

Week 9. Reconstructing the International/Domestic Political Divide. Ikenberry. 1993. “Creating Yesterday’s New World Order: Keynesian ‘New Thinking’ and the Anglo-American Postwar Settlement.” in Goldstein and Keohane (eds.).

Main question: What explains the Anglo-American postwar settlement, which established rules for a relatively open and multilateral system of trade and payments, but would also reconcile openness with commitments of national governments to full employment and economic stabilization?

Main answer: Ikenberry emphasizes the role of experts or “new thinkers” in cementing the relationship between the two countries. These were Keynesian economists and well-placed government specialists in both the British and American Treasury, who supported the idea of government intervention to ensure full employment, social welfare, and economic stability. They were crucial in defining government conceptions of postwar interests, building coalitions in support of the postwar settlement, and legitimating the exercise of American power. They also shifted the focus from the contentious trade issues to monetary issues by creating a “middle ground” between a liberal open market idea promoted by the US and the bilateral trade or regional arrangements with a managed economy promoted by the UK. Such middle ground was apparent in the Bretton Woods agreement.

Ideas alone are not enough to explain. Ikenberry argues that the role of interests that the underlying structures of interests set the broad parameters around which an agreement could be built, but they were not imperatives that inevitably produced the agreement. However, national economic interests and power realities are not sufficient in explaining the Anglo-American agreement. That’s why he turns to the role of monetary economists in the two countries.

Two competing views. After the war, the American and the British governments had different preferences for the patterns of international trade. The US was envisioning the nineteenth-century free trade, while the wartime government in London, worrying about the stability of its political coalition and the fragility of its impending postwar economic position, entertained the notions of regional and managed economic arrangements.

Middle ground found. However, the two communities of economists: led by John Maynard Keynes in the UK and Harry Dexter White in the US played significant roles in shaping the ideas of policymakers and reconciling the contentious issues in both countries. They shifted the focus from trade issues as dominated by the State Department to monetary issues concerned by the Treasury. Keynes was promoting a managed, but still liberal, world economy with the government ensuring social welfare, full employment, and economic stability. White believed that international investment, capital movements, exchange rate parities, and commodity prices were potentially legitimate means for solving economic problems.

Essentials of the middle ground. The consensus of ideas among both countries’ economists was apparent in the Bretton Woods agreement. It is largely influenced by Keynesianism and reactions to the postwar economic meltdown. The agreement also represents a middle way between the conservative free traders and the new economic planners. Such consensus among economists has three essentials. The first was a strong belief in currency stability and convertibility. Convertibility would be ensured by the abolition of exchange controls and restrictions, and currency adjustment would be subject to international agreement. The second essential was that some form of international reserves was necessary as short-term assistance to allow expansionary solutions to balance-of-payments deficits. They all agreed that international stabilization funds should be available so as to allow governments to pursue multilateral and expansionary solutions to capital and trade imbalances.

The third essential among Anglo-American specialists was inspired by Keynes's idea. It was that new techniques of international economic management should be devised to reconcile the movement of capital and trade with policies. It should be a managed world economy. These views also coincide with a revival of American internationalism: the US would take little responsibility for developments of the world economy.

How did the role of experts come into play? In all, Ikenberry summarizes the roles of these monetary economists as follows:

- 1) Shaping government conceptions of interests. The end of the war or the aftermath of large-scale economic crisis changes the parameters of policy making because a) dissatisfaction with old policies creates new willingness among policymakers to reevaluate their interests, goals, and doctrines; b) disruptions and breakdown of rules and institutions create a need for nonincremental decision making; c) the collapse of old political coalitions requires a search for new coalitions. Keynes, White, and the other "new thinkers" played a key role in finding a resolution for the uncertainties from the end of the war. The transgovernmental "alliance" that they formed allowed them to shape the agenda, taking the initiative away from the free trade oriented State Department. The complexity of the issues gave them a privileged position to advance proposals, and their ideas were particularly well suited to building winning political coalitions.
- 2) Building new political coalitions. The consensus among Anglo-American experts cut through conflicts between the British and American governments by shifting the ground of debate from trade to monetary issues. The ideas presented created a political middle ground between an unregulated open system (supported by the US government) and bilateral or regional groupings (supported by the British government). Ikenberry's bottomline is that ideas do more than simply "enlighten" political elites: they have a political as well as a cognitive impact. They provide opportunities for new coalitions of interests, or at least they can give intellectual force or inspiration to those groupings. Ideas do change minds, but it is their practical value in solving political dilemmas that gives them a force in history. In short, policy ideas matter because they provide opportunities for elites to pursue their interests in more effective ways.
- 3) Legitimizing hegemonic power. There were real limits to the coercive pursuit of the American postwar agenda. American officials wanted to avoid looking as if they were imposing policies on the Europeans, although they wanted to promote American interests. This explains why American officials why they paid attention to normative bases of the postwar settlement especially in trying to make a normative appeal to elites in other countries and were willing to make adjustments along the way.
- 4) Timing and circumstance. The role of ideas in politics appears to be both powerful and fragile: powerful in shaping the definition of interests at particular historical junctures and fragile in that the conditions that allow for the play of these ideas are so highly dependent on an array of circumstances. In this case, the ideas of the monetary planners shaped the political interests. The enabling circumstances were a) the experience of 1930s discredited floating exchange rates policy b) the lessons learned by British economists and politicians from the disastrous return to the gold standard in 1925 narrowed the range of views c) the war gave economic planners an opportunity to devise international rules and institutions in a way not fully available in 1930s; d) the war attracted economists, trained in the "new thinking (Keynesian and all that)"; e) more diffuse shifts among British and American elites of government's socioeconomic role (economic crisis in 1930s gave rise to the thoughts of full employment, economic stabilization, and social welfare as well as the role of government in ensuring these policies)