The Great Depression and "Embedded Liberalism"

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On 12 June 1933, one of largest gatherings of politicians in the history of the world met in the improbable venue of the Geological Museum in South Kensington. Delegates from 66 countries filled 708 seats at the World Monetary and Economic Conference, including one president, eight prime ministers, twenty foreign ministers, and eighty ministers and central bankers. Discussions were aided – or hindered – by a bar below the conference hall where delegations listed their preferred drinks – though one British newspaper thought there was less chance of agreeing on 'world restoratives'.

Henry Morgenthau senior, a New York property developed and diplomat, had little confidence: 'This is not a congress of free minds working to solve the world problems', for every delegation had instructions to pursue national advantage and few could proceed without consulting their home government. Herbert Feis, a member of the US delegation, had low expectations. It was 'a cafeteria crush rather than a cohesive gathering with determined common purposes'. The conference did not find a solution to the economic problems facing the world; instead, it exposed deep divisions and contested views of how to solve the first crisis of capitalism I am addressing in my three lectures. When representative of the leading economies again assembled in London in 2009 after the crisis of the global financial crash of 2008, Prime Minister Gordon Brown turned to 1933 as a warning: 'There was a world economic conference in 1933, and it took place in Britain. People came to London to get agreement, partly on trade, partly on other aspects of the economy. It failed. And partly as a result of that failure the rest of the Thirties was blighted by protectionism'.

The existence of a crisis was not in doubt. The Great Depression remains the standard against which economic crises are measured and from which lessons are drawn by politicians and economists. As we can see from the graphs, the conference was meeting at the low point of the depression: unemployment in the US was over 20 per cent and GDP had fallen by 26.6 per cent from the peak of 1929. What was in doubt was the solution – and the new administration of Franklin Delano Roosevelt that took office in March 1933 was divided over what to do.

The Failure of The World Monetary and Economic Conference

What did the United States want?

The American delegation in London covered all possibilities – Roosevelt, as always pursued different options until things crystallised. As he said, he never let his right hand know what his left was doing. His approach was one of competitive administration - he let different departments and members of his administration pursue their own agenda which led to an appearance of confusion and indecision. It also meant that he was the referee between alternative policies which concentrated power in the White House.

Underneath his tactical shifts he had a constant aim. When asked later in his presidency what was his main achievement, he said it was saving American capitalism which rested on a combination of free enterprise and individual rights, personal responsibility and the dignity of work. The New Deal achieved this task not so much be stimulating economic growth as by removing political criticism and social unrest. Social stability was a precondition to solving economic problems, and he knew that if capitalism were to survive, it needed to be reformed. Failure to act would play into the hands of alternatives of Bolshevism – the Soviet economy

appeared to be immune from the Depression as Stalin embarked on brutal industrialisation – or Fascism.

How to achieve his aim was not clear in 1933.

Cordell Hull, the Secretary of State and nominally leader of the delegation in London, pressed for free trade – he was little concerned about domestic policy and stressed internationalism. Free trade meant prosperity and peace:

> unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war…. if we could get a freer flow of trade – freer in the sense of fewer discriminations and obstructions – so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for lasting peace.

Hull pressed his case in London, but his approach was not accepted by many in the US administration, including Roosevelt's leading advisers in the 'brains' trust'. As an American diplomat put it, 'foreign trade is a side porch to the solid structure of our domestic economy – ornamental but not structurally necessary'. And if trade did not lead to prosperity, neither would it lead to peace. Secretary of the Treasury Henry Morgenthau junior remarked that Hull 'failed to realize that Japanese militarism and European fascism had released new and ugly forces which … could not be controlled politely'.

Alongside Hull, central bankers from the US, Britain and France met at the Bank of England to stabilise exchange rates between the dollar, pound and franc to end currency warfare. Britain had abandoned the gold standard in 1931 and devalued the pound which made its exports more competitive and imports more expensive – and others followed. Countries which retained the gold standard – including the US, France and Germany - were therefore facing problems of international competitiveness.

Roosevelt's advisers included 'hard money' advocates – above all James Warburg – who felt that staying on the gold standard was vital for sound money and stability. This looked like the sort of secret diplomacy by bankers that Roosevelt pledged to end in his inaugural address – bankers had contributed to the Great Depression, and he pledged to drive the money changers from the temple of our civilisation.

Against these supporters of gold and stabilisation were members of the 'silver lobby' who wanted to raise prices. Adding silver to the money supply would increase prices and help indebted farmers who had difficulties in paying their mortgages. The cry that they were 'crucified on a cross of gold' went back to the populists of the late nineteenth century and William Jennings Bryan's presidential campaign of 1896. The silver lobby was also represented in the US delegation in the person of Senator Pittman who spent most of the time drunk.

Roosevelt was alert to the populist campaign of Father Coughlin who called for an end to the 'tyranny of the gold standard'. Coughlin's broadcast in February 1933 on 'Banks and Gold' attacked Wall Street bankers 'who, without either the blood of patriotism or of Christianity flowing in their veins, have shackled the lives of men and of nations with the ponderous links of their golden chain'.

Competing for influence with Hull in London was Raymond Moley of Roosevelt's brains trust which was 'working intensively on program of domestic recovery which depended utterly on non-interference from outside. We were temporary isolationists'. They wanted a 'domestic policy which will put our house in order'.

Roosevelt allowed both nationalist and internationalist ideas to be developed simultaneously and to be fought out in London in a delegation that covered all positions. His views crystallised during the conference. He was on vacation on his yacht *Amberjack* as the conference started, and on the way back to Washington a navy warship he sent his 'bombshell' on 3 July 1933. It would, he said, be 'a catastrophe amounting to a world tragedy' if the Conference was 'diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few Nations only'. He announced it was time to reject 'old fetishes of so-called international bankers'. His priorities lay at home which meant rejecting both Warburg's commitment to gold and Hull's internationalism.

Roosevelt took the United States off gold and embarked on aggressive devaluation of the dollar. He had a long interest in unorthodox monetary policies, and his approach was supported by the University of Chicago economist Irving Fisher. Fisher realised that when prices were falling, people would delay buying goods; the real burden of debt would rise with a vicious cycle of debt-deflation-depression to be broken by raising prices through an active monetary policy. These views were reinforced by George Warren, an expert on farm management who advised Roosevelt and Morgenthau on their estates in the Hudson Valley, who was obsessed with increasing prices. A visit to Europe led Warren to the conclusion that the choice was between

a rise in prices and a rise in dictators: Hitler was the product of deflation that undermined democratic institutions.

The new approach horrified Warburg. In 1934 he likened Roosevelt to an incompetent doctor – 'in seeking to cure an infected toe, he has come perilously close to amputating the whole leg'.

Roosevelt's decision cleared the way for easy money to raise prices which would break the cycle of debt-deflation-depression; it would also reduce the burden of debt.

More immediately, Roosevelt's 'bombshell' sank the conference. Neville Chamberlain remarked that 'there has never been a case of a Conference being so completely smashed by one of its participants'. But it is doubtful it would have succeeded anyway given the lack of agreement between other participants.

The British approach to depression

Trade: The British adopted imperial preference in 1931/2 and Neville Chamberlain insisted it was essential to British recovery. It entailed a rejection of free trade and the creation of a trade bloc. To Hull, imperial preference was worse than high tariffs which applied to all countries; preferences distorted trade and led to inefficiency. More generally, Roosevelt was deeply suspicious of European colonialism.

Money: Churchill's decision to return Britain to the gold standard in 1925 was associated with deflation to reduce prices to sustain an exchange rate of £1 to $4.86. Gold meant – so it seemed - the General Strike of 1926, unemployment, and low growth. Britain abandoned the gold standard in 1931 and held down the value of the pound: hence exports were cheaper and imports more expensive. Furthermore, the removal of a need to defend the exchange rate allowed low interest rates to stimulate housebuilding and reduced costs of servicing the national debt.

British policy was tariffs plus soft money which stimulated recovery in the 1930s. But the policy was not coordinated with other countries – it was widely seen as 'beggar my neighbour' economic nationalism.

War debt: the conference was opened by Prime Minister Ramsay MacDonald who raised an issue that was not on the agenda: war debts. In December 1931, Congress resolved that it was 'against the policy of Congress that any of the indebtedness of foreign countries to the United States should in any manner be cancelled or reduced'.

The British made only a token payment and then defaulted; the French had already defaulted in December 1932.

Will Rogers, political commentator and vaudeville turn, felt that the only reason for the conference was for Europeans to cancel their debts, and then to force America to reduce their tariffs and to stabilise the dollar at a high rate. 'If things don't pick up in their own countries, they'll think up something else to blame America for and have another conference'. There was huge resentment in Washington against the unreliable British.

France

Paris was more committed to the gold standard. Hostility to Britain's decision to abandon gold in 1931 was compounded by the American decision in 1933. France was left with an overvalued currency, with greater difficulties in exporting and pressure to deflate the economy to force down wages and prices.

France had returned to gold in 1928 and saw it as a solution to previous inflation and political instability. Gold meant order, stability, and confidence rather than, as in Britain, social unrest and unemployment. In 1933, French policy was hard money and tariffs.

Germany

Hitler became Chancellor in January 1933 in a coalition government with far-right parties. One reason for the growing success of the Nazi party was the economic crisis in Germany in 1931 that played a major role in turning the Wall Street crash of 1929 into a banking crisis that pulled the economy into depression.

Germany had massive debts arising from reparations and foreign debt arising from the willingness of banks (mainly in New York) to lend large sums for higher interest than could be obtained at home. When recession hit in 1929, the Weimar government needed a surplus on its foreign trade and a surplus on its budget to service the debt – with the result that it embarked on successive rounds of wage cuts, reduction in public spending, and higher taxes. Deep divisions in the Reichstag meant that measures were passed through emergency decrees which undermined democracy. The democratic parties failed to resolve the crisis as they

cut wages and spending and raised taxes which worsened the economic crisis.

In summer 1931, parts of the German banking system collapsed, the government stopped servicing its international debts, and convertibility of the Mark was suspended. The result was a global liquidity crisis which contributed to the banking crisis in America. It also contributed to the rise of Hitler which was closely associated with austerity and foreign debt.

At the London conference, Hitler hoped to minimise concern about his foreign policy, not least because of alarm at his stance at the disarmament conference being held in Geneva at the same time. He did not want to provoke more hostility and hoped to pose as a good internationalist– but he also wished to avoid any discussion of German tariffs and monetary policy; and he saw a strong, self-sufficient economy as vital for rearmament and securing a European empire.

The leader of the German delegation was a career diplomat and now foreign minister, Konstantin von Neurath who was concerned with Germany's international standing. At the other extreme, was another member of the delegation, the economics minister and leader of the National People's Party, Alfred Hugenberg. He caused outrage at the conference when he argued that the solution to the depression was German colonial expansion in eastern Europe and Africa. He was disavowed by Hitler.

Between them was Hjalmar Schacht, President of the Reichsbank and Hitler's economic adviser. He steered between the two by stressing the burden of commercial debt which could not be serviced – he argued- because American tariffs prevented Germany from earning dollars. He moved to declare a partial moratorium on debt – and gave priority to Britain in meeting obligations, for Germany had a trade surplus there. Schacht was in London during the conference and negotiated a favourable deal on its debt with Britain. Schacht had been able to pose as a friend of opening markets in blaming American tariffs; and also to drive a wedge between London and Washington. Despite Hugenberg, Germany was a winner at the conference: it was encouraged by the failure of democracies to agree.

Schacht succeeded Hugenberg as economics minister. He clung to gold and refused to devalue the Reichsmark which made German goods less competitive.

- He had a leading role in dealing with hyperinflation in early 1920s: feared devaluation would reignite inflation by increasing costs of imported food and materials.
- Devaluation would increase costs of servicing the debt – devaluation of pound and then dollar reduced burden of debt in Reichsmark

Devaluation might make exports cheaper and improve the balance of payments and make debt service easier – but it was a gamble and would take some time before it took effect.

German policy was to remain on gold with strict control of foreign exchanges to ration available funds, and bilateral trade or "Schachtianism". The world was shifting to self-contained blocs – the British empire, Japan and its so-called 'co-prosperity' sphere, Germany and its bilateral system of exchange – and of course the Soviet Union which was rapidly industrialising under Stalin.

What Could Be Done?

The conference failed: it saw a triumph of nationalism over internationalism. The *Economist* summed up the conference:

> Faced with the greatest economic crisis of recent history, the effective solution of which can by general consent only be achieved by international action… one country after another has by its attitude placed obstacles in the way of the formulation of an international plan

Internationalism had been defeated by economic nationalism, with the world economy seeming to be spiralling out of control. Economic warfare might lead to real warfare as the liberal capitalist democracies faced the authoritarian systems of the Soviet Union, Germany, Italy and Japan. Rebuilding capitalism was closely allied with geopolitical strategy.

What could be done?

Roosevelt's first task was to save American capitalism at home.

The problem of his policy of increasing prices by manipulating the value of the dollar and increasing money supply was two-fold: it created international instability or beggar my neighbour policies as countries vied with

each other to secure markets; and higher prices would hit wage earners. An easy money solution was not sufficient: action was needed to increase 'purchasing power'.

- He offered support for homeowners who faced default on their mortgages; the Home Owners Loan Corporation of 1933 gave distressed borrowers a lower interest over a long term;
- He introduced a social safety net of pensions and unemployment insurance.
- In 1935, the National Labor Relations Act granted a legal right to join trade unions and engage in collective bargaining which increased the ability of workers to increase wages and consumption; unions justified their actions as driving redistribution for all consumers.
- women's consumer movements such as the League of Women Shoppers pressed housewives to buy goods produced with fair conditions and wages – Eleanor Roosevelt pledged only to wear union made dresses. Shoppers were mobilised by the National Recovery Administration's Blue Eagle scheme of 1933 – a system of pledges to minimum wages and maximum hours, by using public opinion to raise purchasing power.
- Used taxation and competition policies to reduce inequality of income and wealth.

American capitalism was remade to save it from its critics: it was not that the New Deal led to economic recovery, but it did contain social unrest.

Roosevelt extended this model of the New Deal internationally during the war to create a post-war order of a free society linked to commercial and monetary openness. The process started soon after failure of the conference:

Reciprocal Trade Agreement Act, 1934. Soon after Hull returned from London, he attended the Pan-American Conference in Montevideo – ostensibly to discuss a pan-American highway. He turned the meeting into a plea for internationalism. He was building on Roosevelt's 'good neighbour policy' announced in his inaugural address. Above all, Hull embarked on a plan to reduce the high level of tariffs imposed by the infamous Smoot-Hawley tariff. The Reciprocal Trade Agreement Act of 1934 transferred power to reduce tariffs from Congress to the President. This shift was vitally important, for it stopped logrolling in Congress whereby Representatives and Senators agreed to support each other's sectional interests. The decision to cede authority did not arise from a realisation of the damage done. Rather, it was a realisation by Southern Democrats committed to free trade for their exports of cotton and tobacco that they needed to lock in tariff reductions to prevent Republicans from eroding any gains, as happened on previous occasions. The Act allowed Hull to make bilateral trade agreements which could then be extended to others using the unconditional most favoured nation principle. Countries A and B would make a bilateral deal; if A then made a deal with C, it would extend the same concessions to B. Freer trade would therefore be extended across the world economy in a cumulative process – and Hull also hoped it would lead to peace: 'get all the commercial nations in agreement on liberalizing and increasing trade, removing trade restrictions and eliminating discrimination. And then, with nearly forty nations banded together on economic grounds, show recalcitrant nations like Germany and Italy the undoubted benefits of joining in the same movement.'

Tripartite Agreement, 1936. Roosevelt had succeeded in his attempt to end deflation and to raise prices, but there was a danger of going too far. By 1935, Morgenthau saw a need to stabilise the dollar: the risk was competitive devaluation as other countries tried to gain an advantage, with a loss of confidence in currencies that would hinder trade and investment. The outcome was an agreement between Britain, France and the United States to stabilise exchange rates between the pound, franc and dollar – though not to return to gold as the French preferred. Morgenthau assured Chamberlain that the agreement was

> the greatest move taken for peace in the world since the World War…. It may be the turning point for again resuming rational thinking in Europe. It may be just the thing to again bring reason back to these perfectly mad people. Let's hope so…. After all, we are the only three liberal governments left.

It was a way of unifying democratic capitalism against totalitarian regimes to 'safeguard peace'. It also introduced a new principle: countries should not sacrifice their domestic prosperity to maintaining a fixed exchange rate as on the gold standard; neither should they ignore the impact of their policies on other countries. Cooperation was needed to strike a balance between the two. It did not involve an institution or even signatures – as Morgenthau said, 'It is good faith. We have confidence in each other, and I would ten times rather shake hands than have all the signatures in the world'.

Even in the dark days of the 1930s, steps were being taken to rebuild cooperation in the global economy on the basis of agreements between the leading democratic and capitalist governments. Roosevelt had been concerned with rescuing American capitalism and prosperity in 1933. He saw a need to extend this ambition

to the world which was to become central in the war – culminating in the Bretton Woods agreement of 1944 that created the International Monetary Fund and the International Bank for Reconstruction and Development; and the post-war meetings over trade that led to the General Agreement on Trade and Tariffs. These bodies are often seen as 'embedded liberalism' – based on formal institutions, signatures and rules to sustain a liberal, free trade capitalist order.

Success at Bretton Woods

The Bretton Woods agreement of 1944 built on the Tripartite Agreement of 1936 to create a more formal institution to maintain currency stability.

The plans that culminated in Bretton Woods arose from two independent sources: the British scheme of John Maynard Keynes; and the American scheme of Harry Dexter White.

Keynes: The occasion for Keynes's plans from September 1941 was the New Order of 1940 proposed by Walther Funk, the German minister of economics and president of the Reichsbank, the successor of Schacht. Bilateral exchange of goods would continue for external trade, but a 'new order' of multilateral clearing would be introduced in Europe, run from an office in Berlin that would settle the balances between members. Funk assumed that no surplus or deficit would remain after the balances were cleared, for trade would reflect a rational division of labour directed from Berlin. The British government saw a danger that Funk's New Order could be portrayed in positive terms, and Keynes was asked to criticise it in a radio broadcast. He refused. Keynes realised that Funk's plan was far from benign, for the 'rational' division of labour meant that Germany would supply industrial goods to countries that were reduced to producing food and raw material for the Reich in 'an up-to-date version of imperialist exploitation verging on slavery'. Nevertheless, Funk's plan seemed 'excellent and just what we ourselves ought to be thinking of doing', only 'much better, much more honestly and with much more regard to other people's interests'. What was needed was a benign version of the New Order as a positive plan for post-war Europe.

Keynes put forward his own version of a clearing union that drew on ideas he had been developing since the 1920s. Instead of the rigidity of the gold standard, there should be a managed international currency. Unlike Funk, he did not expect payments between countries to balance – the world economy would not be centrally planned – so a bank was needed to provide credit to deficit countries, just like the overdrafts offered by British banks. National currencies should be stable but not rigidly fixed as on the gold standard so that exchange rates could be adjusted both downwards to prevent deflation in deficit countries and upwards to prevent accumulation of surpluses in creditor countries. He also argued that 'central control of capital movements, both inward and outward, should be a permanent feature of the post-war system' – speculative movements of capital were, in his view, a major source of the chaos of the interwar period as money.

White's scheme arose from a request by Morgenthau in December 1941. Morgenthau explained that his aim was 'to move the financial centre of the world from London and Wall Street to the United States Treasury, and to create a new concept between nations in international finance', based on international institutions that would be the 'instrumentalities of sovereign governments and not of private financial interests'. Like Roosevelt in 1933, he wished to remove the power of finance in the capitalist economy, to 'drive … the usurious money lenders from the temple of international finance'.

White had the basis of a plan ready to hand, for he had been working on proposals in Latin America that went back to the 'good neighbour' policy of Roosevelt's inaugural address. This approach to Latin America was a template for the post-war world. The administration turned from military intervention in support of American creditors to assist fellow victims of Wall Street financiers; the policy in Latin America was a step towards a cooperative international structure. White was involved with proposals for an Inter-American Bank and was working on a plan for the inter-American conference at Rio de Janeiro in January 1942. White's initial draft urged that 'the lesson that must be learned is that prosperous neighbours are the best neighbours; that a higher standard of living in one country begets higher standards in others, and that a high level of trade and business is most easily attained when generously and widely shared'.

In May 1942, Morgenthau informed Roosevelt that White's plan was 'a New Deal in international economics' to eliminate poverty. This was a vital part of Roosevelt's war-tome aims: as he said in June 1943, 'I do want to get across the idea … that the economy and social welfare of Jesus Fernandez in Brazil does affect the economic and social welfare of Johnny Jones in Terre Haute, Indiana'. The White plan was associated with an attempt to internationalise the New Deal.

The story of how these two plans came together at Bretton Woods – mainly on American terms – has often been told and I will not go into those details today. Rather, I will ask why the Bretton Woods conference succeeded where the London conference failed, and what were the main outcomes?

Success was possible because

- The main details were agreed by a small group of technical experts – above all the British and Americans - before involving a wider group. The lesson was learned: do not proceed through large international conferences until major issues settled.
- It dealt with one issue, segmenting complicated negotiations rather than seeking an entire package which would fail as in 1933.
- Monetary issues were more technical and less politically divisive than trade which was put in abeyance. The British government was deeply divided between free traders or Atlanticists and supporters of imperial preference; and the American State Department was adamant that Britain should abandon imperial preference in return for assistance.
- The monetary system was closed down during the war which made reform easier.

The outcome at Bretton Woods was to balance internationalism and domestic welfare that built on the Tripartite Agreement, now with formal institutions and rules rather than a gentleman's agreement or handshake.

Exchange rates: the dollar was fixed to gold at $35 as the anchor of the system; other currencies would then set a rate against the dollar. This would create stability – but countries were allowed to vary the rate if circumstances required, with oversight by the IMF. There was therefore stability that prevented competitive devaluation, but some flexibility for domestic policy reasons.

Capital movement: both Keynes and White thought that short-term speculative international capital flows were destabilising, so that controls were permitted. International finance was to be subordinated to domestic priorities. If capital could flow freely, a government that wished to reduce interest rates to stimulate the economy would experience a capital outflow and pressure on the exchanges and would therefore need to reverse its policy. If financial markets were subordinated, there would be more discretion for domestic policy. Finance was subordinated to domestic stability; and a balance was struck between internationalism and domestic prosperity.

Assistance: unlike the Agreement of 1936, the International Monetary Fund and the International Bank for Reconstruction and Development had funds to assist countries in need so that they did not have recourse to beggar my neighbour policies.

At Bretton Woods, both the Soviet Union and nationalist China were represented. Roosevelt was anxious that they should be involved in the post-war order that would be based on 'Four Policemen' – four great powers with responsibility for their spheres of influence: the United States in the Western hemisphere; Britain in Europe, linked to the elimination of Germany as a major economic power; China in Asia; and the Soviet Union which was the big problem. Roosevelt hoped that post-war cooperation could be maintained with the Soviet Union, which meant convincing Stalin that he was not ganging up with Britain, and that he would be the mediator between the two powers.

The Americans therefore hoped that the new institutions would be inclusive – and not only White who was a Soviet agent. In reality, the institutions soon became representatives of western liberal capitalism, with the departure of the Soviet bloc and the marginalisation or exclusion of the less developed countries. Embedded liberalism was more limited than Roosevelt and Morgenthau wished. We can see the limits in the post-war debates over trade that culminated in a conference at Havana in 1947/8 to create an International Trade Organisation.

Failure at Havana

In the 1930s and during the wartime debates that led to Bretton Woods, there were calls for alternative approaches to the reshaping of the international economy, from less developed countries and heterodox or radical views in the developed world.

The concern was that a greater reliance on international trade would expose producers of agricultural commodities and raw materials to economic fluctuations; a drop in the prices for their commodities would

create domestic hardship, just as in the interwar period. Therefore, participation in a multilateral, open economy required a commitment by industrial countries – and especially the United States which was prone to booms and bust - to full employment at home. Policies were needed to ensure that the resources of the world were fully used – a position pressed above all by Australia who were sceptical about the Bretton Woods agreement.

Such policies were supported by some members of the Roosevelt administration – especially by Henry Wallace, the former Secretary of Agriculture who became vice-president. But attitudes were shifting, for the war brought businessmen into the administration, and the Republicans made gains – to them, this sounded suspiciously like socialism and state planning.

When attention turned to trade at the end of the war, the Australians succeeded in linking discussions with employment. In a series of meetings in London, Geneva and Havana, the voice of the primary producers and less developed countries was heard– Australia at first, and then India and finally Latin America. They pushed back on Hull's approach of multilateral trade and non-discrimination and demanded policies to increase the price of primary products, to allow preferences and restrictions to support their industries, to permit control over their own natural resources that had been exploited by the industrial economies, to ensure that workers were not used as sources of cheap, exploited labour.

The American negotiators made concessions at Havana to secure the Charter of the International Trade Organisation – but they were not acceptable on Capitol Hill which feared that free enterprise was being undermined. The Charter was never ratified.

What was left was the interim General Agreement on Tariffs and Trade signed in Geneva in 1947: a deal to reduce tariffs on industrial goods and the formulation of a set of rules that extended the 'embedded liberalism' of Bretton Woods. The Soviet bloc was not represented in these talks, and it did not cover agricultural commodities that were the main concern for less developed countries. GATT survived as a bloc of liberal capitalist democracies.

Embedded liberalism was therefore more narrowly defined than intended by Roosevelt – and the new institutions were criticised by the Soviets and the Third World as narrow and partisan, imposing one vision of the organisation of global economic relations.

Reformed Capitalism

Capitalism survived the crisis of the 1930s and the low point of the World Monetary and Economic Conference of 1933. It was transformed and reformed, until a new crisis emerged in the 1970s which marks a second crisis of capitalism that I will address in the next lecture of this series.

This reformed capitalism rested on a number of features:

- A balance between international and domestic economic concerns that prevented a return either to the 'beggar my neighbour' policies of the 1930s of currency and trade warfare, or to the surrender of domestic prosperity to fixed exchange rates of the gold standard.
- This balance was achieved by creating a stable system of exchange rates with some room for flexibility, and the right to control capital flows so that finance was subordinated to domestic welfare.
- A social contract between capital, labour and the state based on the politics of productivity. Labour would moderate wage demands and in return capitalists would invest in productivity; these higher returns went partly in wages and partly in profits. In return, the state offered welfare improvements to labour.
- Inequality was reduced through redistributive taxation policies: this had been true in the New Deal and continued after the war in the United States and Britain.
- Greater equality was also the result of the structure of the economy. Many industrial jobs were in Fordist mass production which offered steady employment at decent wages, often without formal skills: workers learned on the job and skills were not easily transferrable. This was to become a problem in the later twentieth century, but in the thirty years after the war led to prosperity in Detroit, Coventry, Turin and other industrial centres.
- The ideals of democratic capitalism were embedded in international institutions which laid down rules to create cooperation and to balance domestic and international priorities.

Looking Ahead to the Next Crisis

This system started to fall apart in the 1970s.

- The less developed countries complained that they did not share in the gains, that the terms of trade moved against them, and that their voice was not heard at the IMF and GATT. They expressed their views in new bodies – the Bandung conference of 1955, the United Nations Conference on Trade and Development, that culminated in the 1970s with demands for a New International Economic Order and the oil shock of 1973.
- Productivity gains slowed down – it was less possible to balance the needs for higher wages, reasonable profits, and stable prices. The social contract between labour, capital and the state broke down.
- The end of a commitment to a pegged exchange rate with the demise of the Bretton Woods agreement in the early 1970s removed the need to control the money supply and to keep wages under control – led to stagflation.
- The power of finance became greater with a return to free capital flows and the emergence of offshore funds.
- The structural nature of the economy started to change with the beginning of deindustrialisation in old industrial centres.

The result was a second crisis of capitalism in the 1970s which was remade on the basis of market liberalism and financialisation. This shift from the world of the New Deal to a new world of Thatcher and Reagan is the subject of my second lecture.

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