since these went against its previous assumptions. Even as the crisis worsened after 1930, the Administration continued to reaffirm the viability of its open-door economic orientation; it also kept the dollar on the gold standard even after Britain went off it in 1931; and it implemented a one year moratorium on debt payments in 1930 to help ease the financial crisis in Europe. However, more determined policies could have been formulated to try to halt the drift towards a closed and unstable international economy, but throughout 1931-2 Hoover and Stimson "refused to cancel war debts, scale down tariffs, extend government loans to financially depressed nations, [and] assume strategic commitments in Europe." (emphasis added). (66)

The reasons for this somewhat weak defence of internationalism lay partially in the belief that government should as far as possible leave private enterprise to solve international economic problems, but more importantly, because the administration's internationalist policies were fast loosing support amongst business. Business, seeing that international opportunities were diminishing as the Depression intensified, began to place primary emphasis on stabilizing the domestic market, and linking domestic demand to production (67).

The Hoover administration, however, continued to lag behind business opinion, and to the end Hoover himself felt that the depression was attributable to international factors and could only be cured by
international measures (68). By contrast, Roosevelt and his administration argued that the Depression was essentially domestic in origin and required domestic remedies (69). Consequently, under the new Roosevelt administration the remaining elements of the internationalism of the 1920s were removed. One of Roosevelt's first actions was to take the United States off the gold standard, and in 1933 he in effect repudiated the World Economic Conference that was held in London to try and find an international solution to the depression. "Autarky became the watchword." (70).

By 1935, however, Roosevelt turned away from economic nationalism. He entered into agreements with Britain and France to stabilize the value of their currencies relative to each other and began to implement legislation that saw the negotiation of a series of treaties on mutual reduction of tariff rates (71).

This picture of alternating internationalism and nationalism in foreign economic policy requires an explanation, for it lies at the heart of the issues raised by hegemonic stability theory. As indicated earlier, my argument is that it was the state of the international economy and the changing structure of the domestic economy that explained the changes in policy. These two factors were the determinants on the formation of political coalitions, which in turn determined policy outcomes.

The most common explanations of changes in American economic policy, both domestic and international, have tended to focus on the decisive influence of Franklin Roosevelt in shaping the New Deal. These explanations have, as one author put it, tended to:

Honour his statecraft in leading the United States away from
isolationism toward Atlantic alliance. And they celebrate the charisma he displayed in recruiting millions of previously marginal workers, blacks, and intellectuals into his great crusade to limit permanently the power of business in American life (72).

Neo-Marxist theorists and historians argue that rather than attacking capitalism, the New Deal was a package of policies far sighted enough to save capitalism from itself. It served the interests of business as a whole rather than small segments of it (73).

Interpretations from a Weberian perspective explain the New Deal policies as growing out of the consolidation and expansion of bureaucratic institutions - especially those of the Federal Government - and the expanded role of professionally certified experts in making policy (74).

While each of these approaches contain much that is useful and valid they are not fully satisfactory, especially when it comes to explaining change in policy (75). The leadership approach, for instance, cannot explain why Roosevelt initially raised tariffs, abandoned the gold standard and, rather than reduce the role of business, gave them greater power by allowing the formation of cartels to limit price competition, only to reverse these policies within three years.

Similarly, Neo-Marxist and Weberian analyses fail to explain major changes in policy. For example, why did an initial emphasis on corporatist forms of business self-regulation give way to the rigorous application of anti-trust legislation in the later 1930s? And why did policies that initially favoured industries that were
vulnerable to international competition change to allow greater international exposure as time went by?

An approach that avoids some of these difficulties has been developed by Peter Gourevitch and Thomas Ferguson (76). Their method of analysis focuses upon different sectors and industries and on the factors which affected the formation of political coalitions which in turn influenced policy outcomes.

The starting point of the analysis is the well known fact that electoral behaviour is closely correlated with socio-economic status (77). This means that it is usual for the primary political cleavage in a polity to be closely related to class. This class cleavage influences the form of party competition that develops. Where the working class is strong it may form its own party and cause business to unite around another exclusively business party. The party structure in Britain is a good example of this pattern.

Where the working class is weak, it may be unable to have its own exclusive party and will therefore seek to form part of a coalition, acting very much like a normal interest group. In this situation it is possible that some elements of business may be willing to form alliances with labour in order to gain power - provided that the price to be paid for labour's support is acceptable.

Different sectors of business will have differential abilities to pay the "price" for the support of labour. The factor which will most determine the ability to pay will be the relative share of wages in the businesses' value added. Where labour costs are small relative to value added, the sector will be able to afford higher
wages, improved social security, etc; however, where wages are a major cost the sector or business will be unable or extremely reluctant to make significant concessions to labour. Since relative labour costs are largely determined by the capital intensivity of an industry, it follows that capital intensive industries will be the ones that will most likely form alliances with labour.

Different attitudes to labour thus form a major division among different sectors of business. A second source of division relates to differential international competitiveness. Firms or sectors that are internationally competitive will have a stake in encouraging the development of an open international economy; those that are not competitive will have prefer protectionist or nationalist policies (78).

During the interwar period in the United States, firms or sectors that were relatively capital intensive also tended to be internationally competitive, and those that were labour intensive were less internationally competitive. There were some exceptions, the most important being the chemical industry which was unable to compete with large German firms like I.G. Farben. But generally speaking the relationship held (79).

What this meant was that business tended to coalesce around two poles: one which advocated conciliatory policies towards labour and a liberal open international economy, and a second group which preferred restrictive labour polices and a regulated international economy. The former group, variously called the "New Deal Synthesis" or the "Multinational Bloc" gradually came to dominate policy over the 1920s. With the onset of the Depression, however,
it suffered a reversal, only to regroup and rally around the Democratic Party in the Second New Deal after 1935. This coalition, and the Democratic Party, have dominated American politics till the end of the Carter Presidency (80).

Firms and sectors which were relatively labour intensive and unable to compete internationally had historically clustered around the Republican Party. (This had been the case since the elections of 1896 when the so called "System of '96" was formed.) Until the First World War, this nationalist grouping had included virtually all business and made possible the long period of Republican ascendancy (81).

The war, as we have seen, brought major changes to the United States economy. Perhaps the most significant in this context was its new creditor status, which gave large east coast international banks a stake in the international economy. This cause a break in what till then was a unified business preference for nationalist policies. Further strains in the "System of '96" coalition were introduced by the emergence of sectors and firms that had become internationally competitive and had significant export interests. The most significant of these were farm machinery, electrical goods, and auto manufacturers (82).

With the relatively faster growth of capital intensive and internationally competitive firms it would have been normal to expect that policy would gradually be shorn of its nationalist elements and, with concessions to labour being possible, a form of welfare state internationalism would have emerged - perhaps not all that different from what eventuated after the Second World War. However, this sort of gradual shift did not occur; rather, as we
have noted, there seemed to be a cyclical pattern of growing internationalism followed by nationalism which in turn gave way to a more robust internationalism.

The reversal of the trend toward an internationalist orientation in American policy after 1929 was not an autonomous development, nor was it necessarily the result of short sighted and ultimately disastrous nationalism as portrayed in hegemonic stability theory. It was, rather, the result of the interaction of sectoral interests as they attempted to best protect their interests in the face of a rapidly collapsing international economy.

The major affect of the large drop in international demand caused by the Depression was a change in the outlook of firms that all through the 1920s and fought for liberal economic policies. They now began favouring restrictive, nationalistic policies, as export opportunities dried up and export drives by other countries threatened their domestic markets (83).

There are several instances of just such a shift in emphasis. For example the chairman of the U.S. Steel corporation was cheered at a stockholders meeting in 1931 when he said that, "we can stimulate business in this country without waiting for the recovery of Europe" (84). Similarly, the Chairman of Bethlehem Steel felt that if domestic demand took 80% of production that was sufficient to make a profit and so overseas demand was not strictly necessary. The same stress on the domestic market was voiced by the automobile, petroleum and chemical industries (85). These business opinions eventually affected the Hoover Administration, and more so the Roosevelt Administration. Even Hoover reluctantly came to accept
that "while re-establishment of stability abroad is helpful to us and to the world, we can make a very large measure of recovery irrespective of foreign influence." (86).

As it became clear that the Depression was going to persist it became increasingly rational for business to call for domestic reflation to boost domestic demand and help speed up recovery. These demands, however, brought industry, retailers, farmers and ordinary people into conflict with the financial sector—especially the large international banks—that stood to lose from inflation since it would reduce the value of their financial assets and by reducing confidence could cause the withdrawal of foreign deposits. In addition, the collapse of trade and financial flows that would accompany nationalist solutions would mean that there would be increasingly less likelihood that the banks could recover their foreign loans (87).

This inevitable conflict between the financial sector and the rest of the economy expanded as the Depression persisted but gradually, the financial sector itself split as those sections most closely linked with domestic industry (the investment and commercial banks) also began to demand reflation. The only remaining opponents of reflation were the large international banks led by J.P. Morgan and Co. The power of these large banks was, however, greatly diminished by Roosevelt's banking reforms. The Glass-Steagall Banking Reform Act, and the Banking Act of 1935 between them restored central supervision of American money and banking practices. Equally important, they made it illegal for a single bank to operate both commercial and investment arms, thus breaking the basis of the strength of several banks. J.P. Morgan was obliged to drop its
investment banking activities (88).

With the split in the financial sector it was possible for a new coalition to form. It was an uneasy one consisting on the old core of the 'System of '96", the Multinational Bloc of erstwhile internationalists, and the financial sector excluding the larger international banks. This coalition - National Recovery Coalition - was the basis of the First New Deal (1933-5), but was inherently unstable because the Multinational Bloc component of it was in favour of nationalist policies only as a temporary measure while the collapse of international trade persisted.

As soon as the international economy began to recover after 1935, the older lines of cleavage - between nationalists and internationalists as existed in the 1920s - began to become apparent again. The Multinational Bloc quickly came to dominate the coalition, and in effect a new coalition - the Second New Deal coalition - was formed. With the Supreme Court ruling that the National Recovery Administration (N.R.A.) was illegal, Roosevelt took the opportunity to reverse the "corporativist" and nationalist elements of his first two years in government: anti-trust legislation was re-implemented, tariff reduction treaties were entered into with vigour, and the United States once more began to cooperate with Britain and France on the stabilization of their currencies (89).

Other elements of the Second New Deal included a relatively liberal attitude towards labour, as seen in the Wagner Act (the Labor Relations Act), and the introduction of large public works programs. While these actions did, to some extent, anticipate Keynesian
demand-management policies of the postwar period they were relatively limited in their scope. Even as late as 1939 the federal budget deficit was only $3.9 billion. Consequently, it was not until the rearmament program took hold in the early 1940s, (when the deficit rose to four times that amount) that the economy reached full employment (90).

This then, in brief, is the explanation for why policy changed so dramatically over the 1920s and 1930s. It bears out the earlier claim that American foreign economic policy was the consequence and not the cause of the Depression. Certainly there would have been to some degree an interactive process between policy and the depression, but the timing of changes in policy shows that policy tended to lag behind changes in the international economy:

in 1933 when full blown nationalism came into effect under Roosevelt, the Depression had already been underway for three years, and the Second New Deal which began after 1935 came after a degree of recovery in the international economy.

Given the nature of the political coalitions which formed and dissolved, and their policy preferences, it is unlikely that hegemonic internationalism could have been pursued in the critical 1929-35 period. There simply was not enough political support for such policies and therefore a hegemonic solution was not possible. Even if the political will existed, it was probably economically impossible for the United States to have pursued policies to stabilize the international economy, since it proved to be incapable of effectively stabilizing its own economy. Consequently, it was a destabilizing rather than a stabilizing factor in the international economy. But more on this in the next chapter.
CHAPTER THREE

WAS THE LACK OF HEGEMONY RESPONSIBLE?
IN THE last chapter we have seen that the United States was the only possible hegemon during the interwar period. But it was constrained in its pursuit of hegemonic policies because of its relative self-sufficient. It did not depend on the international economy to the extent that Britain had, consequently, domestic concerns took priority over international ones. In addition, the structure of its economy was such that even if it had attempted to adopt more liberal trade policies their impact would have been insignificant. Finally, the course of domestic politics made the continuation of even the qualified internationalism of the 1920s impossible in the 1930s. In short, the policy prescriptions of hegemonic stability theory could not have been implemented by the United States.

While it is clear that hegemonic stability theory does not provide a viable policy prescription for the interwar period, it does not necessarily follow that its explanation of the causes of economic instability is wrong. It is possible that even though there was no suitable hegemon capable of fully implementing the requirement of the theory, had there been one the crisis might have been avoided. This implies that the lack of a hegemon was a key factor in the breakdown of the international economy. This chapter will attempt to assess the validity of this view.

Four major factors suggest that, first, the absence of hegemony was not the cause of the economic crisis and, second, that the attempt at limited hegemonic or liberal economic solutions may have been counter productive in the circumstances of the 1920s and 1930s. The four factors are: 1) the structure of the international economy; 2) domestic policy mistakes; 3) international political conflict;
and 4) international monetary conflict. These factors were closely intertwined and therefore difficult to keep analytically distinct, as the following narrative reveals.

The economic difficulties of the interwar period owed a good deal to the disruptive effects of the war. There was, to begin with, physical destruction and the loss of fixed capital investment which had to be made good. There was also the loss of life—estimates go as high as 60 million in direct and indirect deaths (1). Financial stability was also affected. To pay for the war, Europe was forced toliquidate its overseas assets, borrow from the United States and the Dominions, and resort to financing expenditures by printing money—with disastrous inflationary consequences. Reparations added further to the financial difficulties of the time, as did the United States insistence that all war debts be paid in full. The consequence was that until reparations and debt repayments were in effect repudiated in the Hoover "moratorium" of 1931, European payments were in constant imbalance. Germany relied on United States capital to pay reparations to France and other European countries, which in turn used these funds to repay their debts to the United States. Thus money went in a cycle. And since the United States tended to sterilize gold inflows (and in had in any case a remarkably low marginal propensity to import), the Europeans could not earn gold or dollars in sufficient quantities to reestablish their finances on a sound basis (2).

Traditionally, European payment deficits with the United States were offset by surpluses with the rest of the world. The war changed this as several traditional markets had shrunk or disappeared because of industrialization elsewhere. Russia simply opted out of
the international economy altogether. Britain, which had been Europe's largest exporter before the war, was particularly hard hit. Between 1912 and 1938 the amount of cotton cloth it exported fell from 7,000 down to 1,500 square yards and ship building, which amounted to almost a million tons of vessel in 1913, fell to just over half that amount in 1938 (3). (Britain also suffered because it failed to make the successful transition from its traditional export industries to the new science based ones - electrical equipment, automobiles, machinery and chemicals. These were the areas where trade was expanding the quickest).

European exports were also badly hit by the loss of purchasing power in major agricultural producing regions of the world caused by weak commodity prices. Price weakness was mainly due to over-supply caused by long-term developments such as the opening of new lands in North America and Australia, increased productivity, and higher production levels induced by inflated war time demand. Immediately after the war demand was also weak because industry required less and because population had decreased. The combination of over-supply and weak demand resulted in a world-wide agricultural slump which was made worse as European agriculture recovered from the effects of the war.

Economic historians have stressed the importance of this independent agricultural depression in explaining the collapse of world trade. In the pre-1913 world economy the expansion of production and incomes in the primary producing areas was well matched with the supply of manufactures from industrial areas, and this explains the volume and stability of a large segment of world trade. In the 1920s however, falling prices and incomes in primary
producing areas led to falling demand for manufactures. W.A. Lewis exaggerates only slightly when he claims that,

The decline of trade in manufactures was due neither to tariffs nor due to the industrialization of new countries. The trade in manufactures was low only because the industrial countries were buying too little of primary products and paying so low a price for what they bought. (4)

For a while the weakness of the primary sector was disguised by the existence of price support schemes, which operated by buying excess production to help keep prices high. Price support schemes existed for wheat, sugar, coffee, rubber, copper, and nitrates. But these schemes had only limited success, partly because higher prices led to higher production which tended to put downward pressure on prices, thus straining the financial resources of the schemes. Indices of world agricultural prices and stocks show that prices fell from a base of 100 in 1923-25 to 70 by 1929, while stocks rose from 100 to 175 over the same period (5). Once the finance to continue funding price support schemes dried up after 1929, old stocks could no longer be held nor new production kept off the market. The result was that the market was flooded with the built-up stocks further depressing prices just at the start of the Depression (6).

Capital exports from the United States to a large extent made up for the loss of European export earnings and covered the payment deficits of the agricultural countries. This capital helped keep the international economy functioning. It allowed Germany to pay its reparations and was vital for the stabilization of several east and central European currencies. In all this the United States performed a valuable hegemonic role. However, the export of capital
could not go on indefinitely since, unlike the export of British capital during its period of hegemony, United States loans were not self-liquidating, that is, they did not go into export industries that could have earned foreign exchange with which to repay the debts.

Some of the blame for this can be attributed to imprudent lending. Banks and financial institutions, eager for profits, paid scant attention to how loans would be repaid, and, as Galbraith observes, "if unfortunately corruption and bribery were required as competitive instruments, they were used." (7). This was particularly the case in Latin America. For instance, the son of the President of Peru was paid $450,000 for his services in connection with a $50,000,000 loan and the President of Cuba was given a personal line of credit of $200,000 by the Chase, which did a large business in Cuban bonds (8).

Though not affected by this sort of corruption, loans to Germany and eastern Europe were nevertheless also made without sufficient notice being taken as to how they would by repaid. For eastern Europe it is estimated that only 30 to 50% of public external loans were used in directly productive investments (9). Moreover some of this capital had a negative impact insofar as it was used to delay adjustment or spent on agricultural development which would merely have caused additional problems by further depressing commodity prices. Loans were put to better use in Germany. Though even here some of the capital found its way into non-productive uses - "swimming-baths, pleasure gardens, amusement halls, hotels, planetaria and the like"; (10) but most of it was used to help in the restoration of the domestic economy and payment of reparations.
However, little if any went into projects that would have earned foreign exchange.

The American government was aware of the extent of imprudent lending but despite official warnings on the possibility of default, few American banks were willing to forego the lure of high profits (11).

The significance of imprudent lending in creating an unstable financial situation should not be overstated since opportunities for prudent lending were limited. The main debtor nations, especially Germany and east European countries, but others as well, had few opportunities to earn foreign exchange to liquidate their debts: the United States was structurally incapable of taking a significantly greater level of imports; the non European agricultural economies were suffering from low commodity prices and a large number of them were locked into restrictive trading blocs centred on Britain or France; and other European countries were unwilling to allow an expansion of imports while their own economies were depressed and, (with the exception of France) their own external balances were precarious. Thus, there was little that could be done to improve the payments imbalance of most debtor countries. In this situation, "the crunch" as Aldcroft put it, "was bound to come in the end since creditors were hardly likely to lend indefinitely to insolvent borrowers at the previously high rate." (12).

Could the difficulties of the debtor countries have been alleviated by more purposeful hegemonic policies - by, for instance, scrapping reparations and a more liberal commercial policy on the part of the United States? Probably not (13). The reparations issue was unlikely to have been resolved by the United States alone - it did
what it could in the Dawes and Young Plans - and more liberal commercial policies could not have helped since, as we have seen, the United States economy was structurally incapable of taking significantly higher levels of imports.

The fact that the "crunch" came in 1929 was particularly unfortunate since it was a time when several economies were weakening, demand was faltering, and new investment opportunities were less obvious. Germany was the most vulnerable since a significant proportion of her ongoing investment was funded by foreign capital and, having large quantities of short term loans, she was vulnerable to rapid withdrawals by lenders who might want to put money on the temporarily more lucrative New York Stock Exchange. This is in fact what happened. American capital exports which amounted to over a billion dollars in 1928 fell to about $200 million in 1929 as money stayed home to fuel the stock exchange boom (14). The boom created a major dilemma for United States monetary authorities. Allowing it to go unchecked ran the risk of having a precipitous crash in the future, but attempting to cool it by raising interest rates would cause capital be withdrawn from Europe, causing an economic collapse there. There was thus an incompatibility between the requirements of domestic and international stability. In the event the Fed began raising rates in 1928 to halt the financial spree. This pulled in capital from Europe and slowed the outflow of capital from the United States, but it did not restrain the speculators. Only the October Crash did. It was the worst possible outcome.

This shortfall of capital was disastrous for Europe, especially Germany. For Germany and the other debtor countries in eastern Europe to remain financially solvent they would have required
substantial international support to maintain the flow of capital. That this did not occur was certainly one of the contributing factors to the depth of the Depression, since it caused a credit squeeze, leading to financial bankruptcies, the collapse of commodity prices, and the breakdown of the system of international trade and payments as countries sought to conserve their limited currency reserves.

Though the causal link between the drying up of United States capital outflows and the collapse of the international economy is clear it does not follow that United States policy was to blame. There are three reasons for this. First, by 1928 it was clear that debtor countries had borrowed far more than they could repay therefore it would have been illogical for the United States to continue lending, especially since nearly all the lending was done through privately owned banks. And even if lending were continued for a while this would only have delayed the day when loans would have ceased, since there was little evidence of structural adjustment on a scale sufficient to allow the debtors to repay their debts.

Second, and more important, it should be remembered that after 1929 the United States was itself in serious economic difficulty and could not really have done much to help stabilize Europe. As W.A. Lewis puts it, "The basic problem was not that the United States did not stabilize the rest of the World, but rather that it failed to stabilize itself." (15). Finally, international political rivalries made financial stabilization increasingly difficult as tensions increased during the 1930s. Even if international cooperation was achieved, the depth of fundamental economic problems
in several economies would have meant that international solutions would probably have been inadequate (Ashworth, 252).

The reasons for the instability in the United States economy have long been the subject of debate among economists. A synthetic view is that the domestic collapse was caused initially by real rather than monetary forces: the temporary exhaustion of investment opportunities, severe restraint on consumer expenditure and the collapse of business confidence after the Crash (16). As early as 1928 housing starts had peaked as had prices; the automobile market was approaching saturation point at the same time; and unemployment grew from 1.9 per cent in 1926 to 4.4 per cent in 1928.

Despite these indications of the boom coming to an end, steady prices combined with strong productivity growth produced high profits which were reflected in rising security prices. Easy credit and the self-perpetuating quality of the boom in security values meant that there was a growing discrepancy between the world of financial speculation and the real economy. Monetary authorities began tightening credit in response raising interest rates and so drawing back short term capital from Europe. Tight monetary policy therefore had little effect on speculative activity. But once the stock exchange crashed, the continuation of tight monetary policy made matters worse by contributing to the financial panic as credit became scarce and investment decisions were postponed, delaying any possibly recovery.

Problems in the real economy were also exacerbated by structural flaws in the economy. An important one was the bad distribution of income which favoured the wealthy and led to high levels of
expenditure on investment rather than consumption and on luxury items rather than staples. This meant that the economy was investment driven, dangerously dependent on the capital goods sector which in turn was particularly vulnerable to declines in consumption through the multiplier effect. It was also likely to collapse if business confidence fell (17). This is exactly what happened. With the collapse of business confidence following the Crash the index of investment which stood at 100 in 1929 fell to 9 in 1933, and even as late as 1939 it was only 57. (See table 5 below). (18).

Table 5

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>% of GNP</th>
<th>Construction</th>
</tr>
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<tbody>
<tr>
<td>1929</td>
<td>100</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>1933</td>
<td>9</td>
<td>3</td>
<td>27</td>
</tr>
<tr>
<td>1934</td>
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<td>5</td>
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<tr>
<td>1935</td>
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<td>1938</td>
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<td>8</td>
<td>65</td>
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<tr>
<td>1939</td>
<td>57</td>
<td>10</td>
<td>76</td>
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The economy also suffered from a weak corporate structure. As Galbraith explains:

The most important corporate weakness was inherent in the vast new structure of holding companies and investment trusts. The holding companies controlled large segments of the utility, railroad, and entertainment business. Here, as with the investment trusts, was the constant danger of devastation by reverse leverage. In particular, dividends from the operating companies paid the interest on the bonds of upstream holding companies. The interruption of the dividends meant default on the bonds, bankruptcy, and the collapse of the structure. Under these circumstances, the temptation to curtail investment in operating plant in order to continue dividends was obviously strong. This added to deflationary pressures. The latter, in turn, curtailed earnings and helped bring down the corporate pyramids. When this happened, even more retrenchment was inevitable. Income was earmarked for debt repayment. Borrowing for new investment became impossible. It would be...
hard to imagine a corporate system better designed to continue and accentuate a deflationary spiral. (emphasis added) (19).

Other problems with the economy included a weak banking structure: there was no lender of last resort and most banks were small single branch establishments. Both these factors made the banking system highly vulnerable to financial panic since investors had no guarantee that their deposits were safe. As the economy began to falter runs on banks became increasingly common. In the first six months of 1929, 346 banks failed. Monetary policy did not help. Remarkably, the Federal Reserve System's greatest fear was inflation (20) and it therefore adopted a policy of severe monetary contraction which further restricted credit so reducing investment and economic activity, leading to more bank failures (21). The result was that by 1931 credit facilities were virtually non-existent in the United States.

Fiscal policy was also misguided. Balanced budgets were aimed for and this meant that there was no stimulus from this sector - not until the New Deal took hold, and even then the degree of expansion was limited. It is worth noting that even during the New Deal budget deficits were never intended but occurred despite the best attempts of the government. Faced with rising expenditure the government attempted to raise taxes in order to maintain a balanced budget. But the tax structure which had emerged as a result of the Revenue Act of 1932 was regressive in its impact and consequently acted as a further drag on expenditure. Tax policy was the very opposite of the Keynesian counter-cyclical measures that were required. When the deficit seemed to be getting too large in 1936, the government was willing to cut expenditure. The result was a short sharp recession in 1937 (22).
Wrong domestic policies also contributed greatly to the economic depression in other countries and it is highly unlikely that a hegemon (especially one that was misguided about managing its own economy), could have done much about these domestic policy errors. Most European countries adopted orthodox economic solutions to help ease the crisis: balanced budgets, price stability, wage restraint. Keynesian economic ideas were still very much unknown. The dismal state of economic understanding in Britain during the 1920s and a good part of the 1930s was fairly typical of most other countries. It is well described by Hobsbawm:

We tend to forget how small and uninfluential a minority [the Keynesians] were, until after the economic catastrophe had become so overwhelming - in 1932-3 - as to seem to threaten the very existence of British, and the world, capitalist system. The businessmen of the 1920s went into it with little more than the conviction that if wages and government spending could be cut savagely enough British industry would once again be all right, and with indiscriminate calls for protection from the oncoming hurricane. The politicians - both Conservative and Labour - went into it with little more than the almost equally futile slogans of Richard Cobden or Joseph Chamberlain. The bankers and the officials who were the guardian of "Treasury orthodoxy" dreamed of a return to the liberal world of 1913, put their confidence in balanced budgets and the Bank Rate and staked all on the impossible hope of maintaining the City of London as the world's financial centre. The economists, with what can only be described as a quiet heroism worthy of Don Quixote, nailed their flag to the mast of Say's Law which proved that slumps could not actually occur at all. Never did a ship flounder with a captain and a crew more ignorant of the reasons for its misfortune or more impotent to do anything about it (23).

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Political tensions added greatly to the difficulties faced in restoring normal financial and trade relations. With the cessation of capital outflows from the United States, financial stability in
Germany and eastern Europe came to depend to a far greater degree on the cooperation of the central banks of Britain and France. In some ways France was the best placed to help, as she had the second largest holding of gold, after the United States. But here political conflicts complicated matters — and this again was beyond the ability of any hegemon to fully overcome.

French policy in the interwar years has been the subject of considerable debate. It has been seen variously as intransigent and vindictive, especially in relation to reparations and allowing Germany to resume its place in the international community; or it has been portrayed as a realistic response to the real security threat it faced. The villains in this latter interpretation are Britain and the United States, which by refusing to supply security guarantees to France forced her to adopt a hawkish policy towards Germany. More recently, historians have begun to stress the structural constraints that faced each of the actors (24). These constraints and contradictions meant that there was no easy way out of political and economic conflicts and a distant hegemon like the United States could only have had a marginal impact.

Jon Jacobson gives a useful list of some of these structural contradictions the international system faced in the 1920s. It is worth quoting him at length:

First, the requirements of European stability based on the superior power of an alliance of Western powers over a weaker and restrained Germany — containment — contradicted the needs of a stable world order legitimized by the principle of an international system of self-determining democratic, and capitalist nation states that included Germany — reintegration.

Second, the requisites of a European balance of power conflicted with those of economic recovery. Recovery required that Germany achieve and maintain a prosperous industrial
economy, both to repay reparations and to stimulate European trade, but the balance of national capabilities demanded that Germany be denied the political and military hegemony inherent in its industrial and human resources.

Third, there was a contradiction between the formation and execution of the peace settlement. The Versailles Treaty imposed the victor's conditions on the vanquished and took German hostility for granted; it therefore incorporated few incentives for fulfilment. Yet, the reparations and disarmament Clauses in particular required German cooperation, good will, and good faith in compliance.

And, fourth, the requirements of internal and international stability were contradictory. The successive coalitions that governed the Weimar Republic sought the continued, incremental revision of the Versailles Treaty, but those governing the Third Republic constantly sought German adherence to its original provisions. Both French and German positions were based on the need to maintain internal political consensus, but the achievements in foreign policy that the two nations sought were mutually antagonistic (25).

The existence of these structural constraints meant that until they were removed it would have been difficult if not impossible for simple solutions such as those suggested by hegemonic stability theory to have worked. The solutions suggested by the theory are drawn from a faulty understanding of why there was stability after the Second World War. This view finds support from work of Charles Meier on the roots of stability in the second postwar era (26). Hegemonic stability theorists assume that it was policy that made the difference after the Second World War, but this, according to Meier, is too simplistic. The basis of the stability of the postwar era rested to a considerable degree on the political and economic achievements of the interwar period: it was the product of a forty year struggle to achieve economic and political order.

The major political basis of this order was the ending of the German Problem, by its partition and by the tight integration of West Germany into the EC. Equally important was the domestic political situation that emerged in Europe after the end of the Second World
War, where unlike the period after 1918, the radical Right was insignificant, and consequently demands for the revision of the outcome of the war were minimal. The Left was also in many ways less radical than their counterparts a generation ago. Their demand was now for nationalization of certain sectors of industry and social security measures, rather than the earlier demands for the full take-over of the operation and ownership of industry the workers.

The second postwar era saw the acceptance of the principle of management prerogative in return for a higher standard of living. Politics of ideology were replaced by politics of productivity. But the politics of productivity had to await the development of techniques of macroeconomic management that could deliver results. In the interwar period this was not achieved and so politics remained highly polarised. After 1945 however, economic results were forthcoming, due in part to the widespread application of Keyensian demand management principles but also to advances in management skills of big businesses. Keyensian principles were also applied at the level of the international economy, embodied in the new rules of the GATT and the IMF. In the analytical framework of Karl Polanyi, a balance between Authority and Market, and between internal and external stability was found. That this balance was found was to a significant extent due to the "lessons" that policy makers learned during the interwar period.

Sufficient has been said to indicate that the stability of the post war era rested on conditions that did not exist in the interwar era, and that consequently, policies that worked in the former could not have done so in the latter.
The way in which political and structural problems of the international order affected attempts at economic stabilization can be illustrated from the experience of the international financial system after 1930.

France had, throughout the 1920s and 1930s sought to use her financial strength to combat Germany's efforts to improve her commercial situation by entering into trade agreements with countries of Eastern Europe. These agreements threatened not only French commercial interests but her security ones, since they undermined her attempts at creating an entente to help contain Germany. A second French aim was to try and force Germany to give up its proposed customs union with Austria, which seemed to be more than just an economic arrangement. Finally, France wanted to get Germany to reverse its armament policy and get assurances of adherence to the Versailles Treaty (27).

France was only successful in its second aim. In the crisis of 1931, when Germany and Austria faced runs on their banks and the prospect of the collapse of their banking systems, France threatened to close her capital and money markets to new German and Austrian borrowing. This was sufficient to force them to drop the plan for commercial union (28).

The aim of reducing German expenditure on armaments was less successful. In May 1931 the Credit-Anstalt in Vienna collapsed. It was a major blow to international financial stability since it
controlled two thirds of Austrian industry and was easily the most important bank in eastern Europe. Germany, which was already in deep economic trouble, was caught up in the panic that followed. In the space of six weeks 2 billion RM were withdrawn from German banks, much of it by overseas depositors (29). The possibility of meeting reparations were consequently slim. Germany needed a large injection of capital to stabilize its financial sector if a total collapse of confidence was to be avoided.

The United States offered a one year moratorium on all debt and reparation payments in an attempt to help ease the crisis. The French were outraged. As one French historian saw it:

The United States, after having played a preponderant role in fashioning the Treaty of Versailles, did not ratify it; they did not join the League of Nations; they refuse to recognize any legal bond between their claims against their former allies and the claims of these allies against Germany. There they are now, intervening publicly, but for what purpose? to extend a protective hand to their old enemy! The contradiction may seem strange. It is explainable in terms of the blow that a complete failure of Germany would inflict on her American lenders. Hoover is the creature of the banks, and in his eyes their interests come before any consideration of public morality (30).

With this sort of attitude common in France it was not surprising that at the height of the crisis the President of the Reichsbank, Hans Luther, after having seen Montague Norman, the head of the Bank of England for the extension of credits, found Moret of the Bank of France, less than helpful. He was advised that the size of the credit requested would require German political guarantees regarding armaments and commitment to the treaty of Versailles. The political guarantees were not made and so no financial agreement was reached (31).
Germany responded to the deepening crisis by restructuring its banking system and money markets with far greater state control, and instituted a series of exchange controls which, by ending free convertibility of currency, brought to an end the liberal trade and exchange regime that had functioned, albeit haphazardly, until then (32).

German rearmament was the final nail in the coffin of free trade and exchange in eastern and central Europe, since it diverted resources from exports to arms thus causing a further shortfall in foreign exchange earnings. Nevertheless, German industry's demand for raw materials had grown (due in large part to the expansion of the arms industry), so more imports were needed despite a lower ability to pay for them.

The initial response to this dilemma was for Germany to enter into a series of barter deals with countries of eastern Europe, but eventually there was a massive temptation to resort to a war of plunder to feed the growing war machine that the civilian economy could no longer support. As Mason describes it, increasingly, "the only "solution" open to this regime [out] of the structural tensions and crises produced by dictatorship and rearmament was more dictatorship and rearmament... A war for the plunder of manpower and materials lay square in the dreadful logic of German economic development under National Socialism." (33).

The financial crisis which began in Austria and Germany spread to Britain as the same pattern of nervous withdrawals of funds was repeated. There was little confidence in the pound, especially after the Macmillan Report which called attention to Britain's high...
deficit on short term account and the May Committee Report which noted the country's gloomy budgetary situation. The situation was stabilized somewhat by the injection of £50 million from the Federal Reserve Bank of New York. A further £80 million was negotiated but with the condition that Britain reduce its budget and cut the dole. But even this did not help; the run on the pound continued and eventually it was forced off the Gold Standard (34).

The role of "hot" or "refugee" money in these financial crises is worth commenting on. The 1920s had seen the massive growth of short term deposits held by foreigners which were highly mobile and to a large extent beyond the control of monetary authorities. This made financial stabilization extremely difficult even when the United States attempted to play a positive role. In a situation analogous to the later half of the 1960s onward, power seemed to have shifted from the state to the markets, with the consequence that hegemonic policies were potentially far less effective.

With Britain off gold, the Commonwealth countries, the Scandinavian countries, Japan, and later the United States followed. Without the gold standard international payments became far more difficult as only the dollar remained as an acceptable form of exchange. The pound and the franc tended to circulate mainly - though not exclusively - within their respective economic/colonial blocs. Barter trade became more significant, and with the loss of currency convertibility bilateral clearing arrangements began to displace multilateral trade. Thus, the central elements of the liberal international economic order had come to an end.

It is worth noting that though France was not very involved in
the final collapse of the pound, its policies during the later half of the 1920s were very much a part of the cause of the end of the Gold Standard. The French had never been happy with the gold exchange standard instituted at the conference of Genoa in 1922. They accepted it, reluctantly, after the stabilization of the franc in 1926. However, they soon began to convert their currency holdings into gold, in an attempt to return to a pure gold standard. To many Frenchmen the gold exchange standard was seen as an "Anglo-American plot to use money as an instrument of economic domination." (35). The withdrawal of gold from London was a major factor in the weakness of the pound, and of the gold exchange standard.

The case can be made, as indeed it has often been, that French policy was correct - it was the proper response of a state to the pretension of Britain and the United States to act as hegemons, when neither was capable of being effective or beneficial to the rest of the world in that role. According to this view it was the attempt to institute a hegemonic monetary order against the will of other states that lay at the root of the monetary disorder of the period. The gold-exchange standard that the United States and Britain had set up was inherently unstable since (as Jaques Reuff and Robert Triffin have argued), it created the temptation for the issues of the international currency to fail to live within their means because imports could be paid for by printing money. And as this process continued confidence in the currencies naturally declined, leading holders of the currency to convert their holdings into gold. But since gold reserves were insufficient (at least in the case of Britain) convertibility had to be suspended. This was essentially a default on the IOUs that the currency had represented. Thus, it was not the lack of hegemony that accounted for the
monetary crisis of the 1930s but the futile attempt at hegemony (36).

Similarly, a reasonable case can be made that the attempt at liberal trade relations may also have been counter productive given the structural constraints of the period. Falkus, for instance, concludes that given the United States inability to import more than it did, the Europeans could not have avoided trade and payments imbalances and the consequent build up of debt so long as they persisted liberal trade policies. He argues that, "the most obvious prescription for curing the imbalances in international payments [would] have been for deficit nations to cut their imports, preferably by discriminatory measures against the United States." (37). The pursuit of liberal policies would only have perpetuated the payments imbalance. And earlier action to correct trade imbalances by dismantling the liberal order might have avoided the big decline in world trade during the great depression, since it was to some extent the logical consequence of a situation where the trade imbalances could no longer be maintained (38).

There is evidence that in the 1930s those countries that combined protectionism with domestic expansionary measures did relatively better than those that continued with the older liberal orthodoxy. Closure combined with domestic expansion represented a sort of proto-Keynesianism, designed to work in a single economy. Gourevitch calls it "Neo-orthodoxy" (39). Its main elements were domestic demand expansion, sharing out of production among domestic producers, corporatist regulation of industry, and new tariff and quotas to retain the gains from domestic reflation.
Britain provides a good example of Neo-orthodoxy (40). In 1931 Britain went off the gold standard, instituted tariff measures, and built a closed trading bloc in the system of Imperial Preferences. Industry ceased to look to exports but began to focus on the domestic market. Indeed it was the domestic market that sustained the British economy. The Midlands and the South East, which had most of the domestically oriented industries were relatively prosperous compared to the North and West which relied on traditional export industries. As now, "Industrially, Britain was turning into two nations" (41).

Neutral fiscal policy combined with easy credit and low interest rates resulted in a minor consumer boom led by the construction sector. Unemployment which stood at 22% in 1932 fell to half that number in 1938, and the index of industrial production rose from 100 in 1928-29 to 129 in 1936-38, even though exports and imports remained virtually unchanged at 101 and 99 respectively (42). This suggests that British industrial growth and development could go ahead without the economy becoming more involved in international trade, indeed it might have done better by being relatively autarkic: industrial growth and productivity were higher in the interwar period than they were in the two decades till 1924 (43).

The international manifestation of Neo-Orthodoxy was the much maligned bloc system. This system may not have been as harmful as liberal economist assume. Calleo in a review of the historiography of the interwar monetary system feels that "the bloc system, in fact, worked relatively well, at least as a phase of economic recuperation and adjustment" (44).
The liberal alternative to the bloc system was the international Keynesianism of the post war era, or what Ruggie calls the "compromise of embedded liberalism". This alternative had to wait for the emergence of a quite different international economic structure and environment. At the very least there had to first be a revival of the international economy since, as we have seen in the case of the United States, and as Gourevitch has shown for Sweden, Britain and the United States, coalitions linking policies which promoted demand at home with internationalism could only form once the international economy recovered sufficiently to give internationally oriented firms the incentive to look overseas again (45).

Another condition for international economic openness is the existence of an expectation of economic stability. Even after the Second World War it is worth noting that exchange controls in Europe did not end until the Bretton Woods system came fully into effect in 1958. Domestic protectionist policies and exchange controls were not abandoned until there was sufficient confidence in the ability of government to achieve domestic and external stability. Domestic stability was assured by the adoption of Keynesian demand management policies, public control and ownership of large segments of industry and planning. International stability was assured by the new coordinating institutions - the IMF, the GATT, and the World Bank - all backed by American economic and political weight (46). In the 1930s, however, this sort of confidence could not be engendered and consequently governments were extremely reluctant to end protectionist measures. Neo-orthodoxy or "Keynesianism in one country" combined with restrictive trading blocs were probably all that could be achieved.
It should be clear, even from this simplified narrative that the course of international economic developments in the 1920s and 1930s was far from simple. There were a multitude of factors involved, and outcomes were only marginally related to the exercise of hegemonic policies. In addition, there are good reasons to feel that the very attempt at hegemonic and liberal economic policies during the period may themselves have contributed to the economic crisis. Non hegemonic and non liberal economic solutions may not be optimal policies in theory, but given the circumstances of the time they may have been the only viable ones.
CHAPTER FOUR

CONCLUSION

It would be clear from the preceding chapters that hegemonic stability theory does not provide an adequate explanation of the economic and political events of the interwar period. The central finding of the thesis is that the pursuit of isolating Hegemon policies in the interwar period significantly affected the international economy. And classical structural factors, such as power distribution and the role of the United States, which was the only potential hegemon at the time, were not possible during the interwar period since the two most important Hegemon positions, Europe and the United States, were occupied by independent states. Over the period of the 1930s, the United States, which was the only potential Hegemon at the time, would have been able to impose its trading policies on the competing countries. If it had attempted to do so, it would have been successful in most cases.
It should be clear from the preceding chapters that hegemonic stability theory does not provide an adequate explanation of the economic and political crisis of the interwar period. The central finding of the thesis is that the pursuit liberal hegemonic policies in the interwar period was constrained primarily by structural factors: macro or global structural factors that affected the international economy, and domestic structural factors that affected single countries. Policy was very much a dependent variable. The choice of policies were dependent on the interplay of group interests which in turn depended on economic and political structures. This finding confirms the value of the growing tendency in the discipline to base analyses of international politics less on a unitary actor/state centric model and more on broader disaggregated analyses of domestic influences on foreign policy, and analyses of the structural features of the international system. The thesis also also reinforces a recent, (or more accurately a revived), trend in the discipline: the stress on the importance of the economic dimension of international relations.

The preceding chapters have shown that hegemonic stability theory does not work either as an explanation of the interwar economic crisis or as a policy guide. Successful hegemonic policies were not possible during the interwar period since the two most important hegemonic functions - providing counter-cyclical lending and an open market for distress goods - could not have been performed by the United States, which was the only potential hegemon at the time.

Counter-cyclical lending could only occur if there were signs of improvement in the trading position of the borrowing countries. If there was insufficient adjustment it would have been irrational for
private American banks to continue lending — they would simply be spending good money after bad. However, in the 1920s and 1930s domestic and international economic constraints made it extremely difficult for the debtor countries to redress their payments imbalances. The indebted industrial countries in Europe were confronted with shrinking markets in the agricultural regions due to import-replacing industrialization, and inadequate purchasing power caused by an independent agricultural depression. The United States market was difficult to enter because of the strength of domestic competition in almost every branch of industry. Similarly, the agricultural debtor countries found that they could not liquidate their debts because the industrial countries demanded too little of their exports and paid too low a price for them. Thus, there was no easy way to avoid persistent payments imbalances.

These structural flaws in the international economy which were the fundamental cause of its collapse after 1929 could not have been corrected by hegemonic policies. The weakness of the agricultural sector was essentially due to over supply which was caused by long-term factors — rising productivity, opening up of new lands, and slower population growth, especially in the industrialized regions. These underlying factors could not have been altered. The only possible way out would have been the temporary solution of price support schemes. These were tried but failed, because they did not address the underlying causes of price weakness.

Trade imbalances which the industrial regions faced also had structural roots and therefore could not have been easily solved. There were two possible markets for the products of the industrial economies of Europe: the agricultural economies and
the United States. For the agricultural regions to have demanded more of the produce of industrial regions, the agricultural crisis would first have to be solved. But this was not possible, certainly not in the short term. And, for a variety of reasons (discussed in chapter 2), the United States economy had over several decades developed a very low marginal propensity to import, and therefore could not have been a suitable market for distress goods. The basic structure of the United States economy would have had to change if it were to significantly increase its imports of industrial goods. The interwar period was simply not long enough to allow such an change to occur.

It could be argued that even though the continuing outflow of funds from the United States could not have gone on indefinitely, the United States might have attempted to delay cutting off the outflow of capital till a few years after 1929 so as not to add a further shock to the world economy at a time when most national economies were beginning to falter. However, desirable though this might have been, it could not have happened because after 1929 the United States itself fell rapidly into a depression suffering a major banking collapse. The United States should have first been able to stabilize its own economy if it was to act as a stabilizing hegemon. But it proved incabable of doing this until the onset of the Second World War. Though the economic difficulties of the time were daunting, I would not want to argue that they could not have been overcome. The crisis was not unavoidable. But avoiding it would have required a degree of political will and economic wisdom that simply did not exist. The reparations/war debt question and the mismanagement of financial crises exemplify this. So too does the course of foreign economic policy making in the United States.
Here, as we have seen, the overriding determinant was domestic politics as affected by the structure of coalitions that formed and dissolved with changing economic circumstances. American foreign economic policy was essentially reactive; its liberality and openness depended on the state of the international economy and the state of the domestic economy. Domestic economic management was relatively unsophisticated, both in the United States and elsewhere, consequently, domestic stabilization was difficult to achieve. This, combined with uncertainty about the international economy and international political tensions, meant that governments were extremely reluctant to relinquish protective measures.

In this economic and political situation, many governments opted for corporatist economic controls or mildly expansionary policies together with economic closure. This national capitalism or "Keynesianism in one country" was probably all that could have been achieved at the time. International Keynesianism or Embedded Liberalism of the post-war era had to wait for a quite different set of economic, social, and political circumstances - and different domestic and international structures.

Just as the circumstances of the interwar period differed from those of the immediate postwar decades when embedded liberalism came into being, so too do they differ from the present. Analogies between the present and the interwar period should therefore be treated with caution. The fact that hegemonic stability theory misinterprets the interwar period should raise doubts about its value in comprehending the present. By questioning the value of the analogy between the interwar period and the present this thesis has performed a useful function, because, as Earnest May put it in his
book, "Lessons" of the Past,

The most important task of the historian as historian is analysis of those instances which men in government are most likely to see as parallels, analogies, or precedents. Such analysis may not in itself help officials perceive what to do. They may well decide that their general rule was right even if the precise historical example they had in mind was not adequate proof of its validity. At least, however, the challenge to the example would have compelled closer thought about the inherent logic of the rule; and if it ever turned out that the example was the source of the rule rather than mere illustration, the challenge might prompt fresh thinking (1).

In this case it would seem that the interwar period was the source of the "rule" (hegemonic stability theory). It therefore becomes important to examine and analyse the present on its own terms and not simply by using a misplaced analogy drawn from a misunderstood period in the past.
NOTES TO CHAPTER I: pages 1-7


2. ibid, p. 304

3. ibid, p. 11


5. Kindleberger, op cit, p. 289


7. These turning points and the reasons behind them are discussed in chapter 2.

8. See the sources cited in fn. 4 above, especially Stein, "Hegemon's Dilemma". P. Kennedy, *The Rise and Fall of the Great Powers*, (London, Unwin and Hyman, 1988) also makes a (qualified) analogy between United States and British decline.
NOTES TO CHAPTER II: pages 3-14


4. Skidelsky, "Retreat", p. 168

5. ibid, p. 169

6. ibid

7. ibid, pp. 172-73

8. ibid, p. 171

9. See Table 3, on p. 19 below

10. As Youngson observes, "The abandonment of Free Trade was a major act of policy. For almost a hundred years Britain had lived by the international division of labour. But the arguments for Free Trade were not so strong in conditions of mass unemployment... Britain struggled no longer, as in the 1920s, to restore the international economy; instead she concentrated on her own economy. Youngson, "Great Britain", pp. 143-4

11. Skidelsky, "Retreat", p. 175

12. On the Imperial option see Skidelsky, "Retreat", pp. 178-8

13. ibid, 187-8


18. Sterilizing gold inflows involved the Central Bank refusing to allow domestic money supply to increase in line with increasing gold reserves. This violated the rules of the gold standard, and it meant that the automatic self correcting mechanism under the gold standard could not work. Theoretically, if gold standard rules were followed, a payments surplus could not persist since gold inflows would raise domestic money supply, prices and demand, leading to higher imports and lower exports, which would cause a gold outflow. This gold outflow would in turn lead to a contraction in domestic money supply and the process would be reversed until a balance in external payments was achieved.

19. On this aspect of French financial policy, see ibid, pp. 90-101

20. ibid, p. 110

21. ibid, p. 94

22. From Kennedy, *Rise and Fall*, Tables 17 and 18, pp. 201-2


28. Hardach, "Germany", pp. 190-207

29. Kennedy, *Rise and Fall*, p. 307

30. Aldcroft, *From Versailles*, p. 174


32. Kennedy, *Rise and Fall*, p. 328


34. See M.J. Hogan, "Revival and Reform: America's Twentieth-Century Search for a New Economic Order Abroad", *Diplomatic History*, p. 287, fn. 1
NOTES TO CHAPTER II: pages 23-33


38. ibid, pp. 239-40

39. ibid, pp. 227-8

40. ibid, p. 231

41. ibid, pp. 236-37

42. Aldcroft, From Versailles, pp. 84-89


44. Hogan, "Revival and Reform", pp. 289-94


46. Leffler, "Expansionist Impulses", p. 232

47. ibid, p. 238

48. ibid, p. 233

49. W.A. Williams, "The Legend of Isolationism in the 1920's", p. 220

50. ibid, 216


52. This argument follows M.E. Falkus, "United States Economic Policy and the 'Dollar Gap' of the 1920s", Economic History Review, 24 (1971)

53. ibid, p. 602
NOTES TO CHAPTER II: pages 33-42

54. ibid, p. 603
55. ibid
56. ibid, p. 605
57. ibid, p. 606
58. ibid, p. 607
59. ibid, p. 613
60. ibid, p. 614
61. ibid, p. 615
62. ibid, pp. 616-18
63. ibid, p. 618
64. ibid, p. 622
65. Leffler, "Expansionist Impulses", p. 258
66. ibid, p. 257
69. ibid
70. ibid, pp. 115-6
71. ibid, p. 115
72. Ferguson, "From Normalacy", p. 43
73. ibid
74. ibid
75. An interesting analysis of the various theoretical explanations of the New Deal is found in T. Skocpol, "Political Response to Capitalist Crisis: Neo Marxist Theories of the State and the Case of the New Deal", *Politics and Society*, 10(2) 1980
76. P.A. Gourevitch, "Breaking With Orthodoxy: the politics of economic policy responses to the the Depression of the 1930s", *International Organization*, 38(1) Winter 1984; Ferguson, "From
NOTES TO CHAPTER II: pages 42-48

Normalacy"

77. This narrative is based on Ferguson, "From Normalacy"
78. ibid, pp. 47-61
79. ibid, p. 51 ff; fig. 4 p. 66
80. ibid, p. 47
81. ibid, p. 61 passem
82. ibid, pp. 63-79
83. ibid, p. 58, 79-85
85. ibid, p. 261
86. ibid, p. 262
87. Ferguson, "From Normality", pp. 60, 79-85
88. Potter, The American Economy, pp. 149, 117
89. Ferguson, "From Normalacy", pp. 85-92
90. Potter, The American Economy, pp. 143
NOTES TO CHAPTER III: PAGES 49-59


2. ibid, chs. 6 and 10


8. ibid, pp. 198-9

9. Aldcroft, From Versailles, p. 252

10. ibid, p. 255


12. Aldcroft, From Versailles, p. 284

13. ibid


16. Aldcroft, From Versailles, p. 282

17. Galbraith, The Great Crash, pp. 194-95


NOTES TO CHAPTER III: PAGES 59-70

21. Aldcroft, From Versailles, p. 282
23. Hobsbawm, Industry and Empire, p. 212
24. For a useful survey of the various approaches to French policy, see J. Jacobson, "Is There a New International History of the 1920s?", The American Historical Review, 88(3) June 1983
25. ibid, p. 621
27. Landes, Unbound Prometheus, pp. 374-75
28. ibid, p. 374
29. ibid, p. 375
30. ibid, p. 376
31. ibid, pp. 377-8
32. ibid, pp. 378-80
34. Landes, Unbound Prometheus, pp. 380-82
35. ibid, p. 385
38. ibid
39. For a survey of economic policies see P.A. Gourevitch, "Breaking With Orthodoxy: the politics of economic policy responses to the Depression of the 1930s", International Organization, 38(1), Winter 1984
NOTES TO CHAPTER III: PAGES 70-72


41. Hobsbawm, Industry and Empire, p. 219


43. Hobsbawm, Industry and Empire, p. 223 44. Calleo, "Historiography of the Interwar Period", p. 250

45. Gourevitch, "Breaking With Orthodoxy"

46. For an account of the gradual movement towards a fully functioning Bretton Woods system see F. Block, The Origins of International Economic Disorder, (Berkeley, University of California Press, 1977)
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