

*SHAFR 2004 Panel 36 Commentary by Thomas Zeiler*

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Panel 36: The Political Economy of the Cold War Alliance: Years of Consolidation, Years of Disintegration

Chair: Thomas Zeiler, University of Colorado

“Bringing the Cold War to the GATT: U.S. Commercial Diplomacy from Truman to Kennedy “

Francine McKenzie, University of Western Ontario

“The Decision to Float: The United States, West Germany, and the Breakdown of Bretton Woods, 1969-1973”

William Glenn Gray, Texas Tech University

“Conflict or Cooperation: Foreign Economic Policy in the Nixon Years”

Kathleen Rasmussen, Office of the Historian, Department of State

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Themes: These three excellent papers deal with economic policies in the international arena, and all deal with a common theme: friendship, integration, and cooperation hurts. What to you do when your allies become real competitors, and punish your economy more than your enemies? Is there room for nationalism?

All these papers tie in nicely together on these themes, even though one is on trade and two are on monetary policy. Francine McKenzie’s also deals with a different period than the other two, but its illustration of inter-allied, intra-capitalist tension is similar.

FRANCINE MCKENZIE: trade, namely the GATT system, has always been political.

A bit more precision is needed on what she meant by “political” it seems that she means diplomacy and national security, and this ignores the always significant, if not pivotal, domestic side of international trade policy. Domestic politics and local economies are what focuses us on trade/globalization today steelworkers and jobs and they focused people 40-50 years ago, too. A close reading of the Trade Expansion Act of 1962, for example, shows that Kennedy made side agreements with powerful congressional leaders and their constituent blocs, as a means of clearing the way toward GATT negotiations. Likewise, Eisenhower fought a constant battle against rising protectionism at home in the midst of lobbying for the entry into GATT of Japan. This is an important element, critical element, in the history of GATT, an agreement, after all, that recognized by its

very nature as temporary stand-in for a formal trade organization (that, after several attempts, was established under the WTO in 1995) that trade was so fraught with DOMESTIC politics that rigid free-trade rules and practices were out of the question.

Regarding the domestic angle aside, I was surprised that there was not close attention paid to another catalyst to the GATT bargain and regime: the memory, ideology if you will, of the GREAT DEPRESSION. National security was critical, but what about the memory of the Great Depression? That disaster, of course, is seminal to the trade story, and it was THE political impetus to planning a postwar system during WWII. Its specter is still with us; when protectionism rears up, analysts dredge up the Great Depression. It would be interesting to target closer its influence on GATT deliberations, both bilateral agreements and in general rule-making.

Francine has ably demonstrated that economics served security in the first fifteen years of the Cold War. She might have noted that the Kolko/McCormick/LaFeber thesis of economic determinism, hegemonic muscle-flexing, and imperialism, does not always hold when the archives on trade policy are searched as diligently as she has explored them. This is shown in the discussion of Soviet satellites that toyed with entering GATT. The Czechs were the only to join the trade regime, but that did not prevent both a wariness of communism and socialism, and also squabbling among the capitalist allies. But this squabbling arose due to greater security policy differences (recognition of the People's Republic of China, entry of the WWII commercial aggressor Japan) rather than because of an America grasping at empire. The balance of power in trade leaned toward the USA, not the Europeans, and America looked at trade as a foreign policy tool and not in terms of economic survival. The USA also gave away concessions, too hardly the stuff of neo-mercantilist empire-building.

On the Kolko side, however, this paper does point to the fact that elites (national security state) determined policy when constituents might have differed with it. Trade is a fairly open political issue, subject to interest group pressures. There is, unfortunately, no mention of the societal groups involved, but it is evident from Francine's work that trade emanated from the top down. Is that accurate? That is, weren't their pressures and politics of trade that also shaped the US response to using commercial policy as a foreign policy? Where are the workers, producers, manufacturers, and the TRANSNATIONALS (likewise for monetary policy the bankers, bondtraders, speculators)?

Again, the EEC is critical to this topic. Surprisingly, we do not yet have a thorough history of the 1950s international/GATT regime. We do for its planning and birth in the 1940s, and we do for the 1960s the first GATT Round (Kennedy Round) in which the USA negotiated with the Six. Francine would do well to focus on the 1950s and also work in the less-developed countries with a thorough historical grounding. UNCTAD is a major development, but actually, Third World dissatisfaction with GATT stemmed from the mid-1950s, and was addressed in many forums, including the Haberler Report, import substitution plans, etc. GATT did not adequately respond, and the breakaway UNCTAD was the result. Elites in GATT -- western-oriented, free-trade driven, national security-dominated -- neglected, ignored, or shut out the less-developed world; that was a

big price to pay for national security but one overcome by, say, the success of certain Third World nations, like the Four Asian Tigers.

There are many topics Francine addresses in this paper, and she charts out possibilities for future research. It seems that we've explored sufficiently the US-European side of things, but there is always more work to be done regarding tensions within the NATO bloc on trade (as we see in finance, too). We've beaten to death the topic of universal free-trade values falling victim to the Cold War; it's time to move off the protectionism and national security debate and into an exploration of how the Soviet empire, Japan, China, and others fit into the GATT system. Some of this will depend on getting access to the East Bloc archives, where we might find a trove of information on East-West trade related to GATT. Some will depend on shifting our gaze from traditional topics in trade history to less explored arenas, such as East-West (as Francine does) or specific products or industries.

Surely, politics, both diplomatic and domestic, were critical, but in the last analysis, trade historians must ask the key question: which nations or producers benefited from GATT negotiations and rules? Who won and who lost? Did national security mean that American opened its markets to the detriment of its producers and workers, as Al Eckes and other protectionist-minded scholars have noted? Or, as the neo-cons, liberals, and Reaganites argue, does everyone including the most important constituency in America, the consumer benefit from more open and freer trade? What was the price, that is, of liberal trade (as well as floating exchange rates, I might add)?

WILLIAM GRAY: In the spirit of what a decade or more ago was called European revisionism, but which is now more accepted, and logical, interpretation of US-European relations (in which Europe itself shaped, resisted, and sometime dictated American policies), he corrects the view that the United States solely dictated the end of Bretton Woods; instead, European allies, and namely the West Germans, moved ahead in abandoning fixed exchange rates.

In this, his evidence and argument are compelling. In the endgame of Bretton Woods, West Germany's pressure to float the deutschmark and thus prevent further speculation against the currency moved the monetary system toward floating rates. In this story, the US is more than a bystander, perhaps it is also a whipping boy. Contrasted to Kathy's approach to American policy, Prof. Gray seems to argue that Treasury Secretary John Connally and Richard Nixon were the point-men for a West German preferred course of action. The latter got their domestic bureaucrats and politicians lined up, the Americans did the dirty work of slamming the gold window and thus suspending convertibility, and pressing toward the float. And William is absolutely correct in bringing West Germany to the fore; the country deserves our attention as a major player -- perhaps as the determining player -- in the global economy. And more than as an American agent.

I like how William ties together monetary and trade policy: the CAP with Bretton Woods, and does so by exploring West Germany's particular role in the EEC. This is

another contribution: the story of the Six is usually told by focusing on Charles De Gaulle, and later, on Giscard D'Estaing, and their obstacles to US designs. But France's power, though real, emanated more from imperious rhetoric and EEC politics than from sheer economic strength, like West Germany's. Bonn was much more important, but the Germans were at odds with their European trade partners in the customs union. Here is a powerful nation that gives the CM commissioners, especially the French, fits over its willingness to float the deutschmark. The story, then, is not just of the USA fighting its allies, but about intra-European rivalry, with the Atlantic relationship hovering above.

On this latter, were the US and West Germany in accord, or even in league, to dash Bretton Woods, end speculation on the D-Mark, and ease the payments burden on the USA? William focuses on West Germany, and America is there hovering in the clouds of hegemony. But do the documents reveal that these two powers work against the EEC, or at least worked together to doom Bretton Woods and create the float?

Of course, we see how difficult monetary union is today, but that history goes well back, and certainly to the decision to float the D-Mark. William's treatment shows that nations are never independent, because while the economics might make sense (of floating), the politics always interfere. Multilateralism might be even more constraining than we thought; integration is a real pain, and demands sacrifice and comes oftentimes with conflict. But key is that 1969-early 1970s was an era when nations realized that global capitalism was integrated but that the vision of Marx and Lenin -- of capitalist infighting and self-destruction of financial systems leading to revolution -- would have to be combated by greater freedom, that is, trade and monetary deregulation. Truly, the postwar era, for all purposes, ended in 1973, BW was dead: globalization's second phase began.

Ludwig Erhard's ghost floats here as much as the D-Mark floated -- and although he was forced out in the 1960s, his vision of fewer restrictions on capital -- hence, truly, globalization, really triumphed. West Germany helped America toward this transition to globalization. William has made a significant contribution to explaining this change and the development of our recent times.

KATHY RASMUSSEN: did Nixon/Connally have to be so brutal with allies in pushing their New Economic Policy, or would a more cooperative, George Schultz approach have worked just as well? Good cop/bad cop typical of Nixon style. By time Schultz is in, is there a reason to be conflictual?

A question: is it the LACK of a policy/ambiguity that is most troublesome, or the style of approaching the allies? Form over substance; style over policies? Remember, this is second Nixon shock, and coming in context of overhaul in US policy -- First shock is China, second is righting the economy. Also, the administration itself divided about what to do (as Kathy shows). So, is Connally just impatient, and that is what is upsetting, or are their deeper problems in US approach? In short, it is common practice to bash Richard Nixon; he's a nice target. But do we give him his due when it comes to clever strategies and tactics, and simple successes?

What about shock treatment? The stumbling of Bretton Woods, and patchwork attempts to fix the system, had been going on for over a decade, but the international monetary system set up by Bretton Woods, as Frank Gavin has recently written, was essentially dead by the time Nixon took office. The President was looking for long-term fix, not the short-term ploys of Ike, JFK, LBJ, and thus he merely presided over its burial, rather than killing it himself. Perhaps shocking the world into the reality that Bretton Woods (the gold peg of fixed exchange rates and limited liquidity) was a hindrance lay behind the abrupt announcement perhaps this was, again, TACTICS.

AND, in one theme that seems missing from all, what about the DOMESTIC side of the equation? Nixon shocked for external use, but also for domestic consumption political as well as US economy. This is a cardinal example of Robert Putnam and other IR theorists have termed “double-edged diplomacy”. They played a “two-level game” in security, human rights, trade -- which policymakers play all the time -- balancing domestic against international concerns. We shouldn’t forget the Nixon was a political animal, like Texas Governor Connally. August 15 was about wage and price controls, for the US economy, as well as making Nixon look tough, resolute, and activist regarding the sagging US economy.

So, is Kathy, maybe, too close to the documents, in need of stepping back an assessing behavior and tactics and strategy? Was Connally really all that conflictual, bombastic, etc.? Already much bad blood over monetary policy, at least since 1958. Gold drain, trade wars (Kennedy Rd limps to conclusion), face-offs over drawing rights, offsets. Americans had strong-armed the Germans before on offset payments, for example, and the recent Kennedy Round of GATT had reached an impasse and almost failed to end because of US-EEC squabbling. In the context of family feuding, inherent in integration, was the SHOCK THERAPY all that unusual?

Finally, one more thing. All of these papers are fairly Eurocentric. Japan needs some coverage. This is an era in which Japan, for the first time, took a major role not only in financial affairs, but in trade as well. After all, by 1970, it was one of the 5 largest IMF members and accounted for over 15% of imports into the USA (as well as the catalyst behind a growing American trade imbalance). “Texas Typhoon” Connally visited Japan in late 1971, following his advance team led by Council of Economic Advisors’ Paul McCracken (who met with Japanese businessmen), to get the Japanese to realign the yen against the dollar. Documents show that Connally, however, was actually conciliatory (though firm) with his counterpart, Finance Minister Mikio Mazuta, because Japan’s cooperation would give Connally leverage with the Europeans to compel their currency revaluation at the upcoming G-10 meeting in Rome.

This is an important story because of the actors involved and because it reflects on all the papers here today. Let’s face it, Japan and the Europeans tended toward neomercantilism. Nixon and Connally engaged in economic nationalism and domestic politics (textile war, Trade Reform Act, Nixon Shock). So, strong-arming was not unusual, as James Reston made clear in his 1989 biography of Connally. What was

remarkable was that, unlike the 1930s, all of this intra-capitalist fighting did not result in poverty and war, but in growth and substantial cooperation. The world trade and monetary systems were complex, but they were also successful for the developed, advanced nations, despite cowboy diplomacy!!

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