ECONOMICS AND THE EUROPEAN UNION Part Two THE ROAD TO BRETTON WOODS Article by Peter Brooke, taken from http://www.peterbrooke.org/politics-and-theology/eu-economics/ First published in *Irish Foreign Affairs,* Vol 14, No 1, March 2021

PART ONE: BRITAIN GOES OFF THE GOLD STANDARD

In the aftermath of the Second World War, the hegemonic power in Western Europe was, overwhelmingly, the United States. The political continuity of all the European countries involved in the war, with the exception of Britain, had been broken and all of them - Britain included - were, or believed themselves to be, dependent on US financial support to reinvigorate their wrecked economies. The American administration under Roosevelt and his Treasury Secretary, Henry Morgenthau, had recognised this as a likely outcome and had begun planning very early on for a new European, indeed world, economic order. On 14th December, 1941, a week after the Japanese attack on Pearl Harbour, Morgenthau entrusted the job of planning such an order to his 'director of monetary research', Harry Dexter White. Roosevelt, Morgenthau and White were all agreed on the aim of the exercise - to establish the largest possible free trade area throughout the world, based on the gold standard. They would all have reckoned that the major obstacle to realising this ambition - assuming victory over Germany and Japan - was not Russia but Britain.

MACDONALD AND SNOWDEN - NO HALF MEASURE = NO MEASURES AT ALL

Traditionally of course Britain had been the pioneer and champion of international free trade and the gold standard. But Britain had betrayed its calling when it went off the gold standard in 1931. This was no small event. The American economic historian James Ashley Morrison calls it 'one of the greatest policy innovations in the history of the global economy.'[1] Given that the gold standard had been suspended during the war and had only been restored in 1925 that may look like an exaggeration but the fact that it could be said is of itself significant. It was certainly felt to be radical at the time. It was in order to avoid having to do it that Ramsay MacDonald and his chancellor Philip Snowden wrecked the Labour government and their own reputations in the historiography of the British Labour movement, entering into coalition with the Tories and the more fiscally conservative liberals in order to 'save the pound' by slashing government spending, in particular unemployment benefit.

It is absurd to accuse them of simple class betrayal. Robert Skidelsky argues that it was in fact their socialism that left them, as they imagined, with very little choice. He explains their dilemma in terms that still have a certain resonance for Socialist and Marxist politics today. Socialism and capitalism were incompatible. So if Socialism was impossible, the logic of capitalism, understood - as Marx understood it - in terms of the rigorous, supposedly scientifically established classical Ricardian economic theory, had to prevail. At the Labour Party Conference of 1930 in Llandudno, just a year before Snowden

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[1] James Ashley Morrison: 'Shocking intellectual austerity: the role of ideas in the demise of the gold standard in Britain', *International Organization*, Vol 70, No 1 (Winter 2016), p.203. American in origin and formation, Morrison is now Assistant Professor in the Department of International Relations at the London School of Economics and Political Science.

introduced what Morrison (p. 191) calls 'the most austere budget in British history' (Morrison has no fear of hyperbole): *'MacDonald provided his audience with an excuse that was sure to appeal to them.'*[2]

'"So, my friends, we are not on trial; it is the system under which we live. It has broken down, not only in this little island; it has broken down in Europe, in Asia, in America; it has broken down everywhere as it was bound to break down."

'Thus the tables were neatly turned: it was the breakdown of capitalism, not the failure of the Government, that was responsible for the suffering and distress; and if the Government seemed impotent, was this not because it had no mandate for the only cure - socialism? Of course, the other Parties had their solutions - public works, protection - but these were no substitute for socialism and no Labour Government could be expected to subscribe to them:

'"And I appeal to you, my friends, today, with all that is going on outside - I appeal to you to go back on to your socialist faith. Do not mix that up with pettifogging patching - either of a Poor Law kind or of Relief Work kind."

MacDonald's speech was greeted with 'thunderous applause'. Skidelsky continues:

'Throughout, MacDonald referred to public works as 'relief works' - to differentiate them from socialism, which was permanent reconstruction. If confusion lay at the heart of this analysis, it was the confusion of democratic socialism itself - the confusion that allowed a socialist party to take part in the ordinary political process, and yet sought to absolve it from responsibility for framing radical policies to meet concrete problems.'

Protection was the 'pettifogging patching' recommended by a wing of the Conservative Party (and in the event implemented by the National Government under MacDonald as titular Prime Minister); 'public works' was the policy associated with the Liberals, elaborated on their behalf by J.M.Keynes and his then colleague, Hubert Henderson, in their pamphlet (May 1929) *Can Lloyd George do it?* Keynes had been one of the few economists who opposed the return to the gold standard in 1925, but he didn't object to the gold standard in principle. It was the timing and the rate at which it was set that he criticised.

HOW THE GOLD STANDARD WORKED

Under the gold standard the government sets a fixed ratio between its currency and gold so that, for example, 'if the US sets the price of gold at $500 an ounce, the value of the dollar would be 1/500th of an ounce of gold.'[3] Upon delivery of, say, $500 the government engages to give the bearer an ounce of gold. Hence the worthless piece of paper one has in one's hand is 'backed' by a commodity which will, one assumes, always be valuable. Of course there is always a relationship between paper money and gold - one can always buy gold and central banks even now maintain large reserves of gold as a store of reliable value. But independent of the gold standard the price of gold will fluctuate like any other

[2] Robert Skidelsky: *Politicians and the slump - the Labour Government of 1929-1931'*, Penguin Books, 1970 (first published in 1967), pp.270-1.

[3] Nick Lioudis: *What is the gold standard?* Article posted on the Investopedia website.

commodity. Under the gold standard the ratio between a given quantity of paper money and a given quantity of gold was, supposedly, fixed.

A main purpose of the exercise was to limit the ability of government to issue paper money at will. To quote Herbert Hoover, 'We have gold because we cannot trust governments' (the reader will recognise one of the arguments most frequently used against Modern Money Theory). But perhaps more importantly the fact that a given quantity of money carried with it the promise of a given quantity of gold provided an internationally recognised medium of exchange. A currency attached to the gold standard stood in a fixed and known ratio to all other currencies attached to the gold standard. This however presupposed confidence in the government's ability to make good its commitment to give gold in exchange for its currency. If people engaged in international trade began to lose that confidence then they would be reluctant to use that currency. There would be a 'run' on the currency, meaning that they would try to get rid of it - it would fall in value and the Central Bank would have to intervene to shore it up by buying it at the gold standard rate, thus further depleting it's own stock of gold.

The ratio between the amount of gold the government held and the money it issued was therefore important. No-one expected it to be a one to one ratio (that was called the 'gold specie standard' and refers back to the time when money, as coinage, *was* gold*)* but the extent to which the government could issue money beyond that one to one ratio depended on confidence in the overall strength of the economy. Thus if Britain was importing more from France, say, than it was exporting then it would have to pay for those imports in francs, which would mean it had to 'buy' those French francs which would mean that the gold that had been supporting sterling would now be supporting the franc. Similarly government expenditure beyond the perceived ability of the gold reserve to sustain both government spending and the needs of the non-government sectors of the economy would produce a loss of confidence in the currency. Symbolically this would be represented as a government failure to 'balance its books', to marry its expenditure to what it was receiving in taxes. I call that 'symbolic' taking into account the observation of the Modern Money Theorists that taxes don't pay for anything. What they do is to take money out of the non-government sectors to create more fiscal space for government spending. Competition between government and non-government for limited resources runs the risk of pushing prices up resulting in inflation.

UNEMPLOYMENT

One of the resources in question of course is manpower. It was the perception of Keynes (and Oswald Mosley and Ernest Bevin) that unemployment placed in the hands of government a substantial resource. It could be used by government on projects not being provided by the non-government sectors. This was one of the bases for the 'counter-cyclical' economics associated with Keynes - that government could and should spend more, not less, in times of depression, and less not more in times when the economy was booming. Job creation was one of the policies adopted by both the United States and Germany in the 1930s - the two countries that proved best prepared to withstand the financial pressures of the war. At the risk of jumping ahead of my argument I might mention here that Roosevelt and Morgenthau, knowing they were going to have to engage in an unprecedentedly large amount of government spending, set about collecting and hoarding all the gold they could lay their hands on, making it illegal for private individuals to possess more than $100 worth of it. Neither Morgenthau nor, in Germany, Schacht, would have regarded themselves as 'Keynesians'. There was a time, as we shall see, when Keynes might have regarded himself as a 'Schachtian'.

According to the classical 'laissez-faire' doctrine an economy reached 'equilibrium' when prices stayed at a fairly constant level and it was assumed - an assumption severely questioned by Keynes - that under those circumstances there would be full employment, somewhat loosely defined (it generally seems to have meant 5% unemployment). Left to its own devices the economy would have a tendency to settle on equilibrium but through a process of swings towards 'boom' (too much money in the economy with production failing to keep up with it resulting in inflation) and 'bust' (the production of goods outpacing the ability of people to pay for them, producing deflation). This was, put very crudely, the 'business cycle' but it was, left to its own devices, thought to be self correcting. Booms produce busts, busts produce booms and the whole would wobble back into their normal condition which was equilibrium. Part of the process required that firms would be free to vary their costs of production according to the demands of the market. The only cost that was in the power of the individual producer was wages. But owing to the power of the trade unions, backed by government legislation, wages were 'sticky' - they could only be reduced with great difficulty. How, then, could they be forced down if that was considered necessary for the overall good of the economy?

In his 1925 pamphlet *The Economic consequences of Mister Churchill*, Keynes pointed out that the increase in the value of the pound as a consequence of the return to the gold standard at the pre-war rate, would result in an equivalent decrease in the income gained from exports. This would necessitate a reduction in costs, principally wages. He asked how this could be achieved, given the determination of the unions to resist it:

'In no other way than by the deliberate intensification of unemployment. The object of credit restriction, in such a case, is to withdraw from employers the financial means to employ labour at the existing level of prices and wages. The policy can only attain its end by intensifying unemployment without limit until the workers are ready to accept the necessary reduction of money wages under the pressure of hard facts ... Deflation [as a result of the restriction of the money supply to maintain the value of the currency - PB] *does not reduce wages "automatically". It reduces them by causing unemployment. The proper object of dear money is to check an incipient boom. Woe to those whose faith leads them to use it to aggravate a depression.'*[4]

The pamphlet was published just as the miners and the TUC were preparing for a general strike. In the event, the Prime Minister, Stanley Baldwin, agreed to give the coal industry a subsidy of £10m to enable wages to be paid at the existing rate, thus further - given the policy of maintaining an overvalued pound - reducing the credit available to other parts of the economy. As we know this only postponed the problem. The General Strike, followed by a long effort on the part of the miners alone, took place in 1926, ending in defeat for the miners and a reduction in wages. And the widespread discontent which brought Labour back to power in 1929.

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[4] Quoted in Robert Skidelsky: *John Maynard Keynes, the economist as saviour, 1920-1937* Vol II of Skidelsky's biography, London, Macmillan, 1994 (first published 1992), p.203.

The leading French liberal economist, Jacques Rueff, was in London in 1930 as financial attaché in the French embassy. Rueff had been adviser to the French Prime Minister, Raymond Poincaré, who had followed Churchill's lead in putting the franc back on the gold standard at a high rate. Rueff was subsequently, in the 1930s, Deputy Governor of the Banque de France and later adviser to Charles De Gaulle (advising him to exchange the dollars France was holding for gold, one of the elements that led to the collapse of the gold standard in 1971). In a note prepared for the French Ministry of Finance, submitted in October 1931[5], Rueff explained the British crisis as a consequence of the inflexibility of wage settlements. This resulted in an uncompetitive industry, resulting in a large unemployment problem, and an unfavourable balance of payments, which resulted in an outflow of gold made worse by the government policy of paying unemployment benefit, which left the Bank of England with only a very narrow margin for manoeuvre in the event of a major financial crisis - in the event the collapse of the Credit Anstalt in Vienna earlier in the year. Rueff admitted that the problem could be alleviated by a devaluation of the pound (to increase the money available to the domestic economy) and the introduction of protective duties to reduce the attraction of imported goods, but this would do enormous harm to the international reputation of sterling and therefore to the international economy as a whole which was largely dependent on sterling as a reliable, and desirable asset.

ERNEST BEVIN'S PROPOSED SOLUTION

The view that the solution was at hand with a combination of devaluation and protectionism and that the only obstacle was the 'usurious' interest of the financial sector, was put forcefully by Ernest Bevin. According to Skidelsky (Politicians and the Slump, pp. 406-8):

'Ernest Bevin had by this time emerged as the dominant personality in the trade union movement, with an intelligence and breadth of vision far beyond those of his colleagues, with the possible exception of the general secretary, Walter Citrine, with whom he worked closely. His economic education had been considerably extended by his membership of four bodies - the Mond-Tumer group, the Macmillan Committee, the E.A.C [the government sponsored Economic Advisory Council - PB]*, and the trade union economic committee, started in 1929 after suggestions that the General Council was ignorant of wider economic issues. The experience and knowledge he gained through these bodies gave him an essential background for creative economic policy making, and the necessary assurance to challenge Snowden's recipe for economic recovery.*

'His view of money as a means of exchange, a device to meet the needs of industry and trade, to enable men to manufacture, buy and sell goods, was unexceptionable, but he concluded from this that the international money market was a system of collective usury, 'a word he frequently used with the full Aristotelian flavour' [quoted from Alan Bullock's biography, vol i, p.427 - PB]. *From this it was not hard to conclude that the financial crisis:*

'"has arisen as the result of the manipulation of finance by the City, borrowing money from abroad on ... 'short-term' ... and lending it on long-term ... As is usual, the financiers have rushed to the

[5] Rueff's letter is reproduced in Marc Flandreau: '1931: la chute de la livre sterling et la crise internationale vues par Jacques Rueff', *Politique étranger*, Vol. 63, No 4, Winter 1998-9.

Government ... attributing the blame for the trouble to the social policy of the country and to the fact that the budget is not balanced." [Bevin quoted in ibid. p.480].

'This in itself should make the Government wary of accepting the banker's advice, but quite apart from that Bevin had come to believe that the existing currency system based on gold was bound to break down; hence the bankers' policy "which aimed at restoring the free working of the system" offered no remedy.

'Bevin's own remedy, which he expounded in the summer of 1930 and in his addendum to the Macmillan Report, assumed that the old nineteenth-century laissez-faire system was gone for good, instead the aim should be to create a regional grouping based on the Empire

'"in which there would be a rough balance between supplies of raw materials and foodstuffs on the one hand and manufactured goods on the other, a group of nations practising Free Trade between themselves, but putting up tariffs, if necessary, against outsiders, a group as self-contained as possible but with sufficient bargaining power to exchange products with other nations on fair terms." [ibid., p.441]

'At home the plight of the great export industries offered a magnificent opportunity for extending Government control:

'"He was prepared to agree to a protective tariff, but only on condition of the thorough reorganisation of the industries to be protected, not as a substitute for reorganisation, behind which inefficient industries could find protection from the need to put their house in order." [p.445]

'Since such a programme could not be carried out with the existing gold standard, Bevin advocated devaluation and urged the Government in his addendum to the Macmillan Report, to consider "an alternative basis" for the economy.

'Such measures would, in Bevin's view, resolve the "fundamental paradox" of a Labour Government trying to save a capitalist system from the difficulties which the Labour movement itself had created [through trade union activity preventing the 'automatic' adjustment of wages to suit the perceived needs of the overall economy - PB]. *Thus his opposition to the policy which the bankers were trying to foist on to the Government stemmed not only from the sectional interest of his own union members, but also from a long-term view of future development.'*[6]

In advocating devaluation and a retrenchment on the Empire, Bevin was advocating more or less what happened. What didn't happen, though it happened in the United States and in Germany and was advocated by Keynes, Lloyd George and Oswald Mosley, was a government funded public works scheme that would have addressed directly the problem of unemployment.

HOW THE BANK OF ENGLAND BROKE THE GOLD STANDARD IN AN EFFORT TO SAVE IT

Considering what a fateful development departure from the gold standard was, and what a shocking reversal of the very reasons for the formation of the National Government, Skidelsky, in his book on the slump (p.422), treats it rather breezily:

[6] An elaboration of Bevin's views in a pamphlet co-written by G.D.H.Cole and published in 1931 can be found on my 'Labour Values' website at http://www.labour-values.com/bevin/crisisindex/

'The National Government failed to achieve the specific object for which it had been formed. Credits of £89m had been obtained on 28 August [from the USA and the Banque de France - PB]*; on 8 September Snowden introduced emergency measures of extra taxation and economies designed to balance the budget by 1933. But a mutiny of naval ratings at Invergordon on 16 September destroyed the confidence temporarily created; the flight from the pound could not be stemmed and on 21 September Britain was forced off the gold standard.'*

A much more entertaining account is given by Morrison (pp.192-7):

'The standard narrative is that "Britain was forced to suspend convertibility on September 19." But it was not "Britain" that suspended convertibility - it was, essentially, the Bank of England. And the Bank was not "forced" but chose to do so. This choice was the final manoeuvre in a campaign Harvey waged to save conservatives in Parliament from electoral defeat. Harvey, simply put, suspended the gold standard to save it.'

'Harvey' was Ernest Harvey, Deputy Governor of the Bank of England. Over the Summer the Governor, Montagu Norman, had been incapacitated by illness. In August he travelled to Canada - in fact to negotiate a loan from the Federal Reserve in New York, a project that had to be concealed from the press since it indicated lack of confidence in the pound. Norman was pressing for a radical increase in the bank rate of interest which would have imposed an even tighter constraint on the money supply and on the government's ability to spend. MacDonald believed that his abandonment of the Labour Party and formation of the National Government with a view to saving the pound needed to be ratified by a fresh election.

'Harvey feared the effect of Norman's return on the ensuing election. He knew that Norman would insist on raising Bank rate ruthlessly. Harvey assumed this would provoke a backlash against the gold standard. Suspending convertibility in that circumstance would irreparably damage the credibility of Britain's commitment to the gold standard.

'Harvey thus implored the government "to announce ... that in view of the National Emergency a General Election is not contemplated at the present time." Although the credits might last a fortnight, "It would be impossible with existing resources to maintain the Gold Standard during the period necessary to conduct a General Election." On 18 September, however, MacDonald resolved to hold an election in October.

'Harvey concluded (incorrectly) that this decision made the suspension of the gold standard inevitable. It was only a question of whether the suspension occurred before or after the election - and who was in power at the time. Assuming (incorrectly) that an October election would deliver Parliament to the radicals, Harvey decided to orchestrate a "temporary" suspension while the gold standard coalition still controlled the government. Such a sudden suspension, Harvey calculated, would force the politicians to postpone the election. This would buy time, "giv[ing] the British government opportunity to turn around ... its internal affairs." After resolving the fiscal crisis, the (Conservative-controlled) coalition government could then restore the gold standard and hold the election when Britain had returned to a more conservative mood.

'That afternoon, 18 September, the Bank elected to initiate the suspension of the gold standard. It shockingly resolved to allow gold to fall below the export point. This decision not only violated the understanding established with the Bank of France it also gave the illusion that the credits had been exhausted, which accelerated sterling sales.'

Norman on his return was furious at what his deputy had done but nonetheless it was thought politic to go along with the fiction - according to Morrison maintained by all subsequent historians - that Britain had been 'forced' off the gold standard by the panic selling of sterling on the international market which, it must be said, was certainly taking place. However:

'Suspension did not ensure the gold standard's demise. After all, convertibility had been restored after the wartime suspension. The London Times even reported, "the suspension provided for in the Bill ... is limited to a period of six months." What made things different this time?

'"There are few Englishmen who do not rejoice at the breaking of our gold fetters," Keynes wrote one week after the suspension. Following Keynes, [economic historians] *Eichengreen and Temin argue that democracy triumphed over the gold standard: "The world economy did not ... recover when [political and economic leaders] changed their minds; rather, recovery began when mass politics ... removed them from office."*

'The opposite was true in Britain. The general election came one month after the suspension. It was "clear during the campaign," the Times reported, that the currency question was "the only issue." Leading Conservative Stanley Baldwin framed it as the "acid test of democracy." Defying Harvey's cynical expectations, Britons rose to the challenge, granting the National Government the largest electoral mandate in modern British history. Pledging currency stability, the Conservatives won 470 seats. Labour, which forswore a commitment "to force sterling back to the old gold parity," lost 215 of its 267 seats. Here, "mass politics" overwhelmingly endorsed "gold-standard ideology." The "cultural hegemony of economic orthodoxy" was displaced only after an unexpected experiment established new ideas.

'Financial markets had reacted to Harvey's surprising announcement "with comparative calm." Hesitant to resume convertibility prematurely, the Treasury recommended "a waiting policy" to "allow sterling to settle at whatever level circumstances suggest is most appropriate." In the first week, sterling slid from the fixed rate of $4.86 to $3.40. The government then proposed a managed float: "the Bank of England should as a provisional policy endeavour to keep sterling within certain limits, by buying sterling at the lower limit and selling foreign currencies at the higher." This worked better than expected, and the Treasury were pleasantly surprised at their ability to "save the pound from the danger to which ... other currencies, similarly situated, have succumbed." After falling to a nadir of $3.23 the pound stabilised within a band between $3.40 and $3.80. The suspension was nothing like the "very great disaster" predicted by these same officials. They had no choice but to update their beliefs. As a chagrined Norman subsequently put it, "We have fallen over the precipice ... but we are alive at the bottom."

'The decision to forestall a return to gold created space for the Treasury to experiment with new ideas about "the role of the exchange rate in the regulation of the economy." As the Treasury investigated the possibilities, it became clear that no one had done more to develop the alternatives than Keynes. In October, his staunch critic in the Treasury - Frederick Leith-Ross - reached out to him. When Keynes's push to remake the international monetary system met with intransigence abroad, he proposed that Britain form an imperial currency bloc with a fixed-but-adjustable parity vis-à-vis gold. This would allow Britain to achieve the true purpose of monetary policy: domestic price stability.'

FORMATION OF THE STERLING BLOC

This was to be the next stage in the cracking open of the moral and economic ideal Britain was supposed to represent in the world, replacing free trade with the previously rejected policy of 'imperial preference.' According to Skidelsky (Keynes ii, p.434) one immediate result was the emergence of the 'sterling bloc' - *'the group of over twenty nations, mainly primary producers, who had devalued their currencies in line with sterling in order to preserve their entry to the British market.'* He continues: *'This collective devaluation had also freed the debtor group of nations from the thrall of the creditor nations, led by the United States and France, which remained on the gold standard.'* Obviously from the point of view of the 'creditor' nations this mass devaluation was an act of theft, defaulting on the loans these countries had received. Britain had begun what is often described as the 'beggar-thy-neighbour' period of competitive devaluations through the 1930s. The United States and France were soon off the gold standard. *'The number of countries on the Gold Standard dropped from 48 in 1931 to zero in 1937, as governments suspended gold convertibility to enhance competitiveness through exchange depreciation. These moves coincided with dramatic increases in trade protection and the formation of exclusive trade and currency zones, which had corrosive effects on the multilateral system.'*[7] According to a description by an American Foreign Affairs theorist, Steven Lobell:

'By 1931, Britain was no longer a free trader. In February 1932, Neville Chamberlain, Joseph Chamberlain's son, advanced his father's dream of Empire Free Trade. Chamberlain introduced the Import Duties Bill which could reduce tariffs in favor of countries of the Empire with whom preferential trading agreements could be made. The Import Duties Bill called for (1) imposition of a general customs duty of 10 percent on almost all imports, (2) exemption from the duty of goods from within the Empire, pending the Imperial Economic Conference to be held in Ottawa, (3) exemption of certain other goods, which were placed on a free list. In August 1932, at the Ottawa Conference, Britain formally adopted a commercial policy of imperial preferences. The Ottawa Conference produced a network of twelve bilateral agreements among the Commonwealth countries, granting special trading privileges to British Commonwealth countries. Britain offered imperial preferences in return for concessions by the Dominions for British manufactured goods (the exchange was primarily foodstuffs from the Dominions for British manufactured goods). The result was that Britain's exports to the Dominions received preference, but chiefly by increasing the tariff against foreign goods.

'The Ottawa agreements were followed by seventeen trade agreements (1932-1935), creating a vast Sterling Area. The Sterling Area was a group of countries that chose to follow the pound sterling. These were countries that were heavily dependent on the British market, did most of their trade in sterling, and/or fixed their own currencies' exchange rate in relation to the pound, and held some or all of their reserves in sterling. The countries included Finland, Norway, Sweden, Denmark, Estonia, Latvia, Lithuania, Iceland, Portugal, the British Empire (excluding Canada and British

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7 Kerry A.Chase: 'Imperial protection and strategic trade policy in the interwar period', *Review of international political economy*, Vol.11 No. 1 (Feb 2004), p.179.

Honduras [but including Ireland - PB]*), the mandates, Egypt-Sudan, Thailand, and Argentina.'*[8]

This was broadly the system Morgenthau and White hoped to break in the post-war reconstruction of a 'multilateral' trade system. The story of how they succeeded through wartime negotiations conducted with Keynes as representative of the UK will be told in the next episode. It is a story given added piquancy when we learn that White was secretly channelling confidential information to the Soviet Union, while Keynes's extremely interesting but unsuccessful counter-proposal was partly inspired by Hjalmar Schacht's management of the German economy in the 1930s and Walther Funk's plan for the reorganisation of Western Europe after the fall of France.

[8] Steven E. Lobell: 'Second image reversed politics: Britain's choice of freer trade or imperial preferences, 1903-1906, 1917-1923, 1930-1932', *International Studies Quarterly,* Vol.13, No.4, Dec. 1999, p.680. Lobell, Professor of Political Science in the University of Utah, is a 'Neo-Classical Realist', concerned with understanding the conditions necessary to maintain American hegemony in the world.