Pivotal Crisis:
State Power and Social Forces in the Making of Neoliberal Capitalism

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Abstract

The thesis uses original archival research to outline a novel account of social and world order change in the 1970s—from the collapse of Bretton Woods to the Reagan Revolution—that shifts the focus of explanation from the strategic vision and unilateral capacity of the US to determine outcomes to the pragmatic attempts of West German political and economic elites to cope with the crisis of post-war capitalism and to harness American power to this end. The main argument is that the parochial way in which German state managers sought to preserve the domestic compact between capital and labour prevented a more progressive and solidaristic resolution of the crisis and created the conditions for the neoliberal counterattack. Anxious to defend its export model against protectionism and inflation, German policy makers mobilized their country's financial power to counter the interventionist and expansionary remedies of the European Left and to commit the United States in particular to monetary and fiscal discipline. While initially successful, this strategy proved self-defeating as it pushed the US into the Volcker interest rate shock that radically disinflated the world economy and ultimately undermined the basis for the German welfare state and its corporatist balance as well. The dissertation enriches and broadens our understanding of the origins of neoliberal globalization by focusing on an economically dominant state/society complex that is normally held to be inimical to the neoliberal onslaught. The crucial, but largely unintentional, German contribution challenges some of the critical accounts that see neoliberalism as an American imposition (Gowan 1999), a financial coup (Duménil and Lévy 2004), or an ideological conversion (Blyth 2002). My dissertation offers an alternative interpretation of the rise of neoliberalism as driven by a complex process of disembedding in which state power, class interests, and ideas are refracted through the prism of an interdependent world economy, and where the strategic and creative choices that some actors make to deal with the problems they confront reshape the range of options available to others.

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Meinen Eltern

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Abbreviations

ACUS	**Atlantic Council of the United States**
AdsD	**Archiv der sozialen Demokratie/Archive of Social Democracy, Bonn** HSA Helmut-Schmidt-Archive DHS Depository Horst Schulmann
BArch	**Bundesarchiv/Federal Archives, Koblenz** B 102 Federal Ministry of Economics B 136 Federal Chancellory
BBk HA	**Bundesbank, Historisches Archiv/German Federal Bank, Historical Archives, Frankfurt** B 330 German Federal Bank N2 Personal papers, Otmar Emminger N4 Personal papers, Karl Otto Pöhl
BDA	**Bundesvereingigung Deutscher Arbeitgeberverbände/Confederation of German Employers' Associations**
BDI	**Bundesverband der Deutschen Industrie/Federation of German Industries**
CDU	**Christlich-Demokratische Union/Christian Democratic Party**
CIA	**Central Intelligence Agency**
CRU	**Composite Reserve Unit**
CSU	**Christlich-Soziale Union/Christian Social Union**
DM	**Deutsche Mark/German Mark**
EC	**European Communities**
EEC	**European Economic Community**
EMS	**European Monetary System**
EMU	**European Monetary Union**
ERM	**European Exchange Rate Mechanism**

EU	**European Union**
FDP	**Freie Demokratische Partei/Free Democratic Party**
Fed	**Federal Reserve System**
FOMC	**Federal Open Market Committee**
FRG	**Federal Republic of Germany**
FRUS	**Foreign Relations of the United States,** <http://history.state.gov/historicaldocuments>
GDP	**Gross Domestic Product**
IMF	**International Monetary Fund**
IPE	**International Political Economy**
IR	**International Relations**
NATO	**North Atlantic Treaty Organization**
NIEO	**New International Economic Order**
OECD	**Organisation for Economic Co-operation and Development**
OEEC	**Organisation for European Economic Co-operation**
OPEC	**Organization of the Petroleum Exporting Countries**
PATCO	**Professional Air Traffic Controllers Organization**
PCI	**Partito Comunista Italiano/Italian Communist Party**
SPD	**Sozial-Demokratische Partei/Social Democratic Party**
USSR	**Union of Soviet Socialist Republics**
VDMA	**Verband Deutscher Maschinen- und Anlagenbau/German Engineering Federation**
VEBA	**Vereinigte Elektrizitäts und Bergwerks Aktiengesellschaft/ United Electricity and Mining Corporation**

Chapter 1:

International Political Economy and the Crisis of the 1970s: Towards a Critical Reappraisal

The last one hundred years of international capitalism have been punctuated by three major crises. The great depression of the 1930s broke the liberal world economy of the late nineteenth century into rival monetary and trading blocs and fuelled the rise of nationalist, authoritarian, and fascist forces that would plunge the major industrialized countries into a second world war. The great stagflation of the 1970s, in contrast, would issue in the defeat and rollback of organized labour, the dismantling of (welfare) state regulation, and the onset of an unprecedented wave of regional and global economic and financial integration. In effect and essence, the crisis of the 1930s would *disrupt*, whereas the crisis of the 1970s would *accelerate* capitalist globalization (Panitch and Gindin 2012: 2; Gill 2012a: 13-14). A simple but crucial question of our times is whether the great recession that began with the financial crash of 2008 will play out to be more like the former or the latter.

The concept of ‘crisis’—in the restricted sense used in this dissertation—refers to extraordinary turning points in the development of modern capitalism. Their exceptional nature and disparate impacts militate against the construction of a general theory of crisis in abstraction from this history. While the two previous crisis decades identified above have each been associated with the exhaustion of prevailing frameworks of accumulation and a tumultuous transition in the forms in which capitalism is constituted domestically and governed internationally, neither their causes nor consequences can be readily derived from any inherent logic of capitalism (Panitch and Gindin 2011: 2-4). The issue, therefore, cannot be simply to determine our contemporary position on a recurring sequence of de- and re-globalization (cf. Wallerstein 2009); or on an exponential curve of economic growth and political integration, for that matter (cf. Robinson 2013). There is, to be sure, an underlying secular rather than purely cyclical trend to the internationalization of capitalism that needs to be accounted for. Yet the associated transformations are not confined to a scalar expansion either. Both crises have been succeeded by historically unique and largely unforeseen changes in the form and direction of global capitalism. The fact that they do not fit neatly either the ‘liberal vs. closed’ dichotomy or the ‘national to global’ trajectory, moreover, indicates that they are socially constructed—not simply regarding the perceptions of the human agents involved but also the outcomes to which their actions give rise. The complexly determined, politically contested, and thus open-ended character of crises is most famously captured by Antonio Gramsci’s observation that “the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear” (quoted in Gill 2011: 237). That the stagflationary decade of the 1970s turned into a crisis for organized labour and the welfare state, or that the global financial meltdown of 2008 has become a crisis of public indebtedness was neither inevitable nor expected. Given that the crucial questions of ‘a crisis of what and for whom?’ are settled through contestation, they “cannot be addressed apart from the balance of power between classes and states” that define crises and give them direction (Panitch and Gindin 2006: 5), and can be answered conclusively in retrospect only. The new shape of societal and international organization that will emerge from the current crisis is thus likely to be qualitatively different from either of the two precedents. But as this future is neither clearly discernible nor completely determined yet, a better appreciation of the previous moments of capitalist crisis and transformation in the twentieth century may prove critical for understanding and shaping the world order of the twenty-first.

Because of its epic proportions and cataclysmic consequences, the great depression of the 1930s has grasped the attention and captured the imagination of every generation to follow—so much so that at almost every moment of (real or imagined) crisis, academics and policy makers have instinctively returned to the image of a globalized world falling apart as a worst-case scenario of what is likely to follow.

Once considered “the most significant watershed in the post-war history of the advanced industrialized states” (Sassoon 1996: 447; Reitmayer and Rosenberger 2008: 11), the stagflationary years of the 1970s have also attracted enormous academic interest. After all, in this decade, too, a major rupture occurred. Monetary turmoil, rampant inflation, rising unemployment and a generalized recession conspired to tear the ‘embedded’ liberal international economic order (Ruggie 1982) asunder—marking the end of the golden age of post-war reconstruction, sustained economic growth, and of welfare state management, redistribution and compensation.

In the words of Harvard historian Charles Maier (quoted in Caryl 2010) “[t]his is the decade when things start to unravel”.[1] And yet, in another sense, the crucial point about the crisis of the 1970s is that they ultimately didn’t (Krasner 1983a: viii). What stands out about the 1970s is that despite economic shocks and political conflicts, cooperation among the major capitalist powers continued and differences were successfully negotiated. Predictions of a breakdown of the world economy that were widespread at the time turned out to be groundless and exaggerated. Because these expectations proved wrong in the 1970s, one would do well to consider just how useful they are as a guide to the future. Rather than fixate on the disintegrative 1930s, this chapter contends that scholars of IR/IPE should turn instead to the question of why the outcome of the 1970s were so markedly different.

For rather than rendering the 1970s uninteresting and irrelevant, the *absence* of major social and international conflagration needs itself to be explained. It points to a fundamental transformation of global capitalism that no serious attempt to chart its future course beyond the immediacy of the present crisis and the tired analogy of the great depression can afford to ignore. The 1970s, thus, are a ‘soft’ turning point that, while short of war and revolution, was nevertheless profound in the changes it brought about

[1] The late Eric Hobsbawm (1994: 403), who instinctively rebelled against the liberal-triumphalist thesis of the ‘end of history’ without being quite able, from the standpoint of the mid-1990s, to discern the contours of the new world order, argued for a similar watershed: “The history of the twenty years after 1973 is that of a world which has lost its bearings and slid into instability and crisis.”

(Wirsching et al. 2011: 20; see also Maier et al. 2010; Stein 2010). For not only did the West not fall apart, as it had done in the 1930s; on the contrary, the neoliberal resolution of the crisis of the 1970s that some of the main capitalist powers would hit upon set the West on a path of deepening integration and, with the fall of the Soviet Union, multilaterally coordinated expansion that has continued until today.

Preoccupied with the question of why there was no replay of the great depression, mainstream approaches have been unable to reconcile the dynamics of expansion and integration that emanated from the crisis of the 1970s with the intra-West tensions that characterized this period. Critical scholarship, with some notable exceptions, has confronted a similar dilemma. But unlike their liberal and realist colleagues, this chapter argues, critical scholars have provided the analytical insights and conceptual tools that permit a systematic re-evaluation of how social and international conflicts defined this pivotal moment in the making of global capitalism.

IPE and the Hegemonic Impasse

The link between the crisis of post-war capitalism and the (re-)constitution of IPE as an Anglo-American subfield of IR has largely escaped the recent debate over the lineage and legacy of the discipline (Cohen 2008; for some significant observations, see Kirshner 2011: 203). Scholars of the emerging field of IPE were driven in large part by what seemed to be a serious economic and political crisis of the cold war West.[2] Yet they ultimately proved unable to account for the peculiar coincidence of cooperative and conflictive moments that accompanied the crisis and transformation of the capitalist heartland in the 1970s. The principal reason for the failure to resolve this disciplinary puzzle is that the question of social and world order change was viewed principally,

[2] It should be noted that "'terminal' crises for the transatlantic relationship have been identified almost on a one-per-decade basis since the 1950s" (Sola and Smith 2009: 2). The decisive difference is that this one coincided with a major global economic downturn.

though not exclusively, through the prism of a ‘crisis of US hegemony’. The debacle of the Vietnam War, social unrest and labour militancy at home, the mounting challenge from the Third World and the rise of Western Europe and Japan as major economic competitors—all these events were read as a loss of American global power that coincided with a profound destabilisation of liberal multilateralism. In the face of the breakdown of Bretton Woods, the oil shock and economic recession of 1973/1974, as well as transatlantic dissension over how to respond to these challenges, the spectre of the 1930s had returned. Without the leadership of a preponderant state to underwrite a stable international order and smoothly operating world economy, many realist scholars concluded that a relapse into economic nationalism loomed on the horizon (cf. Krasner 1976: 343; Gilpin 1975: 72; 1981: 239; 1987: 351, 394-408).

Confounded by the emergence of economic instabilities and political frictions that they could not otherwise explain (Krasner 1983a: vii-viii; Grieco 1988: 486, 490-491; Nye 1988: 236), many liberal institutionalists felt compelled to embrace the notion of a hegemonic crisis, even while they contended that institutions and regimes might be able to provide ‘post-hegemonic’ stability (cf. Ruggie 1982: 384; Keohane 1984a).

Although the first paradigmatic debate of the newly constituted field of IPE was shaped decisively by a hard core of Harvard graduates (Germain 2011: 88), the notion of a crisis of US hegemony was not confined to mainstream IPE. Many critical scholars, too, had made the notion central to their analysis of world order change in the crisis years of the 1970s, and some of the most groundbreaking and lasting contributions to the field were framed in these terms (cf. Cox 1981; Arrighi 1982). Guided by notions of hegemonic transition and American decline, however, the field was headed for an impasse (Cohen 2008: 76-77). The image of international relations as successive bids for hegemony led realist scholars to assume an automaticity of hegemonic decline and counter-hegemonic challenge (Gilpin 1981; cf. Lake 1984: 144). Framed as a general law of systemic cause and effect, political rivalry and economic closure appeared to be the logical consequence of US hegemonic decline. The predictions of a more rivalrous and fragmented world economy that followed from these theoretical postulates, however, turned out to be greatly exaggerated. The question that realists proved unable to account for is why, if the US was supposedly in decline, the liberal international economic order had not disintegrated as in the 1930s (Calleo 1982: 3; Krasner 1983b: 358; Rosecrance 1986: 57).

The gap between claim and reality that opened up in the 1980s undermined the credibility of realist scholarship. But it did little to strengthen the liberal-institutionalist case. For, as a growing number of scholars now began to argue that US hegemony had not declined after all (Russet 1985: 231; Strange 1987: 571; Gill 1990: 70), the debate turned out to have been fundamentally misguided. Liberal institutionalists may have eschewed the realist scenario of great power rivalry and economic nationalism, but they, too, had held the assumption that the socio-economic and geopolitical turbulences of the 1970s had been caused by a crisis of US hegemony. With the erosion of US hegemony now in question, liberal-institutionalist theories lacked the grounds for empirical verification. If the predictions of US hegemonic decline had, at the very least, been premature, there has—as Robert Keohane (2002: x) would acknowledge two decades later—never actually been a test of whether regimes and institutions can in fact facilitate non-hegemonic cooperation. Moreover, because the bipolar distribution of material capabilities that had structured the international system after 1945 continued until 1990, Keohane (2012: 127) acknowledged, “an interpretation that explains institutions on the basis of the functions that they serve and a Realist one could both explain the patterns of cooperation that emerged and persisted”.

Most significant is that in seeking to counter the defeatist proclamations that the organization of the liberal world economy had been fatally fractured, liberal-institutionalist scholars tended to err on the side of continuity. Concentrating their efforts on demonstrating that the post-war international economic order was in fact alive and well, liberal-institutionalist scholars failed to see the social and international transformations set in train in the 1970s. This oversight is most apparent in John Gerard

Ruggie's ground-breaking work on 'embedded liberalism', whose 1982 piece ranks among the most frequently cited articles in IR/IPE.

While accepting the overall argument of international history as successive hegemonies, Ruggie contended that the specific character of each system could not simply be derived from the distribution of material capabilities. Power, he argued, "may predict the form of the international order, but not its content" (Ruggie 1982: 382). The post-war international system therefore rested not only on American predominance, but on a specific "fusion of power with legitimate social purpose" (Ruggie 1982: 382). To be politically acceptable and economically sustainable, the Anglo-American post-war planners understood, economic liberalism needed to be reconciled with state intervention and social protection (see Chapter 3). In a crucial sense, therefore, the new economic system was qualitatively different from the classical liberalism of nineteenth-century *pax britannica* (382). The central point Ruggie made is that as an institutional embodiment of authority and legitimacy, the international organization of the post-1945 world economy could outlive a declining hegemon provided there was "a congruence of social purpose among the leading economic powers" (384).

The image of a compromise of 'embedded liberalism', involving what Ruggie elsewhere described as a "grand domestic and international political bargain" between the United States and Western Europe on the one hand, and "the major social groupings (agriculture, labor, and capital)" (1991: 203) on the other, is an enormously fruitful description of the particular world order constructed after 1945. The crux of the issue, however, is that, designed to defuse the declinist scenario, the concept of 'embedded liberalism' as used by Ruggie missed out on what was most decisive about the 1970s: the profound disembedding, rather than preservation, of the post-war international economic order, and the radical redefinition, rather than retention, of the social purpose to which policy autonomy was now to be put. Ruggie, it is true, "wrote just as Ronald Reagan and Margaret Thatcher were beginning to implement their very different visions of a smaller role in capitalism for state power" (Keohane 2012: 126). He and his interlocutors might be forgiven for failing to see that it was the *embeddedness*, rather than the *liberality* of the capitalist world economy that was fundamentally at stake. And yet critical observers had early on understood that the "[i]nternational forces undermining embedded liberalism" did not emanate from the economic nationalism of the left, as the more sceptical Robert Keohane believed (1984b: 26), but from the transnational neoliberalism of the right (e.g. Cox 1981).

Moreover, Ruggie has repeatedly reasserted his view that the 'embedded liberalism' compromise has been sustained throughout the 1970s since its key components—liberal multilateralism and domestic interventionism—have been preserved (2008: 4). Only in 1996 does Ruggie begin to raise concerns about "the future fate of the embedded liberalism compromise" (1996: 80) and call for a renewal of the underlying social bargain (1996: 94). And only in the face of the recent global financial meltdown does he conclude that "the domestic political coalitions on which the compromise rested…have weakened or, as in the case of the United States, almost unraveled altogether" (Ruggie 2008: 4). By contrast, this dissertation argues that the turbulences of the 1970s are best understood as the crisis of embedded liberalism, involving a confrontation of social forces and culminating in the one-sided termination of the capital/labour compact in the Anglo-Saxon world. This dissolution, it will be argued, had profoundly transformative (though not disruptive) implications for the international system. It is only in view of this crisis and transformation, frequently (though, it is argued, mistakenly) understood as the "challenge from a rejuvenated classical liberalism" (Richardson 1997: 13), that the concept of 'embedded liberalism' can illuminate what was truly unique—in the sense of unprecedented and irretrievable—about the post-war synthesis of social and international order.

Struggling to explain the absence of counter-hegemonic contestation and economic nationalism, realism has found it easier to accommodate the resilience of US hegemony. In light of its failed expectations, the argument that US hegemony had not (yet) declined seemed to offer an easy way out. The corollary of this admission, however, has been to deprive realist hegemonic stability theory of much of its empirical basis and analytical purchase. The clear-cut causal connection between US hegemonic decline and the destabilisation of the liberal international economic order during the crisis decade of the 1970s has given way to the fuzzy notion of a temporary weakening of US hegemony that is both analytically vague and theoretically cumbersome. Reasoning back from the absence of the expected effects to the conclusion that a renewal of US hegemony must have occurred, the process whereby the United States supposedly managed to reassert its position of leadership remains largely unexplored (for an elaboration on this point, see Chapter 2).

Moreover, if realists seem to have a better grasp on this decade with their privileging of power and national interest, there nevertheless remains an important gap. Why, with American power momentarily on the wane, did the secondary powers not take advantage of this situation to extend their power and influence and assert their independence from the US? After all, realism claims to account not just for the power-maximizing impulses of the leading state, but of all states, in particular great powers. Why, then, did West Germany[3] and Japan, but also the United Kingdom and France, fail to engage in a realist game of power-political catch up? Keohane (1984a: 39) rightly demands that "[t]heories of hegemony should seek not only to analyze dominant powers' decisions to engage in rule-making and rule-enforcement, but also to explore why secondary states defer to the leadership of the hegemon". Examining the decisions, and perhaps most importantly the non-decisions, of these would-be challengers or defectors turns out to be critical; for it offers insights into the specific character of the international system in which they operate, and the specific state-society relations that underpinned their choices.[4]

[3] 'Germany' is used synonymously with the Federal Republic of Germany (FRG) in this dissertation even though another Germany existed to the east. This is for ease of reading and not a political act of omission.

[4] The fact that America's putative rivals chose not to challenge their superior or break away not only suggests that the latter managed to hold on to its power; it also raises the possibility that the social and international order had undergone a transformation that sets America's postwar hegemony apart from its putative predecessors. This dissertation argues that, rather than yet another iteration of preponderant power (and social purpose), a qualitatively new system of rule was created after 1945.

To explain why states chose to forego these opportunities, realists have pointed to the presence of a superordinate conflict between West and East. Their security dependence on the United States, so the argument goes, kept America's allies in line. And yet, as we shall see in Chapter 4, America's military predominance induced a variety of alternative and often competing security designs, most notably during the era of détente in the period under consideration. Moreover, if bipolarity provided the glue that held the West together, one should expect the collapse of the Soviet bloc to spell the end of the Atlantic alliance.[5] The point is not simply that, twenty years on, this has yet to happen; but that the 1970s set in train powerful processes of global integration that largely escape the realist frame of analysis. The secondary powers not only submitted to but have since supported the globalization of American power. And in this process, the liberal world economy has not only been maintained, but based on a new social foundation and multilateral infrastructure. However many political rivalries and economic tensions one may suspect to go on underneath, the surface phenomenon of neoliberal globalization cannot be derived from the military superiority of the United States alone. The search for a more compelling answer has led some realist scholars to shift attention from the military-strategic to the politico-economic terrain (Gilpin 2000; Layne 2006; Mastanduno 2009). Their attempt has been to tie in the reassertion of American power with the making of neoliberalism—an argument that is taken up in Chapter 2. But in this respect, too, we need to heed Keohane's call for a shift in perspectives, and examine how and why America's partners not only accepted but supported and, I will argue, generated neoliberal forms of economic organization and governance.

Benjamin Cohen's (2008) sympathetic review of hegemonic stability theory underestimates the degree to which both realist and liberal inflections have been confounded by the peculiarities of the seventies' crisis. But what is far more striking, and even less appreciated, is that IPE scholarship refused to revisit the empirical evidence and revise its underlying assumptions. Instead of systematically reconsidering what had

[5] In fact, it is precisely this scenario that has been invoked by a number of authors over the last two decades (Saull 2007: 187).

happened, scholars withdrew from the international history and structural dynamics of cooperation and conflict that the field of IPE and its master concept of 'hegemony' had initially sought to explain.[6] The problem-driven and substantive exchange that had opened up in the wake of the seventies' crisis, and that had to a limited extent included critical theories, narrowed down to what Ole Wæver (1996) termed the 'neo-neo' synthesis—a new research programme of both realist and liberal scholars modelled on rational choice theory and in search of "more limited, precise, formula-like assertions that can be reduced to simple analytical statements amenable to tests and theory" (Wæver 1996: 163). By the late 1980s, therefore, the original question of why the West had held together had been effectively rendered a 'nonissue' (Cohen 2008: 68). And with the fall of the Soviet Union, a global crisis whose consequences no one had yet understood was overshadowed by world-historical events that no one had foreseen.

How can this apparent disinterest be explained? A comprehensive answer to this question would have to include another dimension that conventional narratives of the history of the field have ignored. Born in a moment of capitalist crisis, the raison d'être of IPE was prescriptive as well as explanatory and predictive.[7] Given the intimate relationship between the foreign policy establishment and academic circles in the United States (Cox 2011: 125-126; Germain 2011: 88), mainstream IPE needs to be understood not simply as a set of testable theories but as part of a political discourse that sought to influence decision makers and shape state responses in a volatile situation of international and class conflict. The liberal notion of 'complex interdependence' (Keohane and Nye 1977)—the multiplication of state and non-state actors and fractionation of military and economic power across issue areas—is a case in point. An ideological precept as much as an ideal-typical approximation, the concept was meant not simply to describe an inevitable development towards a globally integrated political and economic order but to point to a desirable and contingent shift away from a territorially divided and potentially conflictual

[6] In 1984, Lipson complained that "[u]nfortunately, we still have an inadequate understanding of the relationship between the decline of American hegemony and the decade of instability that followed" (21).

[7] Thanks to Stephen Gill for pointing out this critical dimension to me.

inter-state system (Gill 1990: 23-25). Against the backdrop of inter-allied disputes over trade and monetary affairs, growing economic interdependence among the advanced industrialized countries was understood to heighten mutual sensitivities to economic and political disruptions (e.g. Cooper 1972). Interdependence, in short, was seen as a challenge to be met with new institutional responses; novel forms of organisation that not only sought to integrate the national and international decision-making processes of the advanced industrialized countries but also to insulate them from the mounting pressures of subordinate social forces both within the Northern capitalist core and in the Global South.

Much the same can be said about hegemonic stability theories during the crisis of the 1970s. At a minimum, some of their pessimistic conclusions should be read as political commentary on the apparent unwillingness and inability of successive administrations from Nixon to Reagan to live up to the international responsibilities of the United States. But the prognosis of inevitable American decline and impending geopolitical disintegration may also be understood as a 'self-falsifying hypothesis'. Designed less to predict than to prevent a post-hegemonic future, realist theorists of hegemonic crisis, and their apocalyptic forecasts in particular, may well have sought to convince policy makers of the necessity of restoring American predominance.[8] Indeed the intellectual refutation of the declinist case by foreign policy intellectuals such as Henry Nau (1990) and Joseph Nye (1990) followed the renewed appreciation and active mobilization of America's global power in the early Reagan years (Gill 1990: 70, 106-7).

Cooperation and Conflict, Past and Present

Premised upon the notion of a crisis of US hegemony and focusing on its likely consequences, the newly constituted field of IPE proved unable to account for the

[8] Thanks to Hannes Lacher and Leo Panitch for helping me extend this analysis to hegemonic stability theory.

simultaneity of cooperation and conflict and the qualitative transformation, rather than simply conservation, of the cold war West during the crisis of the 1970s. America's global power was reinforced from the early 1980s onwards, and alongside a new economic doctrine of neoliberal globalization emerged.

The crux of the matter is not simply that this connection has been left unexplained. It is that even though scholars have turned their back on the confounding period of the 1970s, the post hoc rationalizations of Western cohesion that have been devised in support of the grand theories of IPE have stayed with us. Theoretically inflated to lend support to either of the two contending grand narratives, they have come to define how questions of international cooperation and conflict are approached today.

Realist scholarship has, for the most part, stuck to its original predictions. Those who foresaw the return of great power politics have introduced 'intervening variables', most notably the common threat posed by the Soviet Union (Webb and Krasner 1989; Mearsheimer 1994; Gilpin 2000), in order to explain why the centrifugal tendencies that surfaced in the 1970s were contained and why Western cohesion and US dominance were, at least temporarily, preserved. From this perspective, the 1970s mark the onset of a protracted process of geopolitical fragmentation that, although arrested at the time by politico-military bipolarity, has simply been deferred and can be expected to emerge at a later point in time. Accordingly, great power rivalries have been predicted to make a comeback after the fall of the Soviet Union in 1989, the transatlantic rift over the US invasion of Iraq, in the context of the rise of China, and in the wake of the contemporary world economic crisis (Mearsheimer 1990, 2001, 2006; Garten 1992; Kupchan 2002; Cox 2005; Kagan 2003, 2009; Layne 2009; Altman 2009).

For many liberal scholars, too, the 1970s would come to designate a benchmark in international history. The fact that the advanced capitalist countries held together in the face of economic shocks and political tensions has been taken by as prima facie evidence of a fundamental transformation. Liberal peace theorists have argued that it confirms their thesis that foreign relations within the West had become pacified after 1945 (Doyle

1983: 231, 233-5). Liberal institutionalists have argued that growing economic interdependence and institutionalized political cooperation had shifted the strategic orientations of the major capitalist states away from power-political confrontation with one another (Keohane and Nye 1977; Rosecrance 1986: 141-2).[9]

And where realists see the onset of a protracted process of geopolitical fragmentation of the world economy, temporarily halted by the Soviet threat (cf. Mearsheimer 1990; Waltz 1993; Gilpin 2000: 160), many liberal cosmopolitans see the release of the forces of global expansion and integration: the growing velocity and intensity of economic, political as well as cultural flows that—with the fall of the Soviet Union—are said to create an increasingly borderless world in which supranational institutions are poised to take over the functions that territorially limited political authorities are no longer able to perform (cf. Giddens 1990: 64; Held et al. 1999: 2; Held and Koenig-Archibugi 2005; Archibugi 2008).

In retrospect, then, it is tempting to ignore the instabilities of a bygone crisis. Not only did they never amount to any serious international conflagration in the way realists had imagined; they were overtaken in the 1990s by an ostensibly novel and, for many, truly epoch-making dynamic of globalization. And yet with the problématique of the 1970s left unresolved, the realist challenge to liberalism continued to resurface in different guises whenever new uncertainties, instabilities, or disagreements emerged. If in the 1970s the conundrum had been why international cooperation did not collapse as it had done during the 1930s (Krasner 1983a: viii, 358; for the analogy, see Calleo 1982: 10), after 1989 attention turned to the question of whether international cooperation would recede or deepen after the end of politico-military bipolarity (Mearsheimer 1990; 1994; Waltz 1993). In the wake of September 11, the challenge appeared to be whether the transatlantic alliance would be able to withstand the global war on terror and the

[9] Viewed through the lens of economic interdependence, the crisis of the 1970s is conceptualized as here take the form of adjustment pains—the 'shock of the global', as a recent compendium (Maier et al. 2010) has it. In like manner, the associated conflicts are primarily of a technical, managerial nature. They refer to incompatibilities of internal and external regulation and present themselves as policy dilemmas or collective action problems.

belligerent reassertion of American unipolarity (Keohane 2002: x; Cox 2005; Ikenberry 2007; Kupchan 2002). The rise of Pacific Asia since the early 2000s has put US hegemonic decline back on the agenda (Mearsheimer 2006). And most recently, the divergent policy responses of the major capitalist economies to the global financial crisis have raised concerns about an incipient economic nationalism (cf. Gamble 2010; Ikenberry 2010). The issue is not that realists are correct in raising these objections, but that liberals have struggled to offer a compelling response. Focussed on the endpoint of globalization, liberal scholarship has neglected to theorize the 'interim'—characterized, as it were, not only by periodic slumps and crashes but also by recurring conflicts of interests even within an overall context of deepening integration and closer cooperation.

That the liberal paradigm remains vulnerable to realist critiques has been most apparent in the wake of the global financial crisis of 2008. The crisis has forcefully reminded liberal cosmopolitans of the fragilities of globalizing capitalism, as well as of the crucial role played by states in managing its contradictions. The integrative thrust of globalization seems to have been overtaken by the centrifugal forces of economic destabilization, social dislocation, and political conflict that threaten to roll back processes of societalization (*Vergesellschaftung*) on a global scale. Most recently, Keohane (2012: 134) has observed "that what could have been seen in the mid-1990s as a progressive extension of international regimes, with stronger rules and larger jurisdictions, has been halted if not reversed." Rather than extending principles of accountability via global institutions (cf. Held and Archibugi 2005; Archibugi 2008), moreover, the advanced capitalist societies themselves seem to be approaching a 'post-democratic age of austerity' (Streeck 2011). What such an erosion of political liberality in the advanced capitalist countries might mean for the theorem of their peaceful interactions remains an open question. But there is little doubt that the optimistic vision of humanity's global future has been profoundly shaken. Instead of building towards a more humane form of globalization, the inadequacies and inequities of neoliberal forms of governance and development have become more painfully apparent than ever.

It is little surprise therefore that in light of the broad-based questioning of liberal market self-regulation, the return of the state as the principal crisis manager, and distributional struggles over the costs of the bailouts and burden of adjustment, a realist worldview should once again have reasserted itself. And yet the obvious problem is that even as liberal accounts have been repeatedly caught out by dynamics of crisis and competition they cannot easily explain, realist scholars have falsely predicted the return of inter-state rivalries at every critical juncture of the last thirty years. Realist scholarship, to be sure, continues to pose "a counter-narrative to the progressive and pacific narrative" of liberal scholarship (Keohane 2012: 134). But its assumption of international anarchy as the immutable precondition of modern international relations renders it insensitive to the social and international changes that have occurred in the advanced industrialized world since the 1970s. Caught in a cyclical conception of international history, it is unable to conceive of the post-crisis world order in terms other than power-political shifts.

This brief overview is not to deny that important advances continue to be made within the two traditions of IR/IPE. But it is to suggest that their grand narratives may have exhausted their capacity to illuminate the present by way of the past, and that it is vital to reconsider 'how we got here' (Frum 2000). Ever since the hegemonic *cul-de-sac*, mainstream approaches have grown weary of asking larger questions about structural power and social and international change (cf. Keohane 2011: 39; Kirshner 2011; McNamara 2011). Much of mainstream IR/IPE today remains caught between liberal expectations of permanent unification and realist premonitions of geopolitical fragmentation that simply project the dynamics they see at work since the 1970s into the future. And yet at a time when a crisis of global capitalism makes a return to fundamentals all the more necessary, the discipline has shown little interest in re-engaging with "the big, important real world puzzles" (McNamara, 2011: 65) that once brought scholars of different theoretical persuasions together.[10] The premise of this

[10] One recent review suggests that IR theory has been remarkably silent on the implications of the global financial crisis even as some of their basic assumptions are being put to the test (Manokha and Chalabi 2011: 7-9). Robert Keohane's (2012) 2011 E.H. Carr Lecture at Aberystwyth University is exemplary of this lack of engagement. While he sets out to take stock of liberal institutionalism, and although he does so

dissertation is that in order to think about the future of world order realistically but constructively, it is crucial to revisit this foundational moment. The first step in this historical re-examination is to turn to the third perspective of the inter-paradigm debate. What did critical scholarship have to say about the international implications of the end of capitalism's golden age?

Critical Theory to the Rescue

Some of the earliest Marxist works on the crisis of prosperity capitalism had identified the uneven growth of the leading economies as a major factor undermining the post-war international order (Mandel 1970; Hymer 1972: 114, 122; Harman 1984; cf. Brenner 2006). As West Germany and Japan re-entered the world market as major economic competitors to the United States, economic rivalries were said to intensify, and power-political conflicts were expected to emerge (Hymer 1972: 134; Mandel 1975). In a sense, therefore, the foundational debate of IPE, as some of its American pioneers explicitly acknowledged (Keohane 1984a: 42-44; Gilpin 1987: 381), can be seen as a sanitised version of the exchange between Lenin and Kautsky about the possibility of ultra-imperialist unity or inevitability of inter-imperialist rivalry. The political purpose, of course, was a very different one. The first generation of IPE scholars took the theoretical concerns but not the practical orientation from Lenin and Kautsky. Recasting the debate over imperialist rivalry vs. unity in politically acceptable terms, their theorizations of the crisis of the 1970s were not meant to challenge but rather to stabilize internationalized forms of capitalist rule.

At the same time, the question of the causes and consequences of hegemonic decline, with its roots in classical theories of imperialism, opened up a space for critical scholarship (Wallerstein and Hopkins 1979; Arrighi 1982; McMichael 1985). By framing

through the lens of Carr's *The Twenty Years' Crisis*, he never once mentions the global financial crisis and only vaguely refers to a "decline in regime coherence" (Keohane 2012: 136).

the analysis of the emerging world order in terms of a hegemonic transition, critical approaches have been able to make some of the most path-breaking contributions to the field to date (e.g. Cox 1981) even as the subsequent "self-limitation" (Wæver 1996: 163) of mainstream IR to a game-theoretical exercise soon excluded radical voices.[11] Eventually, however, critical scholars confronted the same puzzle as their mainstream peers: how to make sense of continued cooperation of the major capitalist countries at a time when US hegemony seemed to be eroding (Overbeek 2008: 184). In short, there have been two divergent responses to this challenge: while some scholars see the 1970s as the beginning of the end of US hegemony and the transition towards an unstable interregnum (cf. Callinicos 2009), others interpret the period as a shift from a nationally anchored to a globally integrated capitalist order (cf. Robinson 2004).

The first group of scholars has argued that the fragmentary tendencies that surfaced in the 1970s are still at work today. The differential growth rates of the leading capitalist economies, the 'long downturn' that began in the late 1960s, and the shift in economic power from the North Atlantic to Pacific Asia are likely to lead to conflicts among the three regional centres of capital accumulation in the future (Callinicos 2009: 17; Rees 2006: 47-67; Bello 2005: 71-73, 77-78, 97-99). From this perspective, exemplified in the work of Alex Callinicos, the United States is still set on a path of hegemonic decline. But in order to explain why the global instabilities associated with the transition to a multipolar order have yet to come, its decline is said to be a much longer-term process than originally expected (2009: 187; 2010: 115). Hence, just like the crisis of profitability and overaccumulation in the 1970s has been extended to cover the last forty years (Brenner 2006), the crisis of US hegemony has been drawn out into the twenty-first century.

While Callinicos may be the only one to acknowledge that his earlier predictions were premature (2009: 197), there are a number of scholars that have resorted to similar if

[11] It should be noted that the most recent demarcation of an 'American' and 'British' school of IPE has only further marginalized their influence in the discipline's past and present (van Apeldoorn, Bruff and Ryner 2011: 216; Cox 2011; Murphy 2011; Hveem 2011).

more careful reformulations. In retrospect, the 1970s are presented as a momentary lapse or a 'signal crisis' of US hegemony (Arrighi 1994), followed by the reassertion of a less consensual, 'minimal' form (Cafruny and Ryner 2007), and perhaps a 'late summer glow' (Wallerstein 2003) or 'belle époque' in the 1990s, before the United States is said to be facing its 'terminal decline' (Arrighi 2005a; 2005b; Overbeek 2008). There is nothing wrong with expecting the decline of a powerful state to span several decades, of course. But the changing fortunes of US hegemony one can glance from these formulations suggest a problematic pattern of failed expectations and ex post adjustments. Starting in the 1970s, these scholars have taken divergences among the metropolitan powers as evidence of a nascent post-hegemonic order, only to conclude in hindsight that US hegemony, at least so far and at least in some form, has persisted.

On the other end of the spectrum stands the work of William Robinson (2004), for whom the 1970s constitute the beginning of an epochal transformation—the moment in which capitalism outgrows its nation-state container and becomes truly global (2004: 5, 21). The post-war surge in cross-border flows of trade and investment and the increasingly transnational organization of production and accumulation are said to have created the "material basis for the emergence of a single global society" (2004: 9). Capitalist development has brought about a globally integrated capitalist class unbound by national or regional divisions, and a transnational state that acts in the interests of global capitalism as a whole rather than on behalf of any particular 'national' capital. In this view, US hegemony and the power-political conflicts that had been predicted in its absence have been superseded by the de-territorialized rule of global capital (for similar conclusions see Hardt and Negri 2000).

Most of the liberal globalization literature has tended to operate with a loose definition of the term that refers to the growing velocity, intensity, and proliferation of economic, political as well as cultural flows across national borders (cf. Giddens 1990: 64; Held et al 1999: 2). Historical materialist approaches, by contrast, have argued that at the heart of these transformations lies the expansion and deepening of capitalist social relations. The multicausality implied in the liberal-pluralist formulation diffuses what for historical materialist approaches, which equate globalization with global capitalism, is a fundamental paradox: how can the same developmental dynamics that are assumed to bring about an integrated world order be responsible for precipitating the economic crisis and social and political conflicts of the 1970s? If we accept the intrinsic crisis character of capitalism rather than rely on the notion of 'external shocks', an additional step in the argument is required before the very same forces that undermined Fordist patterns of mass production and consumption, the Keynesian compromise between capital and labour sustained by it, and the cooperative and consensual forms of international organization facilitated by it, can be plausibly drawn upon to explain the cohesion and deepening integration of the capitalist core (cf. van der Pijl and Fennema 1987: 298).

Similar to the problems that plague liberal theories of globalization, critics have argued that Robinson's account glosses over the contradictions that necessarily arise from the uneven spread of global capitalism across a multiplicity of states (McMichael 2001: 201-202, 203). The social and inter-state tensions that emerged in the context of the seventies crisis are, in his view, reduced to mere "rough bumps of the emergence of transnational capital" (Robinson 2001: 177); in other words, they are extraneous to the character of neoliberal globalization, which derives its form and direction from the expansive logic of capital (McMichael 2001: 202). Such an account is vulnerable to the vagaries of the global political economy. It can claim plausibility only as long as capitalism operates smoothly and the geopolitical fault lines run outside the capitalist heartland; but whenever problems and tensions appear, the theorist is forced to resort to auxiliary arguments in order to reintroduce a measure of the unevenness and contradictions that have been erased from the conception of capitalist development as a scalar shift from 'the national' to 'the global'.

As a consequence, critical theories of IR/IPE have sat uncomfortably between the two mainstream paradigms that not only ended the conversation but also offered diametrically opposed interpretations of the dynamics of international order. And yet, the remainder of this section argues, critical scholarship is uniquely positioned to transcend this dualistic vision.

The most innovative critical studies of world order have been careful not to follow Robinson's exaggerated conclusions any more than they have bought into the improbable predictions of Callinicos (van der Pijl 2007; Gill 2012a; Panitch and Gindin 2012). Their endeavour to theoretically explain and historically examine the coexistence of a 'liberal' and 'realist' moment in modern international relations has taken a number of different routes involving a variety of approaches and methodologies. Some have embarked on a macro-sociological inquiry into the historical origins and development of capitalism and the inter-state system (Teschke 2003; Lacher 2006). Others have addressed the interplay of territorial and economic logics of power at a more abstract-theoretical level (Arrighi 1994; Harvey 2005). Still others have analyzed the limits and possibilities of globalized forms of capitalist rule through the lens of elite planning groups and their efforts to mediate economic and political differences in favour of a common outlook and strategies (Gill 1990; van der Pijl 1998; Graz 2003).

My dissertation proposes that one way forward is to return to the historical conjuncture that has given rise to these two contending world order visions. Critical approaches hold three distinct advantages that make such a re-examination possible and productive. Firstly, their inquiries have been guided not by the search for law-like, timeless generalizations, but by an appreciation of the historical specificity of international systems. Secondly, their focus on the struggles of social forces over the definition of state power, social purpose, and the 'national interest' means that they are particularly well-equipped to examine the substantive disagreements that emerged between states in this period beyond the abstract calculus of power or utility (Cox 1981; Gill 1993a; Bieler and Morton 2001). And finally, as a consequence of highlighting both social agency and historical variability, critical theories recognize that something important occurred in the 1970s that could have happened differently.[12] In other words, they are able to recover an

[12] A similar case for international historiography has been made by Granieri (2004: 228).

element of contingency that is lost in the two prevailing post hoc rationalizations on offer: the notion that an incipient globalization eclipsed the territorial sources of conflict, and the notion that structural bipolarity prevented such conflicts from erupting. The two interpretations differ profoundly in their vision of the future: the former sees the inter-state system as having been positively transcended, whereas the latter only argues that its conflictive potential has been temporarily contained. Yet the results with regards to the crisis of the 1970s are surprisingly similar. In both cases, the outcome is structurally predetermined, and inter-state tensions are explained away rather than integrated into an account of global (and social) transformation.

Armed with this critical conceptual lexicon, the goal of this dissertation is to trace the transatlantic fault lines that became visible during the seventies' crisis, and that resolved into the globally integrated, US-centred, neoliberal world order that has prevailed over the last three decades. The crucial paradox in need of illumination is how the political operators of the leading states, and their capitalist and working classes, responded to the crisis, and precisely why, in a moment of considerable social and international tension, their actions would combine to produce a more tightly integrated and closely coordinated world economy than ever before. The puzzle, therefore, is how and why—despite extraordinary levels of economic instability as well as social and international tension—the leading states reacted to the crisis in ways that would ultimately deepen and expand multilateral free trade, liberalize global finance, and enlarge the sway of transnational market forces over states and societies. And the guiding hypothesis is that these tensions, rather than being inconsequential, helped shape the neoliberal character of capitalist globalization.

International History, Theory and Method

With the opening of the official repositories and the release of previously classified records, this question can for the first time be addressed with the tools of archive-based historical research (cf. Schulz and Schwartz 2010: 5). The emerging body of international historiography that has utilized this new material has been able to offer novel, revealing and sometimes counterintuitive insights into the key policy decisions as well as their wider constituencies and determinants (cf. Gavin 2004; Basosi 2006; Gray 2007; Zimmermann 2010; Trachtenberg 2011). Thanks to this historical groundwork, we are now in the unique position to revisit, re-evaluate and fundamentally rethink the answers that have been offered.

Unfortunately, theorists of international relations have shown notoriously little interest in seeing how their theories match up against the historical record (cf. Wohlforth 1999). International historians, meanwhile, have eschewed explicit theorizing in favour of a detailed exposition of the personalities, events, and decisions that shaped transatlantic discord and collaboration. Frequently, this has resulted in a narrative that takes as its unquestioned backdrop precisely those larger economic and political transformations (e.g. America's relative decline, growing economic interdependence) that are in need of being critically interrogated. On the whole, this neglect has meant that the conceptual implications of the new historical evidence have yet to be drawn out, synthesized and brought to bear on the question of world order change in the 1970s.

Most IR/IPE literature has focussed on the role of the United States, and for some good reasons. The enormous economic and military resources at its disposal, and their purposive deployment in reconstructing and integrating its capitalist allies and former rivals into a liberalizing and expanding world economy, were truly unprecedented. Given that the US played a central role in the reconstitution of global capitalism after 1945, and given the reassertion of US power in the 1980s, it makes perfect sense to assume that it also decisively shaped its form and direction during the turbulent 1970s. And yet recognizing the centrality of the American state does not, in itself, warrant the conclusion that neoliberal globalization depended solely on US policy decisions (e.g. Abdelal 2007: 25). Too narrow a focus on American foreign economic and monetary strategy might lead to a selection bias: the agency of the US in shaping the evolution of the world economic order appears so mighty simply because other actors are excluded from view (Eichengreen 2004: 1543). There is a risk that by drawing too straight a line from the ultimate outcome to the original intentions, we credit American strategists with a much greater degree of foresight than they in fact possessed, and miss out on the uncertainty and contingency of the situation, the plurality of policy options, and, most importantly, the interactivity of state responses (Panitch 2000: 14).

At the very least, therefore, the prevailing story needs to be supplemented by an analysis of how foreign powers and classes reacted to, and possibly affected, the course of events. In order to avoid this danger and complete the picture, a shift in focus is in order: from the agency of the United States to the actions and intentions of those states with a real, if perhaps unrealized, potential to give form and direction to international order. And empirically, this shift in focus ought to marshal the new evidence from the government records that offer a unique window into the decision-making process of the leading capitalist states in the critical period of transition from the post-war regime of 'embedded liberalism' (Ruggie 1982) to the globalized rule of financial capitalism.

But, as I will argue in this dissertation, this shift from the hub of the system to its spokes is not simply a task we need to undertake for the sake of completeness. Theoretically, it is mandated by the unprecedented capacity of the United States to reshape the international system after 1945, the extent to which it was able to bring other powerful states and their elites into its orbit rather than exclude them from its sphere of influence, and the degree to which the new world order was based not on a hierarchy of power but on the active organization of consent (see Chapter 3). Analytically, therefore, it follows that this particular global formation, so different from previous imperial powers, is best studied through the eyes of those on the other side of the relationship. And empirically, this change in focus reveals that some of the key decisions and dynamics that drove the breakdown of the embedded liberal order, the rise of neoliberal globalization, and indeed the reassertion of American power, emanated from outside.

To fully comprehend the American Century, or in our case the 'long 1970s' of capitalist crisis and transformation, one would need to take into account the strategies of other significant actors—world war allies with colonial legacies and ambitions such as Britain and France, or the former axis powers that had vied with the United States for global and regional predominance. States, in short, that many realists and some Marxists in the 1970s had identified as (re)-emergent great powers or even hegemonic challengers. We could also extend this analysis to emerging formations like the European Union (e.g. Mourlon-Druol 2010), or the challenge from the non-aligned movement and their efforts to revolutionize the world economic order or at least renegotiate the developmentalist model.

However desirable, it is clear that such a multiplicity of perspectives is beyond the reach of a single dissertation. The choice for West Germany out of the many possible and productive standpoints to take, of course, reflects more than the linguistic limitations of the author. On the one hand, it is the country most securely incorporated into America's world hegemonic order. Defeated, divided, and occupied, post-fascist Germany was most vulnerable to the emerging cold war antagonism and thus most likely to subordinate to the dictates of its American protector. A major recipient of Marshall aid and Fordist patterns of production and consumption, as well as the principal host of American multinationals and foreign direct investment, West Germany's export-led economy was also most thoroughly intertwined with and most vitally dependent on the open and expanding world market that had been reconstructed by the United States. Germany thus represents the strongest possible test case for both geopolitical and socio-economic interpretations of the seventies' crisis. The former holds that West Germany surrendered to the centripetal pressures of the Soviet Union and American military leadership. The latter envisions a West German state that had been completely and irrevocably absorbed into a dense transatlantic network of economic exchange.

On the other hand, Germany is also the Western country with the most significant 'counter-hegemonic' potential. Unlike the mostly symbolic defiance of a militarily independent but industrially laggard France, West Germany formed the hub of a regional and potentially rival pole of accumulation. And unlike an economically ascendant but demilitarized and isolated Japan, West Germany had regained and greatly extended its military capabilities relative to most of its NATO allies as well as assumed a politically influential role in the twin projects of West European integration and Eastern détente. Curiously, therefore, West Germany was at once the country most firmly integrated into and most capable of transforming the world economic order just as the great wave of post-war economic growth broke on the shores of the Atlantic.

But Germany is also important for another reason. Its economic model is generally considered to be structurally different from the Anglo-American variety of capitalism and held up by many to have remained resilient to the neoliberal onslaught that the governments of the United States and United Kingdom embarked upon in the late 1970s and early 1980s. And yet, as this dissertation seeks to elucidate, Germany in the crisis of the 1970s also acted as a progenitor of many of the policies that are today associated with the rise of neoliberal globalization. West Germany was one of the first (preceded only by Switzerland and Canada), and certainly the most significant of the capitalistically advanced countries to abandon the fixed-exchange rate regime, thus contributing mightily to the fall of one of the central pillars of Bretton Woods. The German Bundesbank was also the first central bank to adopt "an explicit monetarist strategy—long before similar switches occurred in Britain and in the United States" (Scharpf 1984: 284, quoted in McNamara 1998: 148). This technique of 'monetary targeting', introduced in 1974, prioritized the goal of 'price stability' and, once adopted by the US and UK at the end of the decade, signalled the departure from the post-war commitment to full employment. Combined with the legal autonomy of the Bundesbank, monetarism came to offer a template that would lead to a new wave of politically independent central banks embracing a neoliberal policy consensus around the world (Baker 2004).

It is clear that no single-country focus can fully illuminate a systemic crisis. But in light of the significance of these contributions, an archive-based re-examination of the role of the German state promises not only to deepen our understanding of the particular national experience but also to offer novel, if preliminary, insights into the genesis of neoliberalism more generally.

A Note on the Archival Sources

This dissertation is based on extensive archival research conducted from January to May 2012 and bracketed by preparatory and follow-up visits between January 2010 and January 2013. Much of the evidentiary basis is drawn from archival sources that have only recently become declassified and accessible. The study is not always the first to examine these materials, but it brings to the records a particular set of questions that international historiography does not normally consider. While fruitful, the combination of theoretical approach and the principal—though by no means the only—method of investigation chosen for this study also raises a number of questions.

First of all, the archival evidence is almost certainly incomplete. Some documents may be irretrievable or still classified, and some information may never have been committed to the record in the first place. The purpose of this study is therefore not to unearth spectacular insights but to contribute to a fuller understanding of the pivotal period of the 1970s by adding an archival perspective to the repertoire of critical theory.

The public records of the chancellery are the obvious starting point for such an inquiry. One significant limitation is that the minutes of the cabinet meetings are exempt from the thirty-year rule (stipulated in section 5, paragraph 2 of the *Bundesarchivgesetz*). They remain classified until edited by the Federal Archives, which releases the minutes in the form of an annual series. The most recent volume covers the calendar year of 1969, rendering the cabinet minutes of limited use for the time period under consideration. The publication of the minutes of the cabinet's economic committee, proceeding by term of office, lags even further behind. In order to work around these restrictions and reconstruct the process of executive policy making, this research examines the internal briefs and memoranda of the chancellor's office, as well as the top-level communications with the major ministries and the central bank. The aim is to survey the terrain of policy options and, by way of approximation, circle in on the most significant policy alternatives and decisions.

A second caveat is the question, raised by Barry Eichengreen (2004: 1543) in a review of one of the new works in international monetary history, whether we can take the realist language in these documents at face value. To put it bluntly, what may read like cunning manoeuvres on the geopolitical chessboard may be no more than the impotent great power fancies of mid-level bureaucrats.[13] To correct for such a bias, the memoranda from the foreign office or embassies that routinely use the rhetoric of *realpolitik* in their situational analyses have been treated with particular caution. The principal focal point of this study is instead on actionable information produced and discussed by the German chancellor's office, the finance and economics ministries and the central bank—the neuralgic centre of internal and external economic policy making.

The ministerial bureaucracies have produced an overabundance of material that has yet to be fully categorized. Consequently, the most valuable source of documentation have been the personal files of chancellor Helmut Schmidt and his key economic advisor Horst Schulmann (involved in the construction of the European Monetary System (EMS) and the preparation of the Group of Seven (G7) meetings), placed at the Archives of Social Democracy, as well as the correspondence and collections of the central bank governors Karl Klasen, Otmar Emminger and Karl Otto Pöhl located at the Historical Archives of the Bundesbank. Another major source of information are the bimonthly meetings of the Central Bank Council (*Zentralbankrat*). This supreme body of the Bundesbank, consisting of the presidents of the central banks of the *Länder*, is a key forum of macroeconomic deliberation and monetary decision-making that is regularly attended by government representatives from the chancellor's office and the economics and finance

[13] Realists display an admirable propensity to see through the rhetorical veil of liberal ideals and humanitarian concerns that is often cast over the ulterior motivations of foreign policy. They fall short, however, of applying the same degree of scepticism to the symbolic categories, such as the 'national interest' or the 'balance of power', that are closer to their own analysis (Keohane and Nye 1977: 4-5).

ministers. The meeting protocols and verbatim records of these discussions, located at the Historical Archives of the Bundesbank in Frankfurt, have been comprehensively reviewed for this study.

Lastly, the method is open to the charge that to look at policy makers is simply to replace the theoretical state-centrism of realist IR/IPE with the empiricist state-centrism of diplomatic history. The answer to this possible objection is that it is precisely with a view to the social forces that act upon state administrators that the focus on decision-making elites has been chosen. Particular attention has therefore been given to the interactions of the core executive and major private-sector interests. The written correspondence of leading state personnel with private economic actors, as well as the informal and institutionalized contacts between them, has been closely studied. Chief amongst these are the meetings of the Foreign Trade Advisory Council (renamed Foreign Economic Advisory Council in mid-1974) hosted by the Ministry of Economics, which brings together key government officials with representatives of the export industry, private banks, and affiliated trade unions. The composition of the Council aims at a regional and sectoral balance, but in practice the large exporters and their financiers dominated for most of the post-war period and throughout the 1970s. With over forty council members, the Advisory Council was rather large and unwieldy. Only some members participated regularly and contributed to the work of ad hoc committees, however. In practice, therefore, the affairs of the Advisory Council were steered by a handful of influential personalities over long stretches of time. The track record of the Advisory Council is mixed. Sometimes it simply duplicated the lobbying activities of the peak business associations; at other times, it effectively mediated between the articulation of interests and the making of economic policy. Members were called upon not to represent individual firms or sectors but to offer independent, expert advice to the ministry. In principle, therefore, and sometimes in practice, this is the committee tasked with coordinating the general interest of the German export economy with the policy objectives of the state bureaucracy.

Language barriers as well as the lack of time and resources make it impossible to extend the archival method to the other state/society complexes featured in this study. While funds were not available for me to travel to the United States, much of the archival material pertaining to international monetary relations, foreign economic policy, and the G7 summit meetings has been published electronically as part of the *Foreign Relations of the United States* series. For countries such as Britain, Italy, and France, I have drawn as much as possible on those secondary works that are the first to make use of the newly available archival material. Written from the vantage point of West German state officials, and based on archival research that has yet to be systematically extended to other countries, the dissertation does not claim to offer a definitive account but raises new issues and questions for other researchers to take to the relevant archives.

Structure of the Argument

The guiding premise of this dissertation, elaborated more fully in Chapter 2, is that the emergence of neoliberal globalization in the 1970s is best approached as the unintended consequences of state and class actors pursuing their particular, and oftentimes conflicting, interests under conditions of growing economic instability and uncertainty. More specifically, the hypothesis is that German state managers played a decisive, though not always premeditated, role in steering the capitalist world towards a neoliberal resolution.

Chapter 2 provides a literature review that identifies the three principal modes of explaining the rise of neoliberalism in terms of (1) hegemonic power politics; (2) the influence of social interests; or (3) a shift in economic ideas. It argues that the German experience challenges important aspects of these interpretative models, and outlines an alternative framework that locates the origins of neoliberalism in the force field of attempts of states and social forces to cope with the economic troubles of the 1970s.

Chapter 3 revisits the rise and fall of the Bretton Woods infrastructure of 'embedded liberalism'. It de-emphasizes the unilateral agency of the United States, arguing that the breakdown of the monetary system was the result in large part of unsuccessful European attempts to 'multilateralize' American monetary power. France in particular helped sever the dollar/gold link in March 1968. The so-called 'Nixon shock', I conclude, cannot be understood as the opening gambit in an American project of 'neoliberal globalization' that US strategists imposed upon Western Europe and Japan.

Chapter 4 focuses on the complex interplay of German state managers and dominant social forces that led to the experimental floating of the *Deutsche Mark* (DM) and ultimately the collapse of the fixed-exchange-rate system. I argue that floating enabled the German state to reorganize its relationship with the dominant export bloc, and pursue a monetarist policy that committed both social partners to mutual wage and price restraint—a very different constellation of interests than the multinational corporations and banks that are said to have promoted floating in the United States.

Chapter 5 argues that in order to keep the world economy open for its exports and shore up its competitive position, German crisis managers pursued a grand economic strategy that sought to defeat the interventionist and expansionary responses of the European left in particular. The success of this strategy had contradictory consequences: it helped to stabilize the social consensus inside Germany but undermined it in states whose economies did not stand to benefit from anti-inflationary measures. Germany's particularistic way of coping with the crisis and stemming imported inflation and protectionism contributed decisively, though not deliberately, to the "disembedding" of the liberal international economic order.

Chapter 6 argues that in order to protect the cost advantage of its export model from the dangers of imported inflation, Germany strove above all to commit the United States to monetary and fiscal rigor. To this end, German state managers blocked the attempts of the Carter administration to organize a global Keynesian expansion, and scaled back their dollar support interventions. Both actions helped push the US into the Volcker interest rate shock that radically disinflated the world economy and launched the attack on the organized power of labour.

Chapter 7 argues that the neoliberal experiment in the United States was sustained by the coincidence of monetary restraint and fiscal latitude that drew in global investment, helped finance the massive tax cuts and military expenditures, and thus secured the political, economic and especially financial success of neoliberalism after the global recession of the early 1980s. The chapter highlights the particularly *post-hegemonic* nature of the new social and international order that emerged with the termination of the social consensus and the marginalization of labour. It points to the interplay of divergent and opposing strategies of crisis management as the principal driver of social and world order change in the 1970s and potentially today.

Chapter 2

State Power, Social Interests, and Ideas: Rethinking the Origins of Neoliberal Globalization

The first chapter has established that IR/IPE originally grappled with a very specific problem: whether or not Western unity could be maintained in the wake of the turbulent 1970s that seemed to spell the end of American hegemony. To explain, from this position, how a moment of profound instability and discordance could instead gave rise to an even more open, integrated, and cooperative global political economy centred on the US has been enormously difficult. The inclination of both realist and liberal approaches, we have seen, has been to downplay the significance of the crisis and competitive dynamics of the 1970s—only to encounter similarly confounding tendencies of 'conflict within cooperation' (Porch 2007) thereafter. The first chapter has proposed to dispense with the nostalgic pessimism that the cold war delayed the inevitable return to anarchic normalcy, as well as the retrospective comfort that whatever tensions emerged were ultimately transcended by the forces of globalization. Instead, this dissertation has advocated for a critical-theoretical approach that—from the strategic view of German state elites and on the basis of newly accessible government records—integrates the transatlantic frictions of the decade into an account of the rise of neoliberal globalization.

The purpose of the present chapter is to review the vast and diverse literature on the origins of neoliberalism and to interrogate how they fit in with this endeavour. I propose that one can usefully distinguish three models of explanations: (1) the argument that neoliberalism was imposed by the United States in a bid to restore its global dominance; (2) the argument that neoliberalism is the outcome of business groups or capitalist class forces, especially those associated with finance, seeking to restore their profitability and power vis-à-vis organized labour; (3) the argument that the displacement of

Keynesianism by neoliberalism is best understood as a paradigmatic shift in economic ideas.

It should be noted that these interpretive models are not mutually exclusive, and that many empirical accounts draw on more than one (e.g. Helleiner 1994; Gowan 1999; Blyth 2002). The main argument is that the movement of states, social forces, and ideas towards neoliberalism proceeded unevenly, and the principal purpose of this chapter is to give historical-sociological depth to this specific form of unevenness.

State Power and Neoliberal Globalization

The first mode of explanation attributes the rise of neoliberalism to the attempts of the United States to recover its hegemonic position (cf. Gowan 1999; Arrighi 2003; 2005a; 2005b. It is both closest to the original problématique of Western cohesion, and goes furthest in examining the inter-state conflicts that arose. This agency-centred account differs from the structuralist interpretation introduced in the previous chapter. The latter holds that the existential threat posed by the Soviet Union, coupled with the dangers of strong communist movements inside the advanced capitalist countries such as France and Italy, guaranteed core capitalist unity even amidst the economic instabilities and transatlantic tensions that emerged in the 1970s (cf. Garten 1992: 60; Gilpin 2000: 16). In this view, transatlantic cohesion is the immediate and unproblematic result of US-Soviet antagonism and the nuclear balance of terror. The former interpretation, by contrast, asks how and why the United States was able to control inter-allied tensions in the turbulent 1970s. In exploring this question, some scholars have extended the analysis from the military-strategic to the politico-economic terrain (Gilpin 2000; Layne 2006; Mastanduno 2009). America's military superiority, for them, is only one of the instruments in a wider arsenal of statecraft.[14] Building on this insight, a number of analysts have argued that

[14] Richard Saull's (2007: 138) interpretation of this period holds that "the political-military leverage the US continued to hold over two of its major economic protagonists at this time—West Germany and

some of the most decisive global economic changes of the 1970s and 1980s—from President Richard Nixon's closing of the gold window in August 1971 to Federal Reserve Chairman Paul Volcker's war on inflation—need to be placed in the strategic context of hegemonic restoration. Neoliberal globalization, from this perspective, should be seen as the American hegemon's bid to reverse its economic fortunes and to re-establish its political leadership (Helleiner 1994; Spiro 1999; Gowan 1999). As a project that sought to address the relative decline of American hegemony, neoliberalism is believed to have been engineered primarily by the Unites States (and, to a lesser extent, its British junior partner). And because it benefitted the economic and financial position of the United States in particular, it is assumed to have been enforced over and above the interests of Western Europe and Japan (Arrighi 2005a; 2005b).

The promise of the 'hegemonic restoration' thesis is that it can help us understand how the controversies that characterized the crisis responses of the leading states in the 1970s actually contributed to the rise of neoliberalism. The problem, we shall see, is that it attempts to do so from the point of view of the United States alone. The most provocative and problematic account in this regard is that of Peter Gowan (1999). For him, the 1970s are indeed a period of intensified economic competition as well as "[s]erious inter-state tensions pitting groups of protectorates against the US" (Gowan 2003: 4). While crisis and conflict opened up an array of possible trajectories, the United States, Gowan argues, was able not only to constrain but to decide these struggles in its favour. Although "[t]here were a range of options for the leading capitalist powers to choose from", the United States ultimately succeeded in imposing its preferred solution. Neoliberal globalization, Gowan asserts, was "the outcome of international political conflicts won by the American government" (Gowan 1999: 4-5).

Japan—meant that it could afford to sacrifice intra-western co-operation and harmony in the economic sphere knowing full well that the ruling classes in Bonn and Tokyo would only go so far in challenging US hegemony and their protectorate status in the Cold War".

The process by which the United States is supposed to have prevailed over its core capitalist partners will be examined in greater detail in Chapter 3. More important at this point are the analytical challenges that inhere in accounts that—following a research technique that Peter Gowan (1999: x) describes as 'backward mapping'—"read back from ultimate policy outputs to hypotheses about policy goals".

Backward mapping is an invaluable tool of research whenever access to the internal process of decision-making is restricted. The obvious shortcoming is that it can only shed light on those decisions that were ultimately taken. Because the policy outcome is the point of departure and the aim is to infer the factors that produced it, backward mapping is bound to miss out on, and indeed tends to underestimate, the plurality of options under discussion. In light of the new documentary evidence, it is now possible to identify the full range of available options, and to distinguish those that were seriously considered from those that were ruled out *a priori*. To do so is to explore what may be "crucial 'non-decisions'…often neglected in histories of the globalization process" (e.g. Helleiner 1995: 325).[15] The reasons states chose to refrain from particular foreign (economic) policies, I propose, offer novel insights into the political and economic determinants of neoliberal globalization.

A second issue with backward mapping is that it tends to equate *intention* and *result*. Deducing the interests of policy makers from the consequences of their actions assumes that what policy makers (and the broader social and political interests they represent) got is what they had wanted in the first place. In reality, motives and outcomes may well diverge. The result of a course of action may be different from the desired or expected effect. This is so for two reasons: first, policy decisions may have been made on the basis of incomplete or inaccurate information, and thus fall short of the end they were meant to achieve. Our analysis needs to leave room for such miscalculation and incapacity. And second, in international politics the decisions of one country confront those of others. States have to continuously adjust their behaviour to that of their counterparts. In this

[15] Susan Strange (1986: 26) considers a different set of non-decisions (cf. Helleiner 1995: 338, fn. 10).

continuous chain of action and reaction, it is unlikely that the designs of any one actor should completely determine longer-term developments.

Proceeding from the maxim of *cui bono*, a strategy of ‘backward mapping’ is prone to discount alternatives of action and their unintended consequences, and to overstate the single-mindedness and prescience of state elites. The risk, in sum, is to unduly exaggerate the unilateral agency of the United States in the making of neoliberal globalization (Panitch 2000: 14; Krippner 2011: 88, 187). While some sceptics have contended that “[t]he rise of neoliberalism, and its subsequent reproduction, cannot be explained by the role of the United States in the world-system” (Plehwe, Walpen and Neuhoeffer 2006: 8; Jones 2012: 13), the key to a more sophisticated understanding of both the nature of America’s post-war hegemony and its transformation in the 1970s lies with the other core capitalist states.

It may well be, as Gowan asserts, that any counter-hegemonic projects were pre-empted by the United States. But unless we consider the actions of these potential contenders, we cannot rule out that they never really tried to begin with, and that the reasons for why neoliberal solutions emerged victorious reach deeper than the ability of the US to impress its will. Focussing on the German point of view in particular, the next chapters will address the following questions: What, if any, rival conceptions of world order emerged during this period? And how and why were such alternative conceptions ultimately marginalized and/or discarded? How far, and under what conditions, did the secondary powers come to accept the solution favoured by the United States, and why?

Neoliberalism as a Social Project

The second cluster of explanations—encompassing a broad spectrum of theoretical approaches that range from critical pluralist to elite theories and Marxist perspectives (Hawley 1984: 163)—shifts the focus from the international to the social conflicts that accompanied the rise of neoliberalism. The argument, at is most basic, is that neoliberalism was the product of a collective effort to restore the profitability and authority of business, most notably in the midst of an economic and social crisis that threatened to undermine both (cf. Duménil and Lévy 2004; Epstein and Jayadev 2005; Harvey 2005; Stein 2010). The social agents behind this project are conceptualized variously as capitalist elites, organized business interests, a rentier class, or multinational firms and banks (Hawley 1984: 163); the shared assumption is that these actors, through various direct and indirect channels of influence, were able to translate their preferences into neoliberal policies that advanced their interests at the expense of the 'embedded liberal' compromise with organized labour.

For the most part, this literature has focussed on the United States and the United Kingdom as the most compelling cases for the influential role of business, and finance in particular, in the making of neoliberal capitalism. But as Stephanie Mudge notes in her review essay, "a tendency to focus on politics in Anglo-liberal countries…likely misses most of the 'action'." (Mudge 2008: 705). While there is a broad and, for the most part, sound consensus on the importance of business in the emergence of neoliberalism, "the ways in which neoliberalism has asserted itself on a global level" (Duménil and Lévy 2004: 212-213) remains subject to divergent interpretations.

One strand of scholarship has conjoined this class-based account of neoliberalism with the 'imposition thesis' introduced above. The works of Giovanni Arrighi (1994: 323) establish an explicit, if conceptually and empirically undeveloped, link between the influence of financial interests and the reassertion of American dominance. Gowan (1999: 68-69), too, argues that the internationalization of neoliberalism by the United States served the interest of its dominant class fractions. And Duménil and Lévy (2000: 210) argue, rather vaguely, that "financial hegemony and American power combined into one dynamic". Seeing neoliberal globalization as a joint project of state and class domination, needless to say, is subject to the same limitations outlined in the previous section. An additional drawback of these formulations is that the agency of social forces, not only in the recipient societies but also in the United States itself, remains largely unexplored. This potential advantage of class-theoretic over statist analyses that treat the state as a 'black box' remains unrealized in accounts that simply assume the interests of these social forces to be coextensive with the state as their external representative. In Gowan's formulation, for instance, states are rather unproblematically posited as pursuing the "national *capitalist* interest" of its dominant oligopolies (Gowan 1999: 63, 65).[16] Because their interests are assumed to be commensurate with those of the state, the agency of dominant social forces drops out of the subsequent analysis. As Greta Krippner (2011: 13) aptly summarizes the problem, "there is a kind of instrumentalism lurking in some of these accounts that supplants the interests of the financial sector for the interests of the state or simply assumes these interests to be identical."

It should be noted that the problem of instrumentalism applies equally to the containerized image of 'national capitals' enlisting their states in international competition (Callinicos 2009), and to the notion of 'global capital' governing through an international state apparatus (Robinson 2001; 2004; Sklair 2001). The visions of world order that arise from these narratives—imperialist competition vs. a global state and capitalism—are diametrically opposed. And yet in both cases, the duality of state and social power is lost. To fully appreciate the complex role of social forces, and more specifically the tensions of capital as an agent that operates and organizes across territorially bounded political authority, state action "cannot simply be reduced…to the instrumentalities of an executive committee of the transnational capitalist class" (Gill 2012a: 14) any more than it can be assumed to follow the interests of competing national bourgeoisies.

One important step towards a more nuanced analysis of the state/capital nexus is to interrogate how societal interests filter through the apparatus of the state. Scholars have generally argued that those social forces that called for and benefitted from neoliberal

[16] Although in Gowan's empirical account there is some room for contradictions to emerge (Panitch 2000: 14).

policies are also responsible for their adoption (cf. Duménil and Lévy 2004: 212-213). As admission to the upper echelons of decision-making authority is often restricted, this inference is important and indispensable. The problem is that we cannot determine conclusively that a policy decision has been shaped by particular societal groups simply because it meets their specific demands or advances their interests. Unless we gain access to the inner workings of policy making, we cannot rule out that a particular course of action may have been taken independent of social pressure and on the basis of very different considerations and calculations, even if that decision favoured some group interests over others (Chibber 2003: x). One prime example for this error is discussed in Chapter 6. The Volcker Shock and Reagan revolution served to greatly enhance the structural power of global financial capital. But, as Stephen Gill (1990: 213, 217) argues, this is best understood as an unintended consequence, and should therefore not be ascribed to a purposive 'financial coup' (Duménil and Lévy 2004: 165; Stein 2010: 227). My archival research demonstrates that state managers turned to a monetarist experiment of exorbitant interest rate hikes in 1979 not because of the demands of financial interests but because of the pressures exercised by the German state and central bank via the dollar/DM exchange rate (see Chapter 6).

A more promising attempt to extend class-based explanations beyond the Anglo-American context has been to emphasize the endogenous rather than externally imposed character of neoliberalism. Elaborated most systematically by proponents of the Amsterdam School of IR/IPE, this account is based on the functional distinction between finance and production and a corresponding difference between a 'money-capital' and 'productive-capital' perspective of the capitalist class. The 'money-capital' interest, located in the sphere of circulation, takes a systemic view of capitalism and espouses the unrestricted, worldwide movement of capital, goods and services. The 'productive-capital' perspective, on the other hand, is grounded in the sphere of production, and thus in a specific (although progressively expanding) geographic location. With production bound to a specific social and political setting, the reproduction of productive capital depends on bargains with labour and the support of the state. Productive capital thus displays a greater affinity to principles of social protection as well as economic protectionism (van der Pijl 1984: 10; Overbeek 1990: 26; Overbeek and van der Pijl 1993: 4: van Apeldoorn 2002: 28-29).

From this perspective, then, the post-war political economies of North America and Western Europe were premised upon the primacy of 'productive capital', the incorporation of organized labour, and the suppression of financial interests. By contrast, the gradual erosion of the embedded liberal order has been associated with the reassertion of a 'money capital' perspective (Overbeek 1990: 20; Overbeek and van der Pijl 1993: ix). Multinational banks and corporations came to push for the removal of restrictions on their international operations and the repeal of the New Deal and social-democratic bargains that had limited their scope of action domestically. Rather than a one-sided imposition by the United States, the emergence of neoliberalism reflects a broader shift in the internal balance of power in the advanced industrialized countries.

Two important caveats are generally raised in conjunction with this thesis. Initially confined to the Anglo-American heartland and the policies of Thatcher and Reagan, neoliberalism is said to have spread gradually, and unevenly, across the capitalist core in the 1980s and 1990s. Secondly, substantial variations in both the methods and the extent of the neoliberal transformations are to be expected according to different international contexts and national particularities (cf. Harvey 2005: 116; Duménil and Lévy 2004: 213; van der Pijl 1989a: 12-13). Of particular importance is the resilience of social forces, most significantly the organized strength of labour, and social structures that proved inimical to neoliberalism (Overbeek 1993: 15-16). Accordingly, West Germany has been cited as a case-in-point for a country that under a social democratic government remained wedded to the principles of embedded liberalism and unwilling "to turn the wheel drastically in the 1970s" (Overbeek 1993: 16).

Recognizing the leads and lags of 'neoliberalization' and the diversity of state-society relations, this body of literature has sought to avoid presenting the rise of neoliberalism in too uniform a fashion.[17] Overall, the image of a temporally differentiated and socially variegated convergence on a neoliberal form of capitalism is an apt description of the social and international order that emerged in the aftermath of the seventies' crisis. But while this ideal-type approximation captures the *subsequent* transformation of the capitalist core in the 1980s and 1990s, it is of limited use in analyzing the *initial* responses to the post-war crisis of those states and social forces outside the Anglo-American heartland.

In Germany, students of the Amsterdam School have noted, the very distinction between productive and money capital that informs class-based accounts of systemic change does not seem to apply, as industry and finance have historically been integrated into a unified bloc of the 'big three' universal banks that own, finance, and supervise the largest industrial corporations (van der Wurff 1993: 182). This unified export bloc of finance and industry, my dissertation argues, did not push for neoliberal reforms. Throughout the 1970s, it fought a defensive struggle against the revaluation and flotation of the DM, the tax burden imposed by the extension of social provisions under the social-liberal coalition under Brandt, and the more radical proposals for extended codetermination and investment controls emanating from the trade unions and the youth organization and left wing of the SPD. The social balance of power, corporate elites understood, was unfavourable to a more comprehensive and forward-looking mobilization of capitalist class power.[18] Even the "moderate German form of Thatcherism"[19] that shone through in the reform proposals of the infamous Lambsdorff Paper that toppled the social-liberal coalition in 1982 never fully materialized until the 'third way' social democratic

[17] Although it should be noted that Harvey's attempt to chart "the complicated and geographically uneven paths of neoliberalization" (2005: 116) goes too far in the opposite direction. Harvey applies an extremely loose definition of neoliberalism to the diverse attempts of various ruling elites from Sweden to China to build or reassert their class power that deprives the concept of much of its meaning.

[18] The former spokesman of the board of Deutsche Bank and president of the Bundesbank Karl Klasen noted that one ought to "assess realistically the ability and willingness of many entrepreneurs to negatively dissociate themselves from ideologies or even to positively transcend them… It is to be hoped that the ship has not listed too heavily yet" (Klasen to Günther von Berenberg-Gossler, 28 May 1974, BBk HA B 330/8374).

[19] Ehmke to Schmidt, 20 October 1980, personal confidential, AdsD HSA 6818.

government of Gerhard Schröder some fifteen years later. As Richard van der Wurff (1993: 182) sums up this situation, “the changes in the political landscape taking place in the early 1980s cannot be explained by a changing balance of forces between different fractions of capital”.

Given the unbroken unity of industry and finance in the West German political economy, the question arises how else to account for the far-reaching changes in their external policies during the 1970s. But what is even more important is the question of how the crisis responses of the German state fed back into and possibly helped reshape the international system. The upshot of attributing the emergence of neoliberalism to a particular class fraction is to cast Germany—and other leading state/society complexes such as France and Japan—as relatively passive spectators that share in the global formation of neoliberalism only once, and in so far as, they undergo a regrouping of dominant social forces similar to the US and UK somewhere down the line.

The main argument of this dissertation is that, despite the absence of a dominant class coalition that actively promoted neoliberalism, German state managers nevertheless contributed significantly, if indirectly, to its global emergence in several respects. Their decision to float the DM in 1969 and 1971 set a crucial precedent that undermined the fixed-exchange rate regime and exposed countries to destabilizing capital flows (Chapter 4). Their adoption of monetarism in 1974 and subsequent promotion of European monetary integration compelled its neighbours to follow the anti-inflationary path of Germany. But while a low inflation regime offered comparative pricing advantages to the German export bloc and its incorporated trade unions, the extension of austerity through the European currency snake and, more successfully, the European Monetary System (EMS) eroded rather than stabilized the embedded liberal consensus in these countries. The decision of the German state to forego a global Keynesian solution and to tie its financial assistance to austerity provisions prevented a potentially progressive resolution of the crisis of the 1970s (Chapter 5). And the German pressure on the United States to assume the restrictive burden for global capitalism played an important role in the turn towards the Volcker Shock (Chapter 6).

The Power of Ideas?

The final way of approaching the crisis of the 1970s is through the lens of a contestation between economic paradigms. The classical formulation, from a historical institutional perspective, has been provided by Peter Hall (1992; 1993).[20] According to Hall, policy paradigms provide interpretative frameworks that help policymakers define problems, the possible solutions, and the means to achieve these goals (1992: 91-92). Hall described the displacement of Keynesianism as a learning process on the part of state managers that was provoked by economic crisis, characterized by an associated loss of confidence in established economic thought, and guided by the search for alternatives. The argument is that the stagflationary decade posed intractable problems that the predominant Keynesian macro-economic framework proved unable either to explain or to resolve. This situation of intellectual disillusionment and economic turbulence provided an opening for neoliberal ideas to gain plausibility and prominence after they had been marginalized from academic and policy making circles since the Great Depression. The rise of neoliberalism, in this view, proceeded gradually. It started with the experimental introduction of new policy instruments (of monetarism and pro-market reform) by state managers seeking to hold on to the policy goals of embedded liberalism, and culminated in the radical redefinition of the 'social purpose' of state policy under Thatcher (and Reagan).[21]

While Hall's analysis is confined to Britain, Kathleen McNamara (1998) has provided an account of how a neoliberal consensus emerged across Europe that prioritized low

[20] For Hall (1992: 95), "[t]he shift from Keynesian to monetarist modes of policy-making is ultimately a story about the movement of ideas."

[21] For instance, state and financial authorities might adopt new techniques of monetary targeting without at first accepting the natural rate theory of unemployment (Hickson 2005: 213).

inflation over full employment and that contributed to the success of the European Monetary System (EMS) constructed in 1979. The absence of such a consensus, in her view, explains the failure of the earlier European Currency Snake. Rather than each state going through its own separate cycle of policy failure and paradigmatic innovation along the lines outlined above, McNamara adds that policy makers also learned from each other. This process of policy emulation, in her view, was driven most centrally by Germany, which offered a prime example of how monetary restraint could more aptly manage the stagflationary crisis of the mid-1970s (McNamara 1998: 69, 152-154). McNamara elaborates a ‘diffusionist’ model of ideational change in which Germany emerged as one of the centres of dissemination (McNamara 1998). But she defers to Hall and others to explain where these ideas come from in the first place.

For Hall, the state does not innovate and advance new policy on its own. What connects the state to civil society is the formulation of economic ideas rather than the articulation of narrow self-interests (1993: 289). In response to the economic crisis and impoverishment of Keynesianism “an outside *marketplace in economic ideas*” developed (Hall 1992: 104), and “[p]olicy changed…in response to an evolving societal debate” (Hall 1993: 288). The source of new economic ideas, accordingly, lies with non-state actors such as the media, think tanks, and political parties, as participants in this discourse and suppliers of new ideas (Hall 1993: 288-289).

The rise of neoliberalism in this view is due primarily to the sustained endeavour of a small group of intellectuals led most prominently by Friedrich Hayek and Milton Friedman, who had preserved, developed, and disseminated free-market ideas after 1945 and gradually shaped the opinions of wider circles of intellectuals, entrepreneurs, journalists, technocrats and decision makers. Similar to the Keynesian paradigm shift half a century earlier, a transatlantic advocacy network stood ready to seize upon the crisis of capitalism and established economic thought (Burgin 2012; Jones 2012). Proponents of an ideas-based account emphasize the avant-garde and educational role of neoliberal thinkers and eschew a “simplistic class analysis” that reduces neoliberalism to the self-interest of capitalist class or state elites. Their argument is that neither of them "knew precisely what sort of political economy would prove to coincide with their interests; rather, they had to be taught what it was they wanted" (Mirowski 2008: 117). And yet the notion that neoliberal intellectuals educated state managers and capitalists only works as an explanation if one ignores that their ability to translate ideas into action depends on the position of other groups in society (Schmidt 2011: 476).

One of the advantages of ideational accounts over state-centrist and class-based explanations is their apparent ability to capture the German contribution to the global rise of neoliberalism. German economic and political philosophy, it is argued, had developed a peculiar and influential version of its own. The new liberal economic doctrine, developed by a circle of economists associated with the so-called Freiburg School, outlined an explicitly non-Keynesian approach to macro-economic policy. At the centre of ordoliberalism was the conviction that the state had to play a critical yet closely circumscribed role in economic life (Ptak 2009: 100). The purpose of economic policy was to create and maintain a constitutional framework in which market forces could operate freely and efficiently. This required a strong and proactive state with the capacity to prevent and break up concentrations of private economic power, and to sustain and, if necessary, recreate the conditions of market competition (Ptak 2009: 102).

After 1945, ordoliberals presented their version of neoliberalism as the sound alternative to *laissez-faire* capitalism and a tendentially totalitarian economic planning (Nicholls 1994). Under the Christian-Democratic chancellor Konrad Adenauer and his economics minister Ludwig Erhard, ordoliberal ideas served as a blueprint in the reconstruction of German capitalism after 1945. The post-war success of the social market economy premised on these foundations, and the presumed persistence of ordoliberal ideas, might explain why German state managers only belatedly and hesitatingly turned to Keynesian ideas (Allen 2005: 199-201), and why, in the subsequent crisis of post-war capitalism, they were quick to revert back to economic orthodoxy of price stability, monetary restraint and financial rectitude (Allen 1989).

But the specific and renewed appeal of the idea of an ordoliberal paradigm is that it promises to speak to the exigencies of the present. For the argument is not only that German political economy was premised on an endogenous form of neoliberalism. Alongside the Austrian School, German ordoliberalism has been acknowledged as "a second source of neoliberal inspiration" (Jones 2012: 121) and a precursor to the Anglo-American version that gained global prominence in the 1980s (Bonefeld 2013: 235; Gamble 1979: 5; Ptak 2009: 99; Jones 2012: 125-126). Others have argued that ordoliberal principles shaped European monetary integration and became embodied in the European Central Bank (Blyth 2013: 101); and that Germany's ordoliberal legacy is at the heart of the current Eurozone crisis or may offer a sound alternative to the both excesses of market fundamentalism and the fallacies of Keynesianism (Young 2013; Schnyder and Siems 2013).

The efforts to construe ordoliberalism as a meta-narrative of German political economy reaching back to the writings of the Freiburg School run the risk of missing out on important discontinuities and transformations. The proto-fascist exonerations of the state that shines through in the works of some of the most prominent ordoliberals in the 1930s had to change drastically after 1945 (Berghahn and Young 2013: 3)—an insight that scholars who argue for an authoritarian strand of neoliberalism tend to overlook (cf. Bonefeld 2013; Ptak 2009). For the social market economy to succeed, it had to be rendered *social* in ways that deviated from ordoliberal prescriptions. Rebuilding capitalism required a compromise between the market organization envisioned by ordoliberals and the social protection that had been afforded by the nationalist welfare state established by Bismarck and extended during the Weimar Republic (Blyth 2013: 113). The welfare state and redistributive designs by Alfred Müller-Armack clearly broke with ordoliberal orthodoxy, and his hopes that the interventionist and stabilizing measures of the 'social market economy' would be temporary remained illusory (Berghahn and Young 2013: 5). But the ordoliberal vision remained unfulfilled in other important respects as well. The ideal of establishing a competitive system of private property in which market power was checked by the state and dispersed into a large number of small and medium-sized units required the breaking up of Germany's highly concentrated and centralized ownership structure which far exceeded the oligopolistic competition that American post-war planners had in mind (Berghahn 2010: 5-6; Berghahn and Young 2013: 4); even the less utopian proposals that sought to empower the state to check dangerous concentrations of market power proposed by Walter Eucken and Franz Böhme failed to translate into legislation; they were long delayed and significantly watered down by the opposition of organized capital (Nicholls 1994: 335-336; Neebe 2004: 327). The law for trade union codetermination hardly fits ordoliberal precepts either (Nicholls 1994: 338-339).

The continuous influence of ordoliberal ideology on macro-economic policy making is therefore open to debate. In the same way that scholars have begun to question the extent to which Keynesianism ever ruled supreme in the post-war period (cf. Newton 2004), we may wish to question the coherence and efficacy of ordoliberal thought in this period. Even those who chose to speak, nevertheless, of an 'ordoliberally' inspired macroeconomic framework have argued that its influence waned dramatically in the 1950s and 1960s (cf. Nicholls 1994; Nützenadel 2005 Rittershausen 2007: 20).[22] Ordoliberalism "receded from the academic scene, and by the mid-1960s…was at best an afterthought, a circumscribed historical aside in the primarily Keynesian agendas of policy-makers" (Rittershausen 2007: 41). Following Hall's model of paradigmatic change, this should hardly be surprising.[23] Although it is questionable whether Germany's post-war economic boom was founded upon ordoliberal principles, there is no doubt that it had exhausted itself by the mid 1960s. The important difference is that the German economy entered into recession earlier than other advanced capitalist countries. Policy makers and politicians were therefore looking for alternative modes of regulation at a moment when Keynesianism could still lay claim to scientific validity and managerial mastery (Nützenadel 2005: 304). To be sure, the turn towards Keynesianism

[22] Indeed those who have done so have been keen to present the less economically successful decades of German political economy to a Keynesian coup.

[23] is at once to admit that a paradigmatic shift towards Keynesianism that occurred in the mid-1960s

was belated (Abelshauser 1991), brief and superficial (Allen 1989), and never extended to monetary policy (Bibow 2009: 182). Yet this more nuanced appreciation of Keynesianism, important as though it is, should not come at the cost of unduly inflating the resilience of the rival 'ordoliberal' paradigm. Nothing is gained by replacing one unhelpful abstraction by another.

One possible way out of this quagmire would be to claim that 'ordoliberalism', reduced to a concern with price stability, found an intellectual habitat in the institutionally independent and austerity-minded central bank that resisted the Keynesian experiments of the late 1960s and early 1970s. In this view, ordoliberalism could survive and provide a blueprint for the EMS. And yet this is to grossly exaggerate the influence of ordoliberalism on the monetary architecture, culture and policy of the German central bank (Johnson 1998: 56; Bibow 2009).

The much praised political independence of the German central bank came about by historical happenstance rather than by design.[24] It was a product in large part of the fact that a federal German state did not exist when the precursor to the Bundesbank—the Bank Deutscher Länder—was established (Buchheim 1999; 2001; Marsh 1992: 144-145; Bibow 2009: 158). Most importantly, it was not influenced by, and in fact contradicted, ordoliberal conceptions of an appropriate monetary framework. The ordoliberal credo that only market-conforming state regulation is permissible militated against the practice of central banks (independent or otherwise) to set the rate of interest. To do so was to constantly interfere with the price-finding mechanism of the market (Bibow 2009: 169).[25] Even in political practice, the ordoliberal luminary Walter Eucken rejected the idea of central bank autonomy as introducing a dangerous 'pluralism' "that would jeopardize the unity of state policy" (quoted in Bibow 2009: 170). And in the mid-1950s, the advisory

[24] An exhaustive account of the origins of German central bank autonomy has been provided by Bibow (2009: 155), who argues that 'ordoliberalism' "had no…impact on the country's emerging monetary order at all" (155).

[25] The automatism of monetary policy devised by Friedman fulfilled this premise but was based on Keynesian monetary theory. Friedman also rejected central bank independence.

council of Erhard's economics ministry, which included a number of high-profile ordoliberals, "designed and recommended a model…that was essentially Keynesian in spirit" and that envisioned the goal dependence of the central bank (Bibow 2009: 184). That the Bundesbank nevertheless emerged as formally independent from government directives owes to the power-political considerations that pitted Erhard against his internal rival Schäffer, the federal states against the government, and the SPD against the incumbent CDU (Bibow 2009). The central bank, too, was interested in preserving its autonomy. But when confronted with the great inflation of the late 1960s and early 1970s, its members were disposed to give up the legal independence of the Bank (Johnson 1998: 24).

Moreover, Johnson (1998: 56) claims that "there is little evidence that [ordoliberalism] had a direct impact on the culture of German central banking." Monetary policy-makers were influenced not only by the historical experience of hyperinflation and the fascist state-directed war economy but also by the collapse of liberal capitalism amidst economic recession and mass unemployment. The Bundesbank has cultivated a myth of single-mindedly defending the stability of the DM out of a sense of historical responsibility to the German population which, it has been repeatedly argued by policy makers and academics, was haunted by the collective memories of hyperinflation in the 1920s. The reality was far more mundane. Equally important to the German public and policy making elites, and thus just as likely to have influenced monetary policy, was the fear of economic recession and mass unemployment (Johnson 1998: 24-25). The reason why one was elevated above the other cannot be explained with reference to ordoliberalism either. Ordoliberals, to be sure, had stressed price stability as the essential precondition for a functioning market economy (although Keynes, too, argued that the productive and financial sectors "cannot work properly if the money, which they assume as a stable measuring-rod, is undependable" (quoted in Bibow 2009: 170)). But the Bundesbank members that sought to defeat the great inflation in the early 1970s adopted a series of highly interventionist measures—opposed, it should be noted, by the devoutly Keynesian economics and finance minister Karl Schiller—that would have been anathema to ordoliberals (Johnson 1998: 24).[26]

Far more important than economic philosophy were the tangible benefits that derived from internal discipline. Carl-Ludwig Holtfrerich (1999; 2008) has argued that Germany's post-war elites found that their export economy could obtain a crucial comparative advantage over its trade rivals if wages and prices could be kept at lower levels.[27] The fixed-exchange rate regime of Bretton Woods enshrined this advantage. Moreover, as we shall, it was a similar concern that motivated German state managers in the 1970s.

Lastly, there is no straight line between the ordoliberal ideas that—tempered by political expedience and economic necessity and combined with otherwise incommensurate ideas of income redistribution, social benefits and subsidies—underpinned the German *Wirtschaftswunder*, and the techniques of crisis management that the Bundesbank adopted in the wake of the 1973/1974 recession. Monetarism—the idea that the central bank should ensure a tightly controlled and steady supply of money—had to be created from scratch and involved a combination of Keynesian and ordoliberal principles (Johnson 1998: 57). Germany also did not simply go out to preach the benefits of its form of neoliberalism to others. What is far more important, this dissertation shows, is that German policy makers had found a way of coping with the crisis of the 1970s; their attempt to protect and bolster this crisis management strategy is what defined the limits of the possible for many other countries. All this is to suggest that ideas are profoundly malleable.

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[26] Nor should the institutional autonomy of the *Bundesbank* be credited for this shift. The Bundesbank itself only gained its independence, from the government as much as from the export interests of banks and industry, through the decision to float the DM (Johnson 1998: 53, 59, 101; cf. von Hagen 1999: 411).

[27] As the German Minister of Economics Ludwig Erhard wrote to Vocke on 2 August 1950: "If, namely, through internal discipline we are able to maintain the price level to a greater extent than other countries, our exports' strength will increase in the long run and our currency will become stronger and more healthy, both internally and with respect to the dollar" (Holtfrerich 1999: 345; recently quoted in Cesaratto and Stireti 2010: 72).

The German case raises important questions regarding the general model of ideational and policy change. The emphasis on ideological entrepreneurs that shape the terrain of the debate is bound to bring back the question as to what extent ulterior motifs ('material' interests) underpin these articulations, and how we best to distinguish these interests (are they objectively derived or themselves socially constructed?) from the ideas that may promote or conceal them. Keynes, for one, was "sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas" (John Maynard Keynes, *The General Theory of Unemployment,* 1936, quoted in Jones 2012: 1). The question is whether we can be quite so certain. But there is an even larger problem. Hayek modelled the Mont Pelerin Society on the insight of Keynes that ideas have the power to shape the opinions of policy makers in the long run (Burgin 2012: 217).[28] And Friedman took his cue from the British constitutional lawyer Albert Venn Dicey when he argued that previously marginalized ideas gradually radiate outwards from a small core of true believers to a new generation of scholars and, when circumstances called for action, to society at large (Burgin 2012: 219-221). For Friedman, "only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around" (quoted in Blyth 2013: 103).

Clearly, the notion of a paradigmatic shift, driven by intellectuals that painstakingly reshape the ideological environment in which policy makers make their decisions, reflects what both Keynesian and neoliberal thinkers thought they were doing (Helleiner 1994: 145). The question, of course, is whether we are well-advised to derive our mode of explanation of how economic thought shapes social reality from the self-understanding of those agents actively engaged in propagating and proselytizing these ideas (cf. Burgin 2012: 217-222). Ideological entrepreneurs, in the heat of the moment or in nostalgic retrospective, may well overstate the intellectual coherence and the causal efficacy of the paradigms they promote. Taking their interpretation at face value is to miss that, as Monica Prasad (2006: 21) has argued, "even quite narrowly defined economic ideas are

[28] "When Hayek was preparing to found the Mont Pelerin Society, he turned to Keynes's representation of the relationship between ideas and historical change" (Burgin 2012: 217).

polyvalent and even self-contradictory, so that the same idea may come to mean quite different things at different times or to different audiences." Open to multiple interpretations, ideas do not unproblematically translate into policy; they are shaped, and frequently twisted out of recognition, by the circumstances of the time. Political opportunism or economic necessity may determine which ideas get selected and how they are defined.

It is of course possible, and potentially productive, to push the inquiry further by raising the objection that what seems 'politically opportune' or 'economically necessary' in moments of crisis is also socially (read: ideationally) constructed (Blyth 2002: 22-23, 35-44; for a sympathetic and compelling critique, see Hay 2004). According to such a constructivist reading, the interests of actors, particularly under conditions of uncertainty, are themselves mediated by ideas rather than objectively predetermined (e.g. McNamara 1998: 57-59; Blyth 2002: 33). However valuable, the insight that all interests are social artefacts can be a source of considerable confusion (Hay 2004: 210). Does this include the *interests* of those non-state actors that supply new economic ideas to policy makers? And does it include the *interests* of policy makers that translate these new economic ideas into policies? The answer is that while a constructivist study could be fruitfully extended along these lines, such an analysis cannot be organized around the concept of 'neoliberalism' as a catch-all term (Rogers 2013: 2, 5). For it is possible, and indeed likely, that the *ideas* that ideological entrepreneurs seek to disseminate (especially when associated with capitalist entrepreneurs) are different from the *ideas* that motivate their actions. And it is just as likely that the *ideas* that led political operators to implement neoliberal policies (such as electoral considerations) differed from the *ideas* that were inscribed in these policies. The case of the Italian Communist Party, briefly discussed in Chapter 5, illustrates this issue. Ideas may have been an important factor in explaining communist support for austerity measures; but surely, these ideas had little in common with neoliberal ideology. [29]

By contrast, this dissertation demonstrates that the ideas that guided social forces and state actors were diverse and, in the end, very different from the changes in belief-system that these actions brought about. Most importantly, Chapters 4 and 5 argue that West German state managers were never driven by neoliberal (or ordoliberal) ideas, but more immediately concerned with finding ways to deal with the particular problems thrown up by the post-war crisis of capitalism. The reason they decided to let the DM float had nothing to with a belief in the market as a more efficient price finding mechanism. The reason they chose monetarism to curb inflation was to more effectively intervene in the distributive conflict between capital and labour. And the reason they singled out price stability was that it offered export opportunities that could help secure social peace. The infamous monetary and financial austerity that German state managers embraced in the 1970s was meant to sustain the embedded liberal compromise at home. In as far as German state elites were guided by a larger interpretative framework rather than pragmatic considerations, Chapter 5 argues, they looked back to the economic nationalist fragmentation of the 1930s as the scenario that needed to be prevented.

Structured Choices, Patterned Interactions, and Unintended Consequences

The explanatory models examined in this chapter differ according to the causal weight they ascribe to the factors of state power, social interests, and economic ideas. In the final analysis, however, they suffer from a similar deficiency: their accounts of neoliberal transformation tend to extrapolate from the properties of the dominant state/society complex in the system. Whether the emphasis is on a hegemonic imposition, a

[29] The case of the Italian Communist Party, briefly discussed in Chapter 5, illustrates this issue. Ideas may have been an important factor in explaining communist support for austerity measures; but surely, these ideas—associated with an anti-consumerist asceticism—had little in common with free-market ideology.

parallelism of social forces, or the diffusion of ideas, the US is considered to be the prime mover in a neoliberal direction. Other social formations partake in this systemic change to the extent that they possess comparable characteristics. Decision-making elites may have been exposed to the same ideas, subject to the same societal pressures, or stood at the receiving end of the hegemonic relationship (or have hegemonic interests of their own). Those societies with a different ideological environment, domestic balance of forces, or geopolitical situation can converge on the Anglo-American model; but they are precluded conceptually from adding to this transformation. In each of these explanations, unevenness is confined to different tempos and gradations of the same general movement from the crisis of embedded liberalism to neoliberal globalization.[30] To extend the account beyond the United States and the United Kingdom requires greater attention not only to the *diversity* of capitalist political economies but also to their *interactivity*.

The first step in this process of theoretical reconstruction is to examine the precise relationship between state and class agency. The point here is not to theoretically assert the autonomy of the state from society, but to more carefully delineate how far, and under what conditions, state actors may be compelled to pursue policies that deviate from the interests of capitalist owners or the conditions for capitalist reproduction.

The privileged position of business within the political process of decision making has been widely acknowledged within critical pluralist and Marxist scholarship (e.g. Miliband 1973; Poulantzas 1973; Lindblom 1977). This should not be mistaken for an 'instrumentalist' conception of the state, however. On the contrary, the fact that business systematically seeks to influence state policy reflects a concern that its interests may not otherwise be adequately represented. This is a sign not only that capital is fragmented into rival groups that may seek to gain particular advantages, but also that it has to come to terms with competing group interests and its antagonistic relationship to labour. This competition, to be sure, is far from equal. And yet in capitalistically developed societies,

[30] See, for instance, the argument by Eric Helleiner (1994: 15) that "the ideological shift to neoliberalism took place at varying rates of speed and degrees of intensity in different countries".

where the power to command labour and appropriate surplus has been divested from the power to rule, *and* where the latter has been made subject to a limited form of representative democracy (Wood 1981), there is a latent possibility that the interests expressed through the agency of the state may contradict not only this or that special interest but the 'general will' of the capitalist class as a whole.

From the perspective of state managers, the problem is threefold. First of all, they face not only competing societal demands or rival business factions (Hawley 1984: 162); they may also confront contradictory interests of the same social group (Hawley 1987: 145). Germany's dominant export bloc, Chapter 4 explains, opposed both an appreciating DM and comprehensive capital controls. Even if the operators of capitalist states may be structurally predisposed to prioritize capital over other social constituents (Lindblom 1982), such incompatibilities may require states to make independent and proactive decisions (Hawley 1987: 145). Second, apart from a clear-cut *quid pro quo* (e.g. campaign contribution in exchange for legislative action), what capital wants is not always unequivocally clear. The structural power of capital tends to be proscriptive rather than prescriptive; it may circumscribe which policies cannot be taken without significant sacrifices, but it rarely offers guidelines for positive state actions. Moreover, the dynamics of capital accumulation not only restrict state agency but may also go against the preferences of large segments or influential groups of the capitalist class, thus raising opposing pressures for the state to arbitrate.

The dilemma confronting state managers is not simply how to reconcile 'maintenance functions' that may come into conflict with one another (O'Connor 1973). It is rather how to translate these abstract requirements into actual policy in the first place. Even under normal conditions, the prerequisites for continued capital accumulation, and the question of which of several possible functions the state is to prioritize at a given moment, are subject to multiple interpretations. The problem, in short, is that capitalism does not come with a manual. In moments of crisis in particular, state managers and the agents of capital and other social groups are engaged in an interpretative effort that increases the possibility for independent state action as well as misguided decisions.

While capitalist firms have the bottom line as the yardstick of success and failure, states grapple to find an equivalent indicator that can serve as a criterion of decision making. The problem is that the costs and benefits of state policy are not as readily quantifiable. In lieu of an absolute and objective measure, state officials tend to take the performance of their foreign counterparts as the point of reference. Realist scholars are the first to recognize the relational context in which states define their interests (Waltz 1979). But where realists identify systemic anarchy and the imperative of state survival as the matrix of strategic calculation, critical analysts have suggested that in matters of political economy state action is guided by the competitive and thus inherently comparative nature of capitalism (Gowan 2002; 2005; Bichler and Nitzan 2009).[31] Contrary to Mearsheimer's (2001: 35) controversial claim that "the difficulty of determining how much power is enough for today and tomorrow" compels states to maximize their influence, state managers seek, as a rule of thumb, to do better than their peers. This differential concern is most obvious in the attempts of states to create an attractive investment climate especially under conditions of global capital mobility; but it also has implications for how states cope with economic crises, as Chapter 5 demonstrates with regards to Germany. In this respect, states as crisis managers tend to be 'defensive positionalists' rather than 'utility-maximizers': they are concerned not only with how overall losses can be contained through international cooperation, but also with the relative distribution of the burden (Grieco 1990; 1993).

This, then, relates to a third problem that state operators face: they do not make policy in isolation from one another, but in an international milieu in which their decisions confront and potentially collide with those of other centre countries and elites. At the international level, then, the difficulties of securing the extended reproduction of capital

[31] There is a historical argument to be made that the rise of capitalism has transformed the geopolitical calculus of power.

multiply. As the ambiguities of how best to sustain capital accumulation need to be negotiated among the sovereign equals of the capitalist core, they may translate into political disagreements over the preferred course of action. States therefore seek to influence one another's policies and promote their favoured solutions—unilaterally as well as in cooperation, and inside and outside the established channels. Under America's post-war hegemony, an elaborate apparatus of interconnected state agencies, international organizations, and public and private coordinating mechanisms has been constructed to resolve the tensions between economic interdependence and political sovereignty and to foster cooperative forms of leadership and crisis management (van der Pijl 1984; Gill 1990; Panitch 1994). And yet governing global capitalism through a multiplicity of economically and politically integrated but formally independent states places limits on the extra-territorial reach of the leading state and the unity of globalized forms of rule. The territorial constitution of the global political economy renders the international rule of law incomplete and, at least in principle, exposes it to the partial interests of individual states who have to reconcile domestic and international responsibilities (Gill 1992: 270), and who may seek to advance the particular interests of capital invested or originating from within its borders in ways that differ from the balancing role they perform domestically (Lacher 2002: 160-1).

None of this is to argue that inter-imperialist rivalries continue to be a feature of the modern international system. The concern is instead to recover these incompatibilities and tensions in inter-capitalist regulation from accounts that exaggerate their hostile character and disintegrative consequences, as well as from accounts that reduce them to merely technical problems of collective action. Contrary to liberal assumptions about the mutually beneficial effects of global economic exchange, capitalist globalization is an important source of instability and competition among the major firms and their home or host countries (Gowan 2005). Contrary to realist expectations of zero-sum geopolitics, however, the differential pursuit of state interests under these conditions need not itself be destabilizing (Trachtenberg 2003). In other words, these inter-state 'conflicts', in a strictly limited and demilitarized sense of the term, are neither subordinate nor antithetical but *integral* to the form and direction of capitalist globalization.

What emerges from this sketch is a set of analytical propositions that allow us to approach the ‘disembedding’ of the post-war international and social order as an interactive process driven by a multiplicity of states and social forces. At any given point, and especially in times of crisis, the operators of the core capitalist states face the difficult choice between a number of policy options; state managers settle on a course of action on the basis of the particular domestic and international circumstances of their state and economy, and often in direct comparison to the policies of others. The choices they make feed back into and reshape the international context in which other state administrators have to make theirs. The search for global and national remedies, then, is shaped not only by uncertainty but also by tensions and contradictions, as the solutions adopted by some may pose problems to others, and as states seek to project their power and influence internationally in order to advance their objectives and structure one another’s choices.

Neoliberal globalization, then, can be seen as the composite product of mutually interdependent strategies of crisis management. By focussing on the structured choices and patterned interactions, so the guiding hypothesis, one may arrive at a fuller understanding of neoliberalism as being more than a political project emanating from a dominant state, class, or paradigm.

Chapter 3

Unwinding Bretton Woods: Beyond America's Bid for Supremacy

The nineteenth and twentieth century have seen two spectacular waves of capitalist globalization (Hirst and Thompson 1996; O'Rourke and Williamson 1999; Frieden 2006). Conventional attempts within IR/IPE to explain these two tidal movements in terms of successive hegemonies and alternating phases of stability and chaos peter out in the 1970s, as Chapter 1 has demonstrated. To explain why the former led into the abyss while the latter has so far been sustained (albeit at escalating socio-economic and ecological costs), we need to turn to critical theories of social and international order. Although the two great cycles of expansion and integration are outwardly similar, they are rooted in two distinct configurations of societal and geopolitical relations. The first part of this chapter provides a brief history of how these domestic and international forms of rule have combined to produce the rise, demise, and resurrection of a liberal world economy. Once we put to rest the idea that Britain and the United States performed functionally equivalent roles of global ordering, it is possible to examine the crisis of the 1970s for what it was: a crisis of post-war capitalism rather than a crisis of hegemony. This, then also, allows us to examine the actions of the United States and its allies in a different light: they were concerned not to hasten, manage or reverse hegemonic decline, but to control the direction of a post-golden age era of capitalism that was registered first in a series of mounting monetary turbulences.

The liberal cosmopolitan world order of the middle decades of the nineteenth century was based upon the developmental difference and passing complementarity between an industrial-capitalist and liberal-constitutional Britain on the one hand and the still predominately agricultural and aristocratic regimes of Continental Europe on the other (Lacher and Germann 2012). This temporary symbiosis between differently constituted societies was short-lived for two reasons. First, the *anciens régimes* of Europe shifted from being subordinate suppliers of primary goods for the British-centred world market to competing projects of late industrialization. And second, the ruling elites of the leading states took similar measures to absorb working-class demands for popular sovereignty that proved to be incompatible internationally.

Towards the end of the nineteenth century, therefore, the great powers converged upon broadly similar forms of nationalist-imperialist forms of rule and development that stabilized these societies internally at the cost of pitting them against one another in the international arena. The combined effect of social stabilization and catch-up industrialization at home was to externalize social contradictions into colonial conquest, to militarize the relations between the great powers, and to prompt societies to turn their backs on free trade and to march towards total war (Polanyi 1957).

That humanity would see a second, and far more successful, attempt to move towards the 'stark utopia' of the 'self-regulating market' after the carnage and crises thrown up by the first was by no means preordained. Capitalism had been thoroughly delegitimized in many parts of Europe and the world, and for the market economy to become accepted as the organizing principle of society, a major social and international reconfiguration was necessary. This required not only substantial social and material concessions to subordinate forces, but a concerted effort by governing elites to ensure that national projects of 'domesticating' the working classes would not come into conflict with one another again. In this view, what happened in the West after 1945 is truly exceptional. By exporting Fordist methods of production and consumption and encouraging equivalent compromises between organized labour and corporate capital, the United States set out to recast its imperial rivals in the image of its own state/society relations (Maier 1977; Rupert 1995). Unlike the British system of imperial governance—inherently fragile as it excluded those core states with the power to challenge it (Darwin 2009: 5)[32]—the US incorporated rival imperialisms into a multilateral framework of security, trade and

[32] In this crucial respect, the British's global rule "was not hegemony in a fundamentally Gramscian sense" (Gill 1993b: 43; Lacher and Germann 2012).

investment designed to manage social and economic contradictions (Gill 2008: 59-61). And in contrast to the fleeting coincidence of industrial and agricultural export interests that had formed around British free trade in the mid-nineteenth century, a new system of public and private international organizations now sought to forge a durable transatlantic consensus among governing elites, internationally oriented capitalist owners, and reformist trade union leaders (Gill 1990: 126). In sum, under the post-war leadership of the United States, there was both a top-down levelling of societal unevenness, and an unprecedented, and transnationally mediated, harmonization of social and world orders.

There was no complete assimilation, however (Milward 1984: 357). National variations persisted, and the global designs of the US, even at the height of its power, were never either complete or uncontested. The ripple effects of the Russian revolution and decolonization had removed as much as one-sixth of the globe from the Western sphere-of-influence (Hobsbawm 1994: 7; Smith 2005: 120). In these spatial terms alone, "the liberal world economic order could at best be semiglobal" (Stokes 1988: 625). More important still was that the resumption of the cold war against the Soviet Union—waged by the US and UK since 1917 and interrupted only by a temporary alliance of liberal capitalism and communism against the axis powers (Gill 2012b: 511)—introduced (geo)political and military considerations that collided with, and often superseded, the economic interests in the largest and freest possible flow of trade and investment (Smith 2005: 96). In the late 1940s and early 1950s, the United States not only sought to rebuild global capitalism, but also to confront politically, militarily and economically an explicitly anti-capitalist, alternative model of social organization and development (Neebe 1996).

The objective of dismantling the old colonial empires was another controversial question. Opening up the former colonial dependencies to global markets pitted American policy makers against British and French interests in the preservation of preferential monetary and trading zones. The unravelling of the British Empire proved to be particularly cumbersome, posing perhaps as much of a challenge to America's global designs as

Soviet ‘expansionism’ (Smith 2004: 379). And while the US wanted to have an economically integrated and politically unified Western Europe, France sought to restrain German power by tying it into a much more closely confined project of European integration (van der Pijl, Holman, and Raviv 2011: 388-391).

At first glance, the incorporation of a defeated, divided and occupied Germany appears to be fraught with less tension. For whereas Britain and France only hesitatingly surrendered to American designs, West German economic planners came to see the liberal multilateralism championed by the United States as the road to political rehabilitation and economic reintegration (Neebe 1996: 99). An open global trading system offered the best possible chance of gaining access to technology, investment and raw materials and of re-establishing themselves in the markets that had been lost during the war. This was coupled with the political imperative of submitting to American military and political leadership of the West rather than meditating between the two blocs. The image of American hegemony that mainstream and critical scholars have employed in order to capture the predominately consensual nature of the transformation of the post-war order most aptly describes the emerging relationship between the US and Germany. American plans for a global and national reorganization of capitalism, premised upon a regime of rising productivity and redistribution, uniquely coincided with German plans for a social market economy and an open trading system as the most promising road to prosperity and prestige. Where other countries resorted to Keynesian-style intervention and protectionism, Germany’s post-war settlement with organized labour was most directly sustained by seizing upon the export opportunities provided by the US-centred liberal world economy (Rhenisch 1999: 70; Cesaratto and Stirati 2010: 73).

Yet even here, the congruence of American and German interests should not be overemphasized. The issue, first of all, is not simply that some of Germany’s post-fascist elites had to be compelled to accept an economically (and politically) liberal capitalism (cf. Berghahn 1986; Bührer 1990: 149-150, 154; Erker 1999: 14, 16; Grunenberg 2008:

159). The point is rather that even those state officials and business representatives who came to look favourably upon the ambitious American vision of an integrated world market raised doubts as to the likely success, the appropriate pace and scope, and the optimal means of liberalization. How effective and durable would American globalism be? Could US demands that Germany act as a trailblazer of economic liberalism backfire? And wasn't German industrial prowess best brought to bear in direct bilateral bargaining rather than in large and unwieldy multilateral negotiations?

The ideal of global free trade was wholeheartedly espoused only by the economics minister Ludwig Erhard. His missionary zeal to forge a domestic welfare compromise on the basis of Germany's comparative advantage in an unmitigated competition of national productivities was as unrivalled as it was controversial. Most capitalist elites did not support him in his efforts to liberalize Germany's domestic economy (Grunenberg 2008: 159) even as they agreed with him that the EEC was a dangerous diversion from the global orientations of West German capital (Neebe 1996: 121; Milward 1986: 239). And even the ministerial bureaucracy had doubts about the success of this international economic strategy (Rhenisch 1999: 85).

The assessment of Erhard's position on the EEC by the foreign office illustrates these reservations:

> "The federal minster of economics is of the belief that the integration of the free world will proceed in the form of an ever further liberalization of the movement of goods, services and capital, a reduction of tariffs and other protectionist barriers, i.e. corresponding to the OEEC. If one thinks this way one has indeed to see in the integration of the Six 'an island of disintegration in a by now more open world'. In that case, Germany would indeed be impeded in its freedom of movement and threatened in its vitally important linkages to the other world powers by the burdensome marriage with a protectionist France. The Foreign Office does not entirely share the federal economic minister's *economic plan for conquering the world* because such a vehement and extensive thrust into free space has to encounter its limits at one point, be it an economic crisis or another shock. Then only that which is politically organized will endure, namely the Community of the Six or, after the accession of Britain, that of the Seven, or else German economic expansion

> will fall back onto itself" (the memo, dated 4 October 1956, is quoted in Neebe 2004: 301-302; my translation).

Pace Reinhard Neebe, who reads this passage as proof that foreign economic planners continued to think in outdated territorial terms, I find little in this excerpt that is particularly archaic. Fast forward a decade and a half, and the concerns that economic growth might not continue indefinitely, that liberal multilateralism could come up for revision, and that a politically integrated European core would prove to the best possible guarantee against national retreat seems surprisingly prescient.

But even where the outlook of German elites coincided with American designs for a liberal world economic order, the convergence emerged at least in part out of potentially conflicting motivations (Neebe 1990: 166). While the United States wanted to firmly anchor Germany within Western Europe and the transatlantic alliance in order to foreclose an independent path of economic development and political sovereignty, German policy makers sought above all to re-establish Germany's global economic position.

Though largely congruent, the post-war economic offensive of German business also *exceeded* the transatlantic area in some important respects. It comprised German ventures into Latin America, which seemed to offer markets that could easily be penetrated by German exports due to the disinterest of the US and the lower quality of British products (Neebe 1991: 22). It also involved plans of a number of influential German industrialists for a joint Franco-German advance into the Third World (Rhenisch 1999: 79-80).[33] And it involved, most critically, sustained if initially frustrated efforts on the part of West German industry to revive its traditional markets in the European east and south east (Spaulding 1996; Rudolph 2004). In addition to reconnecting to already established

[33] This ultra-imperialist vision, not necessarily representative of all of German business, was developed in a series of high-level meetings between German and French industrialists initiated by Adenauer in March 1953. The guiding idea was that the European economy could be rendered 'crisis-proof' by mitigating competition at home and instead jointly exploiting the raw material supplies and outlet markets of Africa in particular, where European corporations would not get in the way of their international competitors (Rhenisch 1999: 79-80).

contacts, "West German industry saw these regions as a fallback should the Western world economy for some reason not function as predicted or lapse into another 1930s-style crisis" (Berghahn 1996: 27). From the launching of West Germany's export offensive to the mid-1950s, therefore, some of the most internationalized, outward-looking and export-oriented segments of West German capital found themselves in opposition to the cold war strategy of the United States that sought "to instrumentalize foreign trade for the purpose of waging economic warfare against the Soviet Union and its satellites" (Neebe 1996: 121).

To ameliorate these tensions, Germany's foreign economic strategists sought to dissociate West Germany's external economic interests from its foreign policy commitments wherever these two came into conflict (Rudolph 2004: 34; Neebe 2004: 509). The latter, it was soon understood, would necessarily involve some form of political integration into the West. The former, it was hoped, might be spared from particularly painful political concessions that reintegration into the West was expected to entail. Framed by Ludwig Erhard in terms of an 'open global trade policy', it was meant to encompass the entire world economy and thus opposed to the bifurcation of the world economy that America's cold war strategy reinforced.

The embrace of liberal multilateralism and its associated 'depoliticization' of international economic relations are best understood as a tactical choice. To be sure, the particular mode of integration into the liberal international economic order and the subordination to American politico-military leadership was profound. It had removed once and for all the material basis of what were now ideologically discredited autarky conceptions, and the arch-conservative, illiberal, anti-democratic, and authoritarian forces that had supported them. The most reactionary remnants of the nobility and political elites inside and outside of the West German government were now left to cultivate their distaste for American materialism and liberal democracy in the cultural and spiritual rather than political and economic sphere (Conze 2005a). The Europe that they continued to imagine as a Christian Abendland (Occident) free from both Eastern barbarism and

Western decadence[34] had little to do with the political and economic union that was actually being constructed.

And yet however irreversible, the end of Germany's *Sonderweg* ought not to be mistaken for a *complete* separation of economic rationality from *any* (geo)political considerations. In this respect, the binary distinction between a cooperative 'trading' and conflictive 'territorial' state developed by Richard Rosecrance (1986) and adopted by scholars such as Hans-Peter Schwarz (1994: 130-132) and Richard Neebe (2004) is bound to fail as a guide to Germany's foreign economic policy. In their writings, West Germany's turn towards liberal multilateralism after 1945 constitutes a paradigmatic shift away from the obsolete categories of nation-state and territorial power and towards accepting the economic rationality of an effective, functional, and unimpeded worldwide division of labour. Britain, it is said, had already accomplished this transition with the repeal of the Corn Laws in 1846 and the embrace of free trade. By contrast, the ideological and military mobilization of German society, which in the early twentieth century sought twice to win territorial control over the European continent, is said to indicate that Germany had not yet accepted global markets as the arbiter of policy choices. German political and economic elites, in this view, remained caught in the territorial logic of "the military-political world" of the pre-industrial era that measured success in terms of the size of territory, military might and population and that strove for closed empire and largest possible degree of autarky. According to this account, it is only after 1945 that a conceptual catching up with Germany's status as a 'trading state' was achieved and that

[34] The so-called Abendland (occidental) conception of Europe emerged in the interwar period in response to the danger of communism looming in the East as well as the perils of liberal democracy imported from the West and embodied in the Weimar Republic (Conze 2005a: 208). Europe, as imagined by members of the Abendland movement, was a culturally defined association of national-conservative elites, anchored in orthodox Catholicism and made up of the hierarchically organized, authoritarian-corporatist societies (Conze 2005a: 207). Unsurprisingly, the idea of Europe as Abendland, with its explicit rejection of modernity and invocation of an idealized, pre-political, monarchical and clerical past, found many of its proponents within the nobility, particularly from southern Germany and with attachment to the Habsburg monarchy and the Austro-Hungarian Empire (more so than to the protestant Prussia of the Hohenzollern) (Conze 2005b: 63). After 1945, the Abendland conception held that the European continent ought to stay clear of Eastern barbarism and Western decadence, renovate its Christian foundations and restore its former world status.

its corresponding interests in economic capacity-building and technological innovation were identified with an open world market and peaceful international cooperation (Neebe 2004: 33-34).

This ideal-typical categorization is problematic in two respects. First, it presents the choice in favour of a multilateral trading order as the only economically rational one, i.e. as the only one in accordance with the realities of global interconnectedness. What is lost in this account is a nuanced understanding of what exactly was being constructed and consented to. The post-war global economic order, after all, deviated in important respects from the ideal of the truly unimpeded reign of market forces that had prevailed in the mid-nineteenth century. This new order involved a reconfiguration of the relationship between states and markets that is not easily captured by the notion of the subordination of foreign (economic) policy to the requirements of global economic interdependence (Neebe 2004: 13). To be sure, an important story can nevertheless be told within this framework about how politically controversial this choice was and how various obstacles needed to be overcome; but focussing on how between 1945 and 1965, German political and economic elites came to accept an open, interconnected world economy as the parameters of action misses out on the truly innovative feature of global and national reconstruction: the qualitatively different nature of the embedded liberal order which involved the construction of “a framework which would safeguard and even aid the quest for domestic stability without, at the same time, triggering the mutually destructive external consequences that had plagued the interwar period” (Ruggie 1982: 392).

The second problem, and flipside of this argument, is that divergent opinions and alternative options are relegated to the second class of what is generalized to be an old-fashioned, territorial mode of thought. This, arguably, is a step back from the distinction between formal vs. informal empire that recognized a broad spectrum of organizational possibilities of economic structure and political power and that illuminates the debate between the two world wars. To equate scepticism and opposition vis-à-vis the liberal multilateral world established by the US with an inherited and hopelessly anachronistic way of thinking is to fundamentally underestimate the contingency of the situation and the range of options. In short, there may have been reasons for why political and economic elites were concerned about the type of incorporation envisioned by US planners that had little to do with being trapped in an outdated mindset. For German strategists to think of the post-war economy in terms of regional blocs, for instance, does not seem particularly backward-looking if one takes into account the bifurcation of the world economy by the cold war, the uncertain prospects of America's drive towards world market integration, and the still undecided fate of the British Empire.

It is important to recognize therefore that even though German and wider European elites had departed from their inter-imperialist conceptions of exclusive spheres-of-influence, the interests of transatlantic political and economic forces did not simply fall into line. They had to be carefully and continuously coordinated through a variety of private political, economic and security forums, foreign relations councils, and even more broadly, scientific and cultural associations and academic exchanges—each of which served to develop and disseminate key aspects of the novel, consensual form of inter-state and capitalist class rule (van der Pijl 1984: 183-184; Gill 1990: 126-127).

Moreover, within the context of an open and expanding capitalist world market, the social and institutional variations among the reconstituted state/society complexes gained an important role in shaping their relative economic fortunes. A qualitatively new and substantially narrowed form of 'unevenness' asserted itself as the two former rivals of American globalism—Japan and West Germany—began to outpace the United States (Brenner 2006). As a consequence of this capitalist catch up, the social and economic limits of welfare state capitalism and assembly line production were reached, and the 'embedded' liberal international and social order came under considerable strain in the second half of the 1960s.[35] Yet in as far as we can identify the contours of a challenge

[35] "Distributional disputes are minimized in an age of abundance, but the politics of productivity, so successful in the 1950s and 1960s, broke down in the decade of the 1970s" (Biven 2002: x).

and alternative to the faltering Keynesian form of state and Fordist regime of accumulation, it emerged first and foremost from the global left: student and working class insubordination, the anti-imperialism of the Third World, and Soviet communism (Suri 2003; Schmidt 2010; Gill and Solty 2013). The approaching crisis of post-war capitalism was thus never simply about decelerating growth, stagflation, or declining profitability—at a deeper level, it involved the loss of political authority and social control in the face of a reawakening of the democratic impulse of the multitude.

The crisis decade that followed demonstrated that economic and, in the context of cold war détente, even security competition among the core capitalist powers had been profoundly demilitarized. The deepening integration of American and European economies—with US multinationals at the vanguard—precluded a return to the beggar-thy-neighbour policies even as the golden age of reconstruction came to an end (van der Pijl 1984; Gill 1990; Panitch and Gindin 2005). Even at the low point of transatlantic relations in the early 1970s, American strategists were reassured by a National Intelligence Estimate that "German automobile and chemical industries… leading French aluminum, chemical, and pharmaceutical firms", as well as other "important opinion-shapers" with "considerable clout at home", "are acquiring a vested interest in preventing mutual restrictions on foreign investment".[36] And yet inter-state and intra-elite conflict had been transformed rather than transcended. For much of the post-war period, these struggles evolved around strategic questions regarding the privileges and responsibilities of the American hegemon, and the pragmatic concerns of its junior partners to enlist its global power in the pursuit of their particular political and economic objectives. Rather than being superficial and inconsequential, these disagreements came to shape how the crisis of post-war capitalism came to be approached, debated, and, in the end, resolved.

[36] National Intelligence Estimate, "Problems in US-West European Relations", 14 December 1972, *Foreign Relations of the United States, 1969-1976, Volume XLI: Western Europe; NATO, 1969-1972* (Washington: Government Printing Office: 2012), doc. 86, p. 363.

The Embedded Liberal Order of Bretton Woods

The monetary system of Bretton Woods was at the centre of attempts to ensure the external compatibility and internal stability of the newly reconstructed capitalist economies after the catastrophic collapse of the world economy in the 1930s. To prevent competitive devaluations and create stable conditions for multilateral trade, post-war planners chose a regime of fixed exchange rates centred on the dollar and anchored in gold. At the same time, the new system would depart in important respects from the principles of the classical gold standard, which had required that any debt which one country owed to another was to be settled through a transfer of gold. Because national currencies had to be exchangeable for gold, an outflow of the auric metal would reduce the money supply and induce a contraction of the economy. The Bretton Woods arrangement sought to shield national economies from these painful adjustments. In order to relieve deficit countries of the pressure of having to deflate prices and wages in order to restore balance-of-payments equilibrium, a new international organization (the International Monetary Fund) was created that could provide short-term financial assistance and permit parity changes (Obstfeld and Taylor 2004: 37-38; Eichengreen 2008: 91-92). Moreover, the Bretton Woods arrangement also imposed restrictions on the international flow of capital that were feared to destabilize exchange rate parities and liberal trading patterns (Helleiner 1994: 5, 33-35; Eichengreen 2008: 3, 92-93).[37]

By softening the rigidities of the classical gold standard within a stable and rule-based exchange rate regime, the Bretton Woods system sought to free governments from the imperative of achieving *external* at the expense of *internal* stability. The aim, in short, was to synchronize global and national forms of capitalist regulation that had previously worked at cross purposes. According to Ruggie (1982: 393), this balance was "the essence of the embedded liberalism compromise: unlike the economic nationalism of the

[37] Viewed through the lens of the infamous 'policy trilemma', the architects of Bretton Woods chose to constrain capital mobility in favour of fixed exchange rates and monetary autonomy (Obstfeld and Taylor 2004: 37-38; Schmelzer 2010: 48). The policy trilemma holds that policy makers can only attain two of the following three possible policy preferences: fixed exchange rates, capital mobility, and monetary autonomy (cf. Obstfeld and Taylor 2004: 29).

thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism." Crucially, the independent policy space thus created was to be used for a specific social purpose: the construction of an internationally compatible *and* socially legitimate form of capitalism that could reconcile economic liberalism with widespread demands for social protection (Schmelzer 2010: 41-42).

It is in this sense that the 'embedded liberal order' of Bretton Woods came to be based upon the international organization of a series of social compacts between capital and labour along the lines of the New Deal (Keohane 1984b: 19; Streck 2011: 10). What was being negotiated, however, was not a re-embedding of the market into society in the way Polanyi (1957) had hoped. Full employment, welfare state provision, and mass consumerism served instead to further entrench capitalist economies by channelling working class resistance into institutionalized bargaining for higher wages and compensation (Lacher 1999; Lacher 2007). Viewed from the bottom up, it should be clear that the post-war international economic order could offer at most a partial resolution between social democracy and market economy. The exhaustion of prosperity capitalism in the 1970s brought the inherent tensions into sharp relief. Because processes of commodification had expanded from workplace to lifeworld even during the post-war era (Lacher 1999: 350-351, quoting van der Pijl 1997: 30), the crisis of embedded liberalism in the 1970s did not simply reverse these socio-economic and political gains but inaugurated a new form of market society and common sense.

In like manner, the disintegration of the monetary core of Bretton Woods that enshrined the embedded liberal compromise did not just turn back the wheel. Instead it involved a sea-change in the constitution and governance of international capitalism that differed profoundly from previous monetary orders. As the United States reneged on its commitment to redeem dollars in gold in August 1971, and the major central banks ceased to defend exchange-rate parities two years later, a historically novel global credit-money system of floating national currencies came into being (Graeber 2011: 362). And as capitalist firms, banks, and speculators set out to hedge against the risks or benefit from the opportunities presented by widely fluctuating exchange rates, a rapidly growing global market in foreign exchange and new financial instruments came into being (Kapstein 1994: 20, 37-38; Sobel 2002: 68-69; Ingham 2008: 207-208; McNally 2011: 92-93). The collapse of this part of Bretton Woods, to be sure, may have been "one of the most accurately and generally predicted of major economic events" (Garber 1993: 461). But that the capitalist world economy would move, in the span of a few years, towards an even more integrated 'non-system' of a pure dollar standard, market-based exchange rates and unregulated capital flows was anything but clear at the time.

Following hard on the heels of the monetary turbulences of the late 1960s and early 1970s, theories of hegemony emerged as the dominant framework for analyzing and predicting systemic change (cf. Kindleberger 1973). To many contemporaries, the decision to de-link the dollar from gold signalled its end as the world's reserve currency (Eichengreen 2011: 62). The 'fall of the dollar' was in turn taken as a symbol of American decline. In mounting trouble since the early 1960s, one of the central pillars of post-war US hegemony had disintegrated, leaving only its military superiority intact (cf. Gilpin 1987: 345). The erosion of American power also seemed to entail the abdication of its post-war leadership (cf. Keohane 1982: 15-16). Closing the gold window was denounced by state officials and intellectuals on both sides of the Atlantic as an utterly selfish and irresponsible act. By renouncing its international commitment to dollar/gold convertibility, the Nixon administration had prioritized its national economic interests over its responsibility for maintaining a stable international economic order (Calleo 1982: 90; Gowa 1984: 96; Mastanduno 2009: 130). After twenty-five years of alliance leadership, it seemed that the United States had turned inwards once again. Worse still than a retreat from internationalism, the imposition of a ten percent surcharge on foreign imports that Nixon had announced at the same press conference was interpreted as an aggressive and confrontational stance of the US vis-à-vis its allies that bore the risk of escalating into an all-out trade and monetary war (Bergsten 1972).

Under these conditions, many scholars of international political economy concluded that just as American hegemony had underpinned an open, stable, and dynamic economic order, its demise in the 1970s would usher in a new era of financial instability and multipolar rivalry (Hudson 1972; 1977; Parboni 1981; Spiro 1999 still holds this view). Indeed, it was in part the perception of an imminent American unilateralism—compounded by Japanese isolationism and European disunity—that motivated the liberal internationalist elements of the US foreign policy establishments to create, with the foundation of the Trilateral Commission in 1973, "a European-American-Japanese committee for the resolution of monetary and international trade problems"[38] (Gill 1990; Gill 1999: 132; Overbeek and van der Pijl 1993: 114).

Time has cast doubt on the notion of hegemonic crisis and monetary and economic breakdown that called these forces into action. First, the United States has shown an astonishing ability to shape and dominate the supposedly 'post-hegemonic' monetary order (Walter 1991: 177). The dollar has retained its pre-eminent and largely unrivalled position until today (Eichengreen 2011: 2), reflecting the continued strength and growing responsibilities of the US in a vastly expanded and interconnected global financial system. And despite a succession of ever widening and deepening financial crises that culminated in the global crash of 2008, the 'G7 nexus' of financial and monetary governance among the principal capitalist states, the IMF and the World Bank has grown closer together rather than fallen apart (Gill 1999).

That the concept of hegemony survived the enormous gap between anticipated and actual

[38] This description of the Trilateral Commission by German archival sources (BAK B 136/657; Kohnstamm to Schmidt, 1 February 1973, AdsD HSA 6110) captures its role as a private forum of crisis management in which economic and political disagreements could be voiced and potentially overcome, and in which joint policy initiatives as well as institutional mechanisms such as the G7 summits were developed. The Rockefeller Archive Center opened its collection of Trilateral Commission (North America) meeting records (1973-1995) in 2011—too late to be included into the analytical focus and empirical database of this dissertation. Judith Stein (2010), who was granted early access to the collection, uses a few of the records to analyze Jimmy Carter's membership, and Dino Knudsen, PhD fellow at the University of Copenhagen, is completing a historiography of the Trilateral Commission on the basis of this documentation. The online finding aid, somewhat unpromisingly, describes the contents of the records as pertaining mostly to the publications of the Commission, but it will be up to Knudsen to assess the full scope and significance of these records.

outcome is nothing short of remarkable (cf. Sobel 2012). It owes partly to the variety of theoretical approaches that have adopted and adapted a hegemonic lens. But the framework also gained a new lease on life by way of an important interpretative shift. Initially, scholars writing from this perspective took the breakdown of Bretton Woods as a sign that an ailing American hegemon was no longer willing and able to provide systemic leadership (Kindleberger 1973). But when the disintegrative consequences that many of these scholars had predicted failed to materialize, the narrative changed from terminal decline to resurrection.

Accordingly, the breakdown of Bretton Woods was no longer seen as the final act in the erosion of America's post-war hegemony but as the stepping stone to its successful, if perhaps impermanent, restoration (cf. Arrighi 1994).[39] With the benefit of hindsight, what was initially taken as a *symptom* of America's hegemonic demise came to be cited as a *cause* of its restoration (Sobel 2012: 185).[40] In retrospect, the infamous 'Nixon shock' of August 1971 that closed the gold window, imposed an import surcharge and supposedly ended the Bretton Woods system of fixed exchange rate (Gowa 1984: 92; for a comprehensive critique of this view see Ritter 2007) appears not as an act of mercantilism but as the first in a series of measures of financial liberalization that are said to have restored the economic competitiveness and political dominance of the United States (cf. Helleiner 1994: 21, 202; Gowan 1999; Spiro 1999).

This narrative builds upon and extends a series of studies that emerged in the immediate crisis years and that sought to chart the main lines of currency and trading conflict between the US and its advanced capitalist partners and prospective rivals throughout and beyond the 1970s (cf. Hudson 1972; 1977; Block 1977; Parboni 1981). Viewed through the prism of inter-imperialist rivalry, American unilateralism was read as a comprehensive strategic response that sought to counter the economic ascendance and

[39] See Basosi (2006) for an archive-based elaboration of this argument.

[40] "Many suggest that this was a demonstration of US weakness and decline, but the ability to change the rules of the international monetary regime unilaterally can also be seen as an exercise of US hegemonic capacity" (Sobel 2012: 185).

associated political challenge of Western Europe and Japan. For both the original analyses and subsequent reinterpretations, US actions in the 1970s sought to restore American dominance over the Western alliance and its wider sphere-of-influence. The critical difference between the first and second set of literature, and a source of imprecision and misconception, however, regards the methods used as well as the outcome obtained.

First, no matter how resourceful and effective in its beginnings, America's grand strategy was believed by contemporary writers to have ultimately backfired. The original analyses predicted a retaliatory response from Western Europe and Japan, possibly in alliance with the third world, against American attempts to reassert its domination (cf. Hudson 1977: vii, 1; 176-184; Parboni 1981: 118). If indeed we assume that the United States truly set out to improve its relative position at the expense of Western Europe and Japan, limiting and, as some have gone so far as to argue, even sabotaging their economic growth (Gowan 1999: 21), the question arises why such a coalition never actually appeared. The original declinist scenario draws attention to the secondary powers insofar as they were considered to be potential contenders which, rather inexplicably, chose to forego the opportunities presented to them.

Proponents of the hegemonic restoration thesis, however, have largely failed to follow up on the issue of resistance. With the benefit of hindsight, they have simply reinterpreted the lack of any serious allied contestation as a sign of the depth and success of US domination—a testament to the superior ability of the United States to impose its will on a powerless Western Europe and Japan. And yet in order to build a convincing case, the absence of any sustained counter-hegemonic challenge—or at least the absence of serious attempts to assert greater independence from the US-dominated system of rules and institutions—needs to explained. It is clear that the plausibility of this account stands and falls with its ability to illuminate the actual process of allied re-subordination. What needs to be demonstrated, from the point of view of the objects of American strategy, is how the United States so effectively pre-empted any political and economic alternatives from emerging.

Another question concerns the techniques that the United States is said to have employed: freeing the dollar from its golden fetters while preserving its role as world money, moving to a system of floating exchange rates in which the dollar could depreciate, appropriating the petrodollars from the first oil shock, and pushing for the removal of capital controls—in retrospect, these measures are said to add up to a unilateral strategy of 'financialization' that aimed at restoring the comparative advantage and reasserting America's supremacy over its main allies and prospective rivals (Gowan 1999; Spiro 1999).[41]

The initial studies, by contrast, saw the United States departing in the very opposite direction. The end of the dollar/gold link, accompanied by import quotas, agricultural export embargoes, and 'forced loans' from foreign dollar holders, seemed instead to indicate an increasingly state-directed and mercantilist patterning of trade and investment.[42] For Michael Hudson—one of the most astute observers of America's financial power—these actions amounted to the 'ending of laissez-faire' rather than its extension to the financial sphere (Hudson 1977: 143). In reality, it is anything but clear that the United States solely or unequivocally enlisted the support of 'free market forces' in its efforts to sustain its global power (cf. Spiro 1999: 153; Basosi 2006).[43] It is only with the benefit of hindsight, and by way of a doubly 'liberal' but equally dubious

[41] According to Gowan, for instance, the US had decided to move towards a pure dollar standard at the end of the 1960s, saw the international monetary crisis of 1971 as an opportunity to push this through, entered into IMF G-20 negotiations simply in order to buy time and wait for a crisis to develop, and encouraged an oil price hike at least in part in order to drown the system in a flood of petrodollars (Gowan 1999: 20-21).

[42] The examples are the Multi-Fiber Arrangement of 1973, the Trade Act of 1974 against 'unfair trade', and the tightening of so-called 'voluntary export restraints' imposed on East Asian countries.

[43] For an English review of Basosi (2006), see Nuti (2011), who argues that Basosi "asks whether Nixon's decisions should not be classed as the founding moment of the subsequent wave of economic globalization based on deregulated capitalism" and "seems to find a causal connection between the decisions of August 1971 and the developments of the global economy that followed" (244).

interpretation of the historical record, that a prescient and coherent strategy of 'neoliberal globalization' can be attributed to the United States.

The remainder of this chapter and the next set out to challenge this view empirically by highlighting the crucial role played by America's allies in the collapse of the dollar/gold link and the fixed exchange rate system. The unmaking of these two key components of Bretton Woods, I conclude, was a process led by states in the plural. It was driven by dynamics that had little to do with either the demise or defence of American hegemony. What was fundamentally at stake was the question of how states should respond, individually and collectively, to a capitalist crisis that began as monetary jitters but soon assumed far wider economic and social proportions.

Prolonging the Agony: The United States and Bretton Woods

Designed to facilitate the post-war reconstruction of capitalism globally and nationally, the Bretton Woods monetary architecture contained a crucial contradiction.[44] It was meant to be rigid enough to prevent the competitive devaluations that had distorted world trade in the 1930s, and at the same time flexible enough to give states the policy space for macroeconomic expansion and welfare programmes (Hetzel 2008: 100-101). Its success in facilitating economic growth came at the expense of a series of exchange rate adjustments and currency crises that were amplified by a growing gap between rising foreign dollar holdings and the declining gold stock of the US (Eichengreen 2007: 42-43).

While gold was chosen as the anchor of the new system, the US dollar, alongside the British pound, was designated as an international means of payment. The United States committed to exchange dollars into gold at an official price of $35 per ounce, while all

[44] The Bretton Woods monetary system was never fully implemented; it never worked as intended; and it was inherently unstable (Strange 1984: 271; see also Milward 1984: 357).

other national currencies were pegged to the dollar. Their exchange rate could be changed under conditions of 'fundamental disequilibrium'—a definition of which was carefully excluded from the IMF's Articles of Agreement (Eichengreen 2008: 95). Under Bretton Woods, therefore, a deficit would not automatically result in an equilibrating outflow of gold and a corresponding contraction of the economy.

As long as the US guaranteed convertibility, dollars were 'as good as gold'. And yet the economic recovery that Bretton Woods sought to make possible undermined the stability of the system. As Western European and Japanese economies expanded, foreign dollar holdings began to outgrow the gold supplies of the US. As a consequence, confidence that the United States would be able to honour its obligation to exchange dollars into gold upon demand started to erode. Under these conditions, central banks faced a dilemma: if they continued to hold dollars, they faced the risk of a devaluation of the dollar and corresponding capital loss. But if they converted their dollar holdings into gold, they might set off the dollar crisis they wished to avoid (Eichengreen 2007: 46).

Because its operation required continuous adjustments and adaptations that had to be negotiated, the Bretton Woods system never successfully 'depoliticized' monetary relations among the allies (Gavin 2004: 30). Its built-in contradictions meant that problems emerged almost as soon as the system became functional. There was little doubt from the early 1960s onwards that the current system of exchange rates fixed around a dollar/gold standard would not be able to withstand the mounting pressures without fundamental reform. Just as maintaining Bretton Woods contained an important power-political dimension, the future shape of the world monetary system would emerge as one of the focal points of competitive conflict among the advanced capitalist countries.

Throughout the 1960s, the monetary strategy of the US was essentially *conservative*. The United States sought to preserve rather than transform a system whose cracks became increasingly apparent. Its efforts were focussed on trying to slow down the outflow of gold and improve its balance-of-payments. The United States sought to avoid a deflation of its domestic economy that it could not afford. And it sought to avoid more far-reaching monetary reforms whose outcome it might not be able to control.

The whole arsenal of statecraft was deployed to this purpose (Zimmermann 2002; Matusow 2003: 769; Gavin 2004). The US pressured Germany and Japan to 'offset' the foreign exchange costs of its military expenditures by purchasing military equipment or holding Treasury bills (Gavin 2002: 71; Zimmermann 2002). In the wake of a first speculative bout against the dollar in 1960, the US established the gold pool in order to keep the price of gold on the private market at the official rate of $35 per ounce. It committed its defence ministry to 'buy American', tied foreign aid and military support to the purchase of US goods and services, imposed a tax on foreign interest income and urged US firms either not to invest abroad or to repatriate their profits (Eichengreen 2011: 54). In addition, the US resorted to a series of creative book-keeping measures: renaming the US balance-of-payments deficit, redepositing, and double-counting, increased IMF gold holdings in the US Treasury, counting medium-term US Treasury securities as an inflow of long-term capital rather than a means of financing the deficit, and reporting Special Drawing Rights as a growth in reserves (cf. Hudson 2003: 292-293, 325, 326).

In retrospect, the ability of the United States to postpone the inevitable is remarkable and a true testament to its international power. The US managed to radically reduce the proportion of official settlement deficits in gold from 99% in 1958 to 8% in 1964 (Walter 1991: 192, fn. 48). It succeeded in getting its partners to continue to accumulate dollars and securing, in the case of Germany, a formal commitment not to convert dollars into Treasury gold. As late as 1969, therefore, some US monetary officials still hoped that the current system, along with the special rights *and* responsibilities it conferred on them, could be maintained with a modicum of international monetary reform and domestic economic restraint (cf. Matusow 2003: 769).[45]

French Resistance

The incentive for change, by contrast, rested principally with the Europeans. While the US tried to prop up a failing system for most of the 1960s, its allies became increasingly worried and restive. American efforts to avoid monetary reform were most notably frustrated by French resistance: a series of rhetorical attacks on the dollar/gold standard backed up by systematic conversions of dollars into gold. This section argues that the monetary strategy of France, though well-publicized, has been ill-understood. As we shall see, the objectives of even as antagonistic a state as France were *reformist* rather than *revolutionary*. The aim was not to sabotage the existing monetary order, as has sometimes been claimed by proponents of hegemonic stability theory, but to create a more stable and equitable system. Paradoxically, it was French insistence on fundamental reform, combined with American efforts to maintain the status quo, that set in motion the forces that would remove the golden anchor of the Bretton Woods system.

French concerns about the imbalances that plagued the Bretton Woods system had been raised repeatedly since the early 1960s. As early as 1961, the French government had adopted and adapted the views of the most prominent critic of the dollar and the US deficit, French economist Jacques Rueff.[46] Dollar *seigniorage*—the ability to issue a national currency that foreigners had little choice but to accumulate—afforded what Charles de Gaulle and his finance minister Giscard d'Estaing called 'exorbitant privileges' to the US while undermining the international monetary system. It allowed the

[45] "Throughout the spring and summer of 1969, [Treasury Secretary David] Kennedy and his energetic deputy, Paul Volcker, staged discreet bilateral conversations with European counterparts about variants such as the 'crawling peg'" (Gray 2007: 300).

[46] However, it was not until the press conference of President Charles de Gaulle on 4 February 1965 that France set out to attack the status of the dollar as the world's reserve currency.

United States to run a 'deficit without tears', as French economist Jacques Rueff (1963: 322) had put it in an article that laid the ground for the official French critique. This in turn, enabled the US to pursue policies that ran contrary to European interests. Monetary expansion at home and military expansion abroad, exemplified in President Johnson's plan for a Great Society and the intensification of warfare in Southeast Asia—flushed the world with paper dollars and exported inflationary pressures to other countries. Moreover, American multinationals could tap into surplus dollar funds in order to buy European companies. As accumulating dollar reserves undermined confidence in the dollar and threatened the stability of the system, it raised the constant danger that the US would choose monetary self-interest over international monetary stability.

In order to prevent such a situation, de Gaulle called for the replacement of the dollar/gold standard and a more prominent role for gold at a press conference in early 1965.[47] His proposals, concretized by the new French finance minister Giscard d'Estaing one week later, were followed up by consistent demands for the United States to improve its balance of payments, an increase in the official price of gold, and its use in international settlements. In order to support this position, this verbal criticism was underpinned by a number of concrete steps that were aimed at increasing pressure on the reserve-currency system. Giscard d'Estaing called on other major financial powers to follow France in making all official payments and receipts in gold (Bordo et al. 1994: 14). Moreover, French criticism of the role of the dollar had been paralleled by the systematic conversions of dollar holdings into gold. When its balance-of-payments position became less favourable and large purchases of US Treasury gold subsided in late 1966, France had reduced its dollar holdings to about half a billion dollars.[48]

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[47] Faced with the rising costs of repressing the national independence struggle of the Algerian people, and under the immediate threat of a military coup d'état, the French political class chose to enthrone de Gaulle in order to resolve the political and economic crisis of the Fourth Republic. Basing its power on the army, and, until the granting of Algerian independence in 1962, French settlers and colonialists, the Gaullist regime constituted a form of autocratic rule backed by plebiscite that relied on a foreign policy of dramatic gestures in order to maintain support.

[48] Central Intelligence Agency, Directorate of Intelligence, "French Actions in the Recent Gold Crisis", 20 March 1968, pp. 3-4. Available at

France also stalled negotiations over Special Drawing Rights, and set out to attack the secondary reserve currency—criticizing Britain's balance-of-payments deficit and repeatedly recommending a devaluation of the pound sterling (Weil and Davidson 1970: 114). When the pound came under pressure in the fall of 1967, France refused to participate in its rescue (Kindleberger 1985: 125; Weil and Davidson 1970)[49], and made public that it had withdrawn from gold pool intervention in June 1967. This revelation may have been intended to prevent a run on the franc after the pound was devalued in late November (Hudson 2003: 301); but one secret CIA report confirmed suspicions that France had helped precipitate a sell-off of pounds and dollars and rush into gold both through its public statements and by leaking other sensitive information to the financial editor of *Le Monde*, Paul Fabra.[50] Most observers held that French aggression reached its high-point in late 1967 (cf. Kindleberger 1985: 125), and the same report concluded that France had shied away from further confrontation for fear of a full-fledged monetary crisis.[51]

New evidence suggests, however, that France continued its monetary assault on Bretton Woods even after the sterling crisis of November 1967. In the first half of March 1968, the Banque de France—controlled by the Finance Ministry and the Elysée Palace (Bussière 2006: 173)—secretly placed large demands for gold on the London bullion market, betting against the ability of the remaining gold pool members to keep the price at $35 per ounce. With 200 to 350 million dollars per day, overall turnover on the London market reached unprecedented heights on the eve of the British decision to suspend the

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<http://www.foia.cia.gov/sites/default/files/document_conversions/89801/DOC_0000118650.pdf>, [accessed 30 August 2013].

[49] France had refrained from attacking the reserve position of the pound in the sterling area in the 1961-1963 negotiations for British membership of the Common Market because it didn't want its franc zone to come under scrutiny; and it provided loans and credits to Britain even after 1965 because it didn't want to force Britain to make adjustments that might increase the competitiveness of its industry (Weil and Davidson 1970: 107-108).

[50] Central Intelligence Agency, Directorate of Intelligence, "French Actions in the Recent Gold Crisis", 20 March 1968, pp. 5-6, cited in Gavin (2004: 172).

[51] Ibid., p. 7.

gold pool.[52] The individual orders attributable to the Banque amounted to as much as 50 million dollars each. With these actions, revealed in a private and confidential memo to German Chancellor Kiesinger, France had led a speculative attack against the monetary gold reserves of its allies that destroyed the gold pool.[53] France therefore pursued an even more aggressive strategy and played an even more prominent role in the breakdown of the monetary core of Bretton Woods than previously recognized.

For the replacement of the gold pool by a two-tiered pricing structure, in which the price of gold in the private market was allowed to diverge from the official $35 per troy ounce, was a portentous decision. Henceforth, the US would restrict dollar/gold convertibility to official transactions among central banks. Because state managers and central bankers understood that the United States would renounce even this limited liability when confronted with substantial demands for gold, the agreement of the former Gold Pool members not to buy or sell gold on the private market effectively severed the ties between the dollar and gold.

Unwittingly, therefore, the French monetary strategy had helped put the capitalist world economy on a *de facto* dollar standard—a reality that Nixon's *de jure* suspension of dollar/gold convertibility in August 1971 only formalized. The United States had succumbed not simply to the inexorable logic of globalizing markets or an economically driven "burst of gold hoarding" (Kindleberger 1985: 125), but to the politically calculated assault of one of its principal allies.

The aggressive gold conversion policies of de Gaulle are, of course, a staple of hegemonic stability theory, and the argument that France brought down the dollar/gold standard seems to fit well with its description as the classical case of a 'spoiler'. Too

[52] These figures are for March 11-13. Meltzer (2009: 716) notes that on 14 March 1968, the day that the British announced that the gold pool would remain closed, the US and Britain had sold 350 and 250 million dollars of gold.

[53] Höcherl to Kiesinger, 20 March 1968, BAK B 136/3335, private, confidential. The information was said to come from an "unimpeachable" source within Samuel Montagu, one of the major bullion trading houses in the London market that have traditionally handled the transactions of central banks (cf. Warwick-Ching 1993: 252).

weak to offer a monetary alternative, yet too strong to be a passive regime-taker, France is said to have squeezed the United States for side-payments until the monetary system of Bretton Woods collapsed (Kindleberger 1976: 21-22; Kirshner 1997: 192-203). Yet what is missing in this abstract designation of France is the crucial distinction between the aim and (unintended) outcome of policy action. In reality, France was no more the system's spoiler than the US was its hegemon in decline.[54]

First of all, the French policy of converting dollars into gold, although most consistent, was neither unequalled nor without precedent, as other central banks had begun to regularly purchase US Treasury gold as early as 1957 (Loriaux 1991: 184). "During the period of 1958-60, Great Britain converted $1.8 billion while France, Belgium and the Netherlands together converted $1.5 billion" (Loriaux 1991: 185). As concerns over US payments imbalances grew stronger in the wake of the rush on gold in the London market in 1961, France was among those countries most resistant to convert dollars into gold (Loriaux 1991: 185). In 1962 Giscard signalled that "France was certainly willing to hold its dollars for a time, as long as others agreed as well" (Gavin 2004: 80); yet "[w]ithout assurances that other European nations would restrict hoarding of gold, the French government began increasing its conversion of dollars to over $100 million in each of the first two quarters of 1963" (Gavin 2004: 88).

Secondly, French monetary policy in the first half of the 1960s was cooperative rather than confrontational. Together with the Netherlands, France proposed to replace gold species payments by gold-guaranteed obligations. It cooperated in the creation of the gold pool, and proposed the idea of 'swap' arrangements to counter speculation (Loriaux 1991: 185; Coombs 1976: 74-78). Despite growing criticism of the US balance-of-payments position by the Elysée Palace, the Bank of France engaged in currency swaps with the Federal Reserve Bank of New York (Bordo et al. 1994: 12). And for a short time

[54] Cf. Loriaux (1991: 189), who criticizes the depiction of France from within the framework of hegemonic stability theory: "If we return to Kindleberger's thesis, it is unclear that there is a theoretically useful place for a "spoiler" in a world ordered by a hegemon that has turned "predatory".

in 1964, it seemed that French and American reforms might actually converge (Gavin 2004: 80).[55]

Thirdly, rather than reflecting de Gaulle's elusive quest for grandeur, French monetary strategy was based on serious concerns about the inflationary effects of American policy on the stability of the international monetary order and the capacity of French monetary authorities to contain domestic inflation (Loriaux 1991: 184, 188).

Most importantly, then, the notion of France as the antagonist of an ailing hegemon neglects that the ultimate objective of French actions were intended to *reform* the world monetary system rather than hold it to ransom. It is true that in his academic writing and personal campaign against inflation in France and globally, the prominent French economic Jacques Rueff had vigorously advocated a return to the gold standard. But while the de Gaulle government was profoundly influenced by his analysis of the problem (Chivvis 2006), it did not adapt his radical solution (Bordo et al. 1994: 11)—notwithstanding bureaucratic rivalries that existed between the Elysée Palace and the finance ministry (Bussière 2006: 173). Drawing on a long-standing series of reform proposals (the recommendations of the 1922 Geneva conference, the French proposal for the 1936 Tripartite Agreement and the French Plan for Bretton Woods of 1943), France pursued a coherent and consistent monetary strategy that was aimed at creating a more symmetrical monetary arrangement under which no single national currency would enjoy the privileges of *seigniorage*.

Thus, in September 1964, Giscard d'Estaing proposed the creation of additional liquidity through a collective or composite reserve unit (CRU) that G10 members (plus Switzerland) could draw upon in exchange for their national currency and in proportion to their gold holdings, and that could be used alongside gold for settling international

[55] Giscard wanted to support the dollar with a multi-currency reserve system that would have included, and thus raised the status of, the franc, and some American officials, at least for some time, looked favourably upon such a proposal (Gavin 2004: 80). The moment passed without formal negotiations due to increased political tensions, US mistrust of French motives (Gavin and Mahan 2000: 63), and because the French or Europeans could not be prompted to take the initiative (Gavin 2004: 87).

accounts. Under such a system, the privileges (and obligations) of reserve currency countries would be shared more widely (Gavin 2004: 80).

It was only once the US had rejected reform proposals and adopted an expansionary policy after 1964 in order to finance its war against Vietnam and contain inner-city revolts through poverty reduction schemes that France decided to go on the offensive (Loriaux 1991: 188; Chivvis 2006: 714). From then on, official invocations of the gold standard were employed as a tactical threat whenever negotiations over monetary reform became stuck (Bordo et al. 1994: 13, 16). The objective, thus, was not a reinstitution of the classical gold standard but the creation of a system that was held to be closer to the spirit of the original designs of Bretton Woods and that would afford France a greater role in the making of international monetary policy (Bordo et al. 1994: 13-14). In sum, French monetary strategy was aimed at addressing the asymmetries within the existing framework. It is only when confronting American obstinacy that France grew ever more determined to take aggressive actions and risk a collapse of the system.

The decision to institute a two-tiered market for gold—taken without French participation (Kindleberger 1985: 125)—effectively ended convertibility and initiated the long-feared demonetization of gold. This, of course, was the very opposite of the more prominent role for gold that French authorities had wanted. Yet however undesirable, such an outcome was in no way unexpected. In light of a worsening US balance-of-payments position, French officials knew very well that their policies were pushing the United States towards declaring inconvertibility. They had sought to prepare for such an event since the sterling troubles of 1966. Their goal, then, seems to have been to commit the United States to internal adjustment and international reform—even at the risk of an end to gold conversions.[56]

Why was France willing to risk the delinking of dollar and gold? Was it a last-minute attempt to cash in dollars before the inevitable happened? Or did it form part of a still

[56] See the French policy documents discovered by Rae (2003: 103-104).

broader strategy to reorganize transatlantic relations? Whatever the case, the revolutionary upheavals of May 1968 undermined and reversed French monetary policy (Arrighi 2003: 35-6). Student protests and working class solidarity, a general strike and middle-class mobilization threatened the authoritarian regime of de Gaulle and triggered a massive capital flight. In its wake, France lost over $2.8 billion of its $7 billion reserves of gold and foreign exchange (Kirshner 1997: 200).[57]

In the eyes of German monetary authorities, May 1968 had demonstrated that even an "extraordinarily favourable and absolutely secured currency position" could be severely shaken by "a few weeks of social unrest". In November 1968, it seemed that social and political upheaval in the capitalist heartland, including strikes in strategic sectors, more so than monetary imbalances, might have a real potential to threaten the world economic order.[58] As the global wave of youth rebellion and civil disobedience linked up with resurging labour militancy and the anti-colonial challenge of the non-aligned movement, the closing stages of *les trente glorieuses* impressed themselves on the minds of the transatlantic ruling strata as a far-reaching crisis of domestic and international 'governability' that demanded, but did not easily bring forth, a comprehensive and collective 'counter-revolutionary' response (Gill 1990: 175).

In sum, the French invocations of the classical gold standard, backed by its conversions of dollars into gold, formed part of a rational, long-term strategy that sought to fundamentally reform, rather than undermine, the Bretton Woods system. The undesirable but not unanticipated outcome of this policy was to force the United States to effectively renounce its responsibility to ensure dollar/gold convertibility. The ultimate

[57] De Gaulle "turned to IMF resources to save gold reserves. He withdrew $885 million in June and obtained a standby $1.3 billion credit line from G-10 central banks the following month." (Rae 2003: 49). The United States agreed to buy back gold from France and arranged a $1.3 billion dollar standby credit. The Bank of France announced in March 1969 that is no longer in favour of an increase in the gold price (Kirshner 1997: 200; see Rae (2003: 50) for a more extensive discussion). France ultimately accepted a devaluation of the franc when de Gaulle was replaced by Pompidou (Eichengreen 2011: 74).

[58] Emminger and Rieke, "Betr.: Äußerungen amerikanischer Bankiers zur Gefahr neuer Währungskrisen in 1969", 11 November 1968, BAK B 136/3335, p. 4.

decision to shut the gold window rested with the United States, but it was France that had inadvertently forced its hand. The closing of the gold pool was the final act in a series of confrontations that had undermined the ability of the United States to resist deflation and devaluation for almost a decade. In this sense, the press conference of de Gaulle in 1965 marked a real turning point in US foreign economic policy: from stopgap measures intended to bolster the gold/dollar system to the search for a new monetary order (Gavin 2004: 126).

Re-Evaluating the Nixon Shock

The Nixon shock, now past its fortieth anniversary, was then and is today understood to be a watershed moment in the transformation of the post-war transatlantic order. On August 15, 1971, United States President Richard Nixon announced to the world press that the United States would no longer redeem official dollar holdings into gold and cease to defend the parity of the dollar. The American decision to 'close the gold window' has come to symbolize the end of an era: the breakdown of the Bretton Woods post-war monetary regime of fixed exchange rates, centred upon the dollar as the world's reserve currency and its guaranteed convertibility, at $35 dollar an ounce, into the more tangible and enduring asset of gold. Over the course of the decade, the capitalist world economy would move, through many fits and starts, towards a monetary 'non-system' of a pure dollar standard, floating exchange rates, and unrestricted capital movements.[59] In the 1970s, the world monetary system that today appears to be in fundamental crisis was conceived.

And yet in light of the foregoing, one of the questions that need to be reconsidered is just how 'shocking' the Nixon shock actually was. The Bretton Woods system, as we have

[59] Two years later, in March 1973, the central banks of the major capitalist countries announced that they would no longer intervene in currency markets to maintain parities within a band of +/- 2.25% with respect to the dollar. The last semblance of the old order had been removed.

seen, was fraught from the start. In fact, the very success of the post-war reconstruction of Western European and Japanese capitalism would undermine it. The built-in fragility of Bretton Woods, increasingly apparent in the recurring and escalating currency crises of the 1960s, had made the end of dollar/gold convertibility a real possibility that had to be reckoned with—on both sides of the Atlantic. The closing of the gold pool now made it a practical inevitability.

US state managers, for their part, had felt increasingly exposed to the gold conversions by its allies. They were concerned that other countries, including Germany, might join France in asking for a higher price of gold. There were also fears that France might aggressively devalue the franc (Rae 2003: 105). If other weak-currency countries followed its lead by devaluing or temporarily floating their currencies, this might disrupt international monetary relations and put upward pressure on the dollar, thus undermining the competitive position of the United States.[60] By the late 1960s, US state managers had concluded that the US might have to suspend gold convertibility unilaterally and ought preferably to do so in a moment of market turmoil and gold losses in order to contain allied reactions.[61] This, of course, is precisely what happened in the summer of 1971.

But because of the practical inevitability of ending the formal dollar/gold nexus with the end of the gold pool in 1968, it should come as no surprise that allied state managers and their finance ministers and central bankers, too, had anticipated and prepared for such an event (Strange 1984: 272; Gavin 2004: 185; Trachtenberg 2011: 10). British monetary authorities had begun contingency planning after the gold crisis of March 1968, including several scenarios for floating the pound (Hamilton and Oliver 2007: 496-497, 503-506). France had anticipated and prepared for the closing of the gold window by the United

[60] Kissinger to Nixon, "The Present International Monetary Situation", 7 May 1969, *Foreign Relations of the United States, 1969-1976, Volume III: Foreign Economic Policy; International Monetary Policy, 1969-1972* (Washington: Government Printing Office: 2001) (hereafter FRUS 2001), doc. 124; Kissinger to Nixon, "International Monetary Situation—US Policy Option", 24 September 1969, FRUS 2001, doc. 139.

[61] "Long-term Aspects of US International Monetary and Exchange Policies", undated, FRUS 2001, doc. 111; "Summary of a Possible US Approach to Improving International Monetary Arrangements", 17 March 1969, FRUS 2001, doc. 119.

States at least since the sterling devaluation of 1966.[62] This, then, raises the possibility that the Europeans knew full well what they were doing when converting dollars into gold in the spring and summer of 1971.

In the final analysis, the image of a Gaullist contender exaggerates the degree to which France really was isolated. In reality, criticism of the United States was much more widely shared. Even radical proposals such as increasing the dollar price of gold found support among a range of actors, and for a variety of reasons. Swiss banks, South African gold-mining companies and their predominately French and British shareholders, as well as some officials in the US administration, supported the French demand for an increase in the gold price.[63]

The French strategy of systematic dollar conversions was followed most closely by Belgium and Holland, which also regularly turned in dollars for Treasury gold (Segreto 2003: 26). There is some indication that America's allies may also have propelled the *de jure* suspension of the gold window. In a meeting of European Economics and Finance ministers in July 1971, the Commission and Community members considered "actions in reserve policy" that would prompt the US to change the financing of its balance-of-payments deficit. Notably, the German delegation did not comment on this topic because of its particular political difficulties.[64] One may surmise that these steps included breaking with the gentlemen's agreement reached after the collapse of the gold pool, whereby central banks had agreed not to convert existing dollar holdings into gold but remained free to cash in any additional dollars acquired since 1968 (Eichengreen 2000: 217).

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[62] French policy documents from 1966 cited in Rae (2003: 103-104).

[63] Even German policy makers, it will be shown below, considered such a step (Zimmermann 2002: 226; Eichengreen 2011: 54).

[64] "Ergänzende Aufzeichnung für die deutsch-französischen Konsultationen am 5./6. Juli 1971, Betr.: Ergebnisse der Wirtschafts- und Finanzministerkonferenz und der anschließenden Ratstagung am 1./2. Juli 1971 in Brüssel über währungspolitische Fragen", 2 July 1971, BAK B 136/3323, p. 4.

In response to Nixon's refusal to stem the speculative move out of the dollar in 1970/1971, the central banks of Belgium and the Netherlands turned in $140 million dollars for gold (figures by Hudson 2003: 334).[65] Germany expressed its intention to do the same (Eichengreen 2007: 18), while France cashed in $282 million dollars, which it used to pay back the loan from the IMF received in the wake of May 1968 (Hudson 2003: 334). On 13 August 1971, the Bank of England asked for a guarantee on an additional three billion dollars worth of gold (Nichter 2008: 112-3; Gray 2007: 312; Eichengreen 2011: 60).[66] Faced with such massive demands for gold, the Nixon administration felt under tremendous pressure to move as quickly as possible in order to prevent any further losses of gold. Two days later, the gold embargo was imposed.

Whether a coordinated action or a matter of *sauve qui peut*, it was the unified pressure of European states which forced the Nixon administration to resort to this final option and draw from a range of contingency plans that had been developed within the state bureaucracy in previous years.

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[65] German government documents from April 1971 note that the Netherlands and Belgium had in previous months converted dollar holdings of 325 and 650 million, respectively, in gold, SDRs and swap agreements ('covered', i.e. to be paid back in gold or SDRs). Switzerland had taken similar measures in the amount of 325 million dollars, while Great Britain used its accumulated dollar reserves to pay off debts. Other countries tried to invest part of their reserves in D-Mark. See "Zum 38. Treffen der Wirtschafts- und Finanzminister der EWG amd 26./27. April 1971. Zu TO-Punkt 4b: Internationale Währungsfragen; hier: "Andere Fragen", 23 April 1971, BAK B 102/84100, p.6.

[66] The notion that a British request for 3 billion dollars worth of gold prompted Nixon to close the gold window, mentioned in several memoir accounts and the secondary literature (for a list, see cf. Nichter 2008: 113, fn. 269) has not gone uncontested. Basosi (2011: 104, fn. 19), who did extensive research in the American archives for his 2006 monograph *Il governo del dollaro* claims that "[n]o evidence has ever been found of such a request". He holds that the more plausible account is that Britain asked for a guarantee on the dollar holdings of the Bank of England, but denies that this forced Nixon's hand. For him, Nixon's plan needs to be put in the larger context of contingency planning since 1969. There may be little to argue with his correction of this factual detail, but his interpretation needs to be challenged on two counts. First, the transcripts of the Nixon tapes, partly transcribed in Nichter (2008: 114ff.), show very clearly that the administration felt under enormous pressure because of dwindling gold reserves and incoming requests (including figures that put the sum total of requests received in the first half of August at an estimated 3.694 billion dollars worth of fold (Nichter 2008: 115)), independent of where they came from and what their details. And secondly, while Basosi is perfectly right to argue that we need to see Nixon's programme in a larger context, the *proper* context is the persistent pressure that US allies had exercised prior to and after the Nixon administration had come into office and started to develop its plans.

Ideas to let the dollar float within a free exchange-rate system date back to the Eisenhower administration (Gavin 2004: 49), but the US only started in earnest to develop such plans after the turnaround in French monetary policy. As Gavin points out, some officials within the Kennedy administration, concerned about the vulnerability of the US to a possible rush out of the dollar and into gold (and suspicious of French offer to help the US solve its monetary problems), came quite close to forsaking the privileges of *seigniorage* in favour of a multilaterally managed, multi-currency system that would ease the constraints of having to maintain dollar/gold convertibility (Gavin 2004: 82-83, 85-86, 87).

Gavin (2004: 198-200) cites these plans as evidence against the much-maligned revisionist thesis of Gabriel Kolko that the United States was a modern-day empire or hegemon. Because US policy makers were prepared to give up the centrality of the dollar which they perceived as a burden, Gavin concludes that the post-war international monetary system did not simply serve to enshrine American dominance. "[I]f America's goal had been to build a profitable economic empire during the Cold War", Gavin (2004: 200) sums up, "it could not have gone about it in a worse way." This is correct as far as it goes, but it should be remembered that most analyses—radical and mainstream—never defined the goals of US planners in this narrowly self-centred and directly exploitative way. In fact, any attempt to create such a strictly hierarchical system would have encountered massive local and global resistance.

The realist conception of 'hegemony' as leadership guided by a predatory impetus may be belied by the insecurity, uncertainty and dissatisfaction that some American geopoliticians had early on expressed with regards to Bretton Woods. But the more generally accepted, liberal and critical reading of hegemony as commanding consent by forgoing immediate self-interest for the sake of the functioning of the entire system perfectly describes the dilemma confronted by American policy makers after having committed to rebuilding global capitalism.

In the final analysis, the numerous *proposals* for radical reform that were ultimately shelved do not outweigh the series of actual *policies* designed to slow down the pace of change and control the direction of a disintegrating world monetary order. If anything, the dismissal of these plans demonstrates the inability of American policy makers to extricate themselves from their global responsibilities. US monetary authorities, in seeking to hold on to Bretton Woods despite its fragilities, demonstrated a concern not only for the relative position of the US but also for the stability of the international capitalist order as a whole.

The construction and maintenance of Bretton Woods cannot be seen as a classical case of empire building in the limited sense of the term. In like manner, the termination of Bretton Woods after August 1971 does not fit the notion of a shrewdly orchestrated project of imperial restoration. A closer look at the long-standing and comprehensive preparations reveals that monetary authorities were as undecided about the costs and benefits of the existing monetary order as they were about what to replace it with.

The most significant of these contingency proposals—because it had an actual impact on the shape of US foreign economic policy—were developed by the Federal Reserve in the wake of a run on sterling crisis in the summer of 1966. This so-called 'Plan X' outlined a strategy that in important respects foreshadowed the Nixon measures of 1971.[67] It proposed that ceasing gold transactions and letting the dollar slide would confront US allies with two options: either to continue to accumulate more dollars in order to stabilize exchange rates or to cease intervention and accept an appreciation of the stronger EEC currencies vis-à-vis the dollar (Gavin 2004: 169-170).

While Plan X outlined a tactical means, it left open what the objective should be. Would floating simply be a temporary deviation from the par value system or a "bold offensive stroke"[68] that would undo Bretton Woods? In fact, it was recognized that the same means

[67] "Contingency Plan X: A Proposal to Force Major Surplus Countries to Support the Dollar at Present Parities or to Allow a Relative Appreciation of Their Currencies", cited in Gavin (2004).

[68] Ibid., pp. 8-9, 10.

could be used for “radically different” ends. The report imagined two scenarios. It should be used as “a last-resort measure” if a one-off realignment of currencies was sought and once multilateral efforts had failed to bring about such a result.[69] It should be used offensively only “if the purpose of adopting that policy were to float the dollar more or less permanently”, for “the risks of aggressive counter-moves” that might lead to autarkic currency blocs was held to be very high.[70]

The Nixon shock is best described as a combination of these two tactics. The aggressive nature of the Nixon shock did signal that the United States was seeking more than a one-off realignment of currencies (Shultz and Dam 1978: 115); but the refusal in the subsequent negotiations with Europe and Japan to formulate any more concrete demands indicates that it was unclear just what sort of new monetary arrangement was desired. As Kissinger summed up the issue, professing more than his own ignorance of economic matters, “our handicap right now is that we don’t know exactly what we want, and what to put our weight behind” (quoted in Nichter 2008: 131).

The Nixon administration had not yet decided to end the par value system of Bretton Woods, and this indecision would continue until its eventual collapse in 1973. Floating, one policy document suggested, was instead to be used as a bargaining and ‘fall back’ position in subsequent negotiations. The US should indicate that it is “prepared to live with the floating rate system indefinitely”.[71] But this was still in aid of the attempts to improve the trade balance and protect American jobs in order to secure Nixon’s re-election in 1972 (cf. Gowa 1983; Williamson 1977: 77; Matusow 1998: 132-137).

The principal goal of the Nixon measures, as in the years before, was to externalize the costs of adjustment (Trachtenberg 2011: 13). By imposing a gold embargo and import

[69] Ibid., pp. 54-55.

[70] Ibid., pp. 57-58.

[71] US Treasury, “Contingency”, 8 May 1971, FRUS 2001, doc. 152, p. 425.

surcharge[72], the United States sought to obtain not only a more favourable realignment of currencies, but also a greater sharing of the costs of its military apparatus, as well as significant trading concessions from its allies (Matusow 2003: 770-771). And by refusing to support the exchange rate of the dollar, US policy makers hoped to get Europeans and Japanese to revalue rather than buy up dollars to maintain parities (Gavin 2004; Konings 2007: 50). Put in the context of the stopgap measures of the 1960s, the Nixon shock appears less of a definitive break with Bretton Woods but rather an extension and escalation of a long-standing strategy of arm-twisting that had aimed to avoid a unilateral dollar devaluation and domestic deflation. The Nixon shock needs to be understood in light of the decreasing effectiveness of previous measures, and the failure of a *negotiated* multilateral reform of the international monetary system (e.g. activation of the Special Drawing Rights) to show the desired results. Mark Trachtenberg rightly concludes that "the Nixon administration, even in 1971, did not set out to bring down the system" (2011: 11).

The subsequent shift towards floating, it should briefly be noted here, was just as unplanned. It is true that the idea of floating gained a prominent advocate in George Shultz, who replaced Connally in 1972. But it is only because international monetary negotiations remained mired in controversy (Williamson 1977) that the majority of US policy makers gradually came to see floating as a favourable long-term solution.[73] Even then, the US administration remained split between the Fed and the Treasury over the issue of whether floating was to provide leverage at the bargaining table, serve as an interim step towards a renovated monetary system, or constitute a desirable end state (Volcker and Gyohten 1992: 130).[74] When a negotiated dollar devaluation failed to calm

[72] The import surcharge violated existing international trade and monetary agreements, but the Germans had already violated the international law by floating the deutsche mark

[73] "Even as late as the summer of 1973, the Nixon administration expected that in the end the United States would be part of the 'center of gravity', implying a par value" (Odell 1982: 311, fn. 23).

[74] "Conversation Among President Nixon, Secretary of the Treasury Shultz, and the Chairman of the Federal Reserve System Board of Governors (Burns)", 6 February 1973, *Foreign Relations of the United States, 1969-1976, Volume XXXI: Foreign Economic Policy, 1973-1976* (Washington: Government Printing Office: 2009) (hereafter FRUS 2009), doc. 3, pp. 11-12.

foreign exchange markets in February 1973, Germany prepared its European partners for a joint float against the dollar. Concerned that the lack of American leadership might push the European into a potentially hostile response, the Nixon administration still debated the merits of foreign exchange interventions to preserve the fixed-exchange rate system.[75]

It is in this situation of uncertainty that geopolitical considerations assumed an important role. Nixon had long been concerned about a unified Europe going against the interests of the US. As the joint European float (announced on 11 March 1973 and coming into effect on 16 March 1973), became a reality, Nixon concluded that "European unity will not be in our interest"[76], and Kissinger tasked then Deputy Secretary of Treasury William Simon in no uncertain terms to "create conditions in which the Common float is as hard to work as possible"[77] (for a comprehensive analysis, see Trachtenberg 2011: 19-23). In practice, however, there was little that the United States could do. A monetary strategy of *divide and rule* could not be effective, as even selective support for individual European currencies would help sustain the overall coherence of the currency arrangement (Trachtenberg 2011: 23). Non-intervention was really the only option available "to prevent a united European position without showing our hand".[78] Nixon and Kissinger may have believed that "political considerations must completely override economic considerations in monetary and trade talks".[79] But in reality they only gave a politically motivated blessing to those within the administration that favoured a freely floating dollar.[80] The geopolitical objective of preventing a unified Europe, forcefully articulated

[75] E.g. "Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz", 7 March 1973, FRUS 2009, doc. 26, p. 110.

[76] Nixon to Kissinger, 10 March 1973, FRUS 2009, doc. 31, p. 119.

[77] FRUS 2009, Editorial Note, p. 126; see also FRUS 2009, Editorial Note, p. 123.

[78] Telephone conversation, Kissinger-Simon, 14 March 1973, FRUS 2009, doc. 33, p. 123.

[79] Nixon to Kissinger, 10 March 1973, FRUS 2009, doc. 31, p. 119.

[80] William Simon noted that "if we hang on [to a non-intervention policy], we can split them [France and Germany] off again" ("International Economic Summit", Memorandum of Conversation, 6 November 1975, FRUS 2009, doc. 114, p. 360).

if not well thought out, and the economic rationale of floating exchange rates thus converged on a non-intervention policy. The US at best 'passively' undermined the European currency snake by refusing to support a declining dollar in foreign exchanges (Hudson 1977: 95-96; Trachtenberg 2011: 23); but holding on to the 'do nothing' approach developed by Shultz and Simon prevented a return to a worldwide system of fixed exchange rates.[81]

It is true that contemporary writers who saw Nixon's measures as heralding a descent into global protectionism were mistaken (cf. Calleo 1982). But it is equally wrong to instead attribute a globalizing, free-market vision to the Nixon administration (cf. Basosi 2006). Alongside the protectionist import surcharge, Nixon also introduced mandatory wage and price controls that would last until 1974 (Jones 2012: 226-228). And as Greta Krippner explains the difference between Nixon's closing of the gold window and Reagan's exploitation of the pure dollar standard (Chapter 7), the former "was still an effort to escape the constraints of the global system and not yet an effort to harness global capital markets to domestic political objectives" (Krippner 2011: 91). The story of neoliberal globalization, this chapter concludes, cannot be told in terms of a single dramatic arc that extends from the Nixon to the Volcker shock. Short-run considerations had trumped long-term planning[82], not least because inconvertibility had been forced upon the United States: by French participation in the run on gold that destroyed the gold pool in March 1968; and, three years later, by a series of (possibly coordinated) European central bank requests for US Treasury gold.

The dismantling of the gold anchor and par value system of Bretton Woods by the United States was not a single-handed, callous act of mercantilism, and even less did it mark the

[81] The downward floating of the dollar undermined the currency snake, according to Hudson (1977: 95-96). The only feasible way in which the US could torpedo a joint European float was not to intervene.

[82] Meltzer (2009: 770): "The government made a major change in policy without thought about its long-term consequences".

beginning of a neoliberal strategy of global predominance. On the one hand, the United States played a far more constructive role in the management of a newly floating system by seeking to contain financial crises, as in the case of the collapse of the Herstatt Bank that, due in large part to German negligence, threatened to spiral out of control (Panitch and Gindin 2012: 152-156). On the other hand, its economic strategists were far less self-assured and prescient in their actions. Ending dollar/gold convertibility and dissolving a fixed exchange-rate regime was done cautiously and hesitatingly (Panitch and Gindin 2012: 112); and it was paralleled by the efforts of the American foreign policy establishment to institutionalize monetary and economic coordination with their principal partners (cf. Gill 1990: 148; Panitch and Gindin 2012: 154-155).

The IMF's Committee of Twenty was established by the US in 1972 to continue the search for monetary reform. The so-called 'Library Group', named after an informal get-together of finance ministers at the White House library in March 1973, sought to smooth tensions between the US and France after the collapse of fixed exchange rates. It later evolved into the finance ministerial Group of Five (G5), which provided inspiration for the first G7 summit in 1975. The subsequent institutionalization of top-level economic diplomacy, a novel feature of inter-capitalist cooperation peculiar to the crisis decades of the 1970s, was set out in a series of policy reports by the liberal internationalist Trilateral Commission and the less prominent and more security-focused Atlantic Council (ACUS) (Gill 1990: 148).[83] Both envisaged the G7 summits as the pinnacle of a continuous process of international consultation that was to link up the principal state agencies of the advanced capitalist states and their internal decision-making processes (ACUS 1975: 67-72; Ortona, Schaetzel and Ushiba 1976: 17-19; ACUS 1977: 16). The key objective of this process was to "[t]o secure top level harmonization and mutual understanding of the broad outlines of policies to be followed by the key governments", whereas "implementation can be handled by the various echelons of national authority, working

[83] The reports of the Atlantic Council's Special Committee on Intergovernmental Organization and Reorganization clearly echoed the positions of the Trilateral Commission. This is no surprise, as a number of Trilateralists were members of the Special Committee, and as the research project was funded by the Rockefeller Foundation, whose benefactor David Rockefeller had also founded the Trilateral Commission.

with staffs and national delegations in the pertinent intergovernmental organization, or in the domestic areas of each government, as circumstances in each situation dictate" (ACUS 1977: 29). The integration of state apparatuses, involving the economics and finance ministries as well as the central banks, served to enhance the collective capacity of managing economic and financial instabilities. But just as importantly, these multilateral forums, as well as the private planning bodies that proposed and endorsed them, involved regular and often informal and intimate exchanges that served to cultivate mutual trust, a shared sense of responsibility, and a common world view among ruling elites (cf. Putnam and Bayne 1984: 197-201; Baker 2006). Their recurrent character and overlapping memberships brought together, and brought forth, "people of vision and breadth…who could understand positions far wider than those of their own country" (Shultz 1993: 148).

The numerous new initiatives and institutions for core capitalist collaboration that sprang up in the 1970s, and the many more that were proposed but remained unrealized, reflect that this was a period of turbulence and confusion as well of innovation. But they also leave little doubt that US state elites and the wider social, political and economic interests they reflected, had not withdrawn from global leadership. The future may have been unclear and even bleak, but there was an understanding that governing classes would travel the road together—though certainly not in lockstep.

Fundamentally, therefore, we are dealing here not with an era of American decline.[84] The US did not try to forestall its demise, and its putative contenders did not stage a rival bid for hegemony (cf. Panitch and Gindin 2012: 1). But neither can we understand this period exclusively in terms of a structurally conditioned and institutionally reinforced cooperative management of common problems. At the centre of inter-state conflicts was not the liquidation or renovation of American global power but the modalities and interactivities of diverse crisis management strategies. Given that "the American state had

[84] Parboni (1981: 118), by contrast, goes as far as to define the origins and character of the crisis in power-political rather than economic terms: as the product of an inter-imperialist standoff between a declining US and an emergent Germany and Japan over the redivision of the world.

embarked on an uncharted voyage through the 'stagflationary' crisis decade of the 1970s" with the closing of the gold window (Panitch and Gindin 2013: 13), its international partners would seek to exert influence over the course that the US would take. To be sure, the European and Japanese governments would eventually choose to 'renew their invitation' to the United States, and both would ultimately assume even greater responsibility for collectively managing global capitalism (Panitch and Gindin 2004: 20; Panitch and Gindin 2012: 153). But the precise terms and conditions of this American-centred capitalist international were up for negotiation, and resulted in part from tensions and conflicts that this dissertation argues need to be more closely examined. From this point of view, the end of the monetary regime of Bretton Woods, rather than a unilateral, intentional, and decisive 'breakup' by the US, is better understood as a collective, complex, and protracted process of unwinding—a process in which, the next chapter will show, the German experiment with floating would play a far more transformative role than the notorious Nixon shock.

Chapter 4

State-Led or Capital-Driven? The Fall of Bretton Woods and the German Currency Float Reconsidered

The previous chapter has argued that the US did not set out to unilaterally and aggressively end the monetary order of Bretton Woods when Nixon 'chose' to sever the dollar/gold link in August 1971. The present chapter pushes this narrative further by focussing on the role of the West German state in the shift from fixed to floating exchange rates. Its main argument is that while France had made the monetary status quo untenable and, unintentionally, pushed the world onto a de facto dollar standard, the German decisions to float the DM unilaterally in October 1969 and May 1971, and together with other European currencies in March 1973, contributed decisively to the collapse of the par value system. While this is further proof of the argument that America's allies played a far more important role in the erosion of the embedded liberal order than previously understood, the immediate theoretical target of this chapter is a different one. The West German float has conventionally been cited in support of economistic theories of globalization. German state managers, in this view, confronted an ever larger influx of foreign capital, proved unable by administrative means to control them, and ultimately gave up their attempts to defend the parity of the DM. On the face of it, the German experience with floating seems to be a case in point for the argument that the breakdown of fixed exchange rates was an 'inevitable consequence' of globalizing financial markets. Following a period of artificial nation-state containment, the argument goes, technological advances and market developments amplified the ability of capital to flow across borders and undermined the capacity of states to control them. The par value system of Bretton Woods, according to this first wave of globalization literature, was the first casualty of increasing capital mobility in the post-war era (Eichengreen 2008: 1-2).

The corollary of this interpretation is that policy makers—American or otherwise—are reduced to mere executioners of structural dynamics that are essentially beyond their control. Tensions might still emerge as states confronted or ignored these new realities, and there might be winners and losers in terms of who would be the first and best to adjust. But with state agency absorbed and the outcome preordained by the expansive logic of a globalizing capitalism, there would be little room left for any *substantive* policy making. West Germany may have initiated the transition to a floating system, but this move is devoid of any significant strategic considerations.

The principal purpose of this chapter is to challenge this economistic interpretation. To do so, the first part of the chapter asks whether it is possible to integrate the German experience into the second wave of globalization theories that have sought to 'bring the state back in' (Helleiner 1995). States, rather than being the passive victims of an irresistible and irreversible force, are here held to have played a central role in guiding the transition from the post-war regime of embedded liberalism towards the globalized rule of financial capitalism (Helleiner 1994; Kapstein 1994; Gilpin 2000; Porter 2005; Frieden 2006: xvi; Sassen 2008; Krippner 2011; Panitch and Gindin 2012). And while many authors stress the importance of the US, they have sought to construct a more comprehensive, "synthetic 'political' history of the globalization process" (Helleiner 1994: 2) as driven by a multiplicity of states.

Building on the theoretical discussion of Chapter 2, these general accounts of the breakdown of Bretton Woods can be usefully divided into three levels of analysis: a 'systemic' model that emphasizes inter-state competition, a 'domestic' model that emphasizes the role of societal groups, and a 'cognitive' model that emphasizes the influence of economic ideas as the driving forces in the dissolution of Bretton Woods (Cohen 1996: 274-5; Obstfeld and Taylor 2004: 32). Scholars drawing on these models have presented the shift from fixed to floating exchange rates in terms of a hegemonic power politics, the growing international orientation of market operators, or the diffusion of neoliberal arguments.

The first part of this chapter finds these explanatory models to be of limited analytical purchase in the German context. German state managers did not follow the monetary designs of an American hegemon; they confronted globally oriented economic agents that were strongly opposed to revaluation and floating; and they were unconvinced by the neoliberal argument for the efficiency of market-based exchange rates. The German experience, then, defies the prevailing explanations of the fall of Bretton Woods in terms of hegemonic power politics, the influence of global economic interests, or a neoliberal paradigm shift.

The second part of this chapter argues that it is necessary to look at the 'intermediaries' of the structural pressures that confronted German monetary authorities. This twin perspective of state *and* capital reveals that the destabilizing influx of dollars German officials faced in the twilight years of Bretton Woods emanated above all from the largest German industrial corporations and financial institutions. Paradoxically, the way in which German firms and banks sought to pursue and protect their profits under conditions of monetary turbulence and uncertainty not only undermined the capacity of policy makers to maintain the parity of the DM, but also contravened their own preferences for an undervalued currency. Moreover, because the problem of inflationary dollar inflows was identified with the German export industry and its financiers, German state managers also aimed their solutions at them. As attempts to negotiate voluntary restrictions failed and administrative controls continued to be circumvented, German officials opted for a DM float in order to regain command over liquidity from these industrial and financial circles. Rather than ceding to global capital, floating allowed the German state to commit the dominant export bloc to an anti-inflationary programme that, as Chapter 5 explains, was at the heart of Germany's subsequent ability to better manage the 1970s crisis than its partners.

West Germany: An Obedient Ally?

The previous chapter has argued that the role of the United States in the dissolution of Bretton Woods has been emphasized at the expense of its principal allies. If and when their behaviour is considered, it is often presented in an overly stylized account in which France is the system's 'spoiler' (Kindleberger 1976: 21-22; Kirshner 1997: 192-203) whereas Germany is an 'obedient ally' (Strange 1980: 46; Eichengreen 2011: 71; Lippert 2011: 4)—a pliant anchor state of American power that went along with the monetary designs of its military protector (cf. Mastanduno 2009: 132). This schematic representation of allied interests may reflect the instrumental viewpoint of US policy makers, but it misses out on the particular character and consequences of German (or French) monetary policy.

And yet it is certainly true that, in the face of not only French but a broader European challenge, the ability of the United States to put off monetary reform for so long rested in large part on the continuing support provided by the West German government and its central bank. Through the purchase of military materiel and of medium and long-term Treasury securities, as well as a formal commitment not to convert dollar holdings into gold, West Germany significantly extended the lifeline of Bretton Woods (Kreile 2006: 156, 161; Zimmermann 2002: 239).[85] It is therefore not unreasonable to assume that, since the German state aided American efforts to maintain Bretton Woods throughout the 1960s, perhaps its role in the transition to a floating system in the early 1970s equally corresponded to, and coincided with, American interests in dismantling Bretton Woods.

The commitment to cooperate with, and willingness to give in to, the United States is most commonly believed to result from West Germany's dependence on the American military apparatus and the presence of American troops in a divided Berlin, Germany and

[85] As part of the offset negotiations, Germany was urged to reduce the balance of payments deficit of the US by purchasing weapons and military equipment from the US in the amount of the foreign exchange cost of stationing American troops in Germany. Contrary to France, German monetary policy "in the 1960s supported the de facto dollar standard and thereby maintained the Bretton Woods system. Yet, at the same time, the strength of the DM contributed to undermining it" (Kreile 2006: 161).

Europe (Zimmermann 2002: 228). There is no doubt that the military superiority of the United States gave it considerable political leverage.[86] A defeated, divided and occupied Germany had to accept conditional sovereignty and a closely circumscribed foreign policy. West German policy makers were clearly aware that they had to avoid confrontations with the United States at any cost. Because of this situation, Germany was particularly vulnerable to the threat of a withdrawal of US troops, which the American negotiators used repeatedly in the 'offset negotiations' in order to obtain significant concessions and to obstruct a common European monetary policy (Zimmermann 2002: 140-1).[87]

And yet this geopolitical vulnerability worked both ways. Precisely because it made West Germany so dependent on the military and political leadership of the United States, it compelled policy makers to search for a greater degree of flexibility and autonomy. It was this sensitivity out of which Germany's *Ostpolitik* emerged: a 'demilitarized' security strategy of pursuing national interests at a moment when the military commitment of the United States to Western Europe appeared more insecure than ever before (Niedhardt 2010: 33).

Against the commonplace assumptions of alliance coherence, a number of recent studies in cold war history that have shown that structural bipolarity allowed for far greater flexibility in the foreign policy orientations of the secondary powers than previously thought. By playing out the superpowers against each other, less powerful countries were able to retain a degree of independence (Gaddis 1996: 137; Bozo et al. 2008: 2-3; Nuti 2009: 2). More precisely, structural bipolarity *necessitated* such flexibility. Because the strategic decisions over military confrontation or rapprochement with the Soviet Union were largely determined by the United States alone, its allies were placed in a position where they had to pursue alternative and often competing security designs. The Gaullist

[86] The linkages between American troop commitment and German monetary support have been thoroughly analyzed and, on the whole, corroborated (Zimmermann 2002; Gavin 2004).

[87] Germany increased its foreign aid, repaid $587 million in postwar debts, eased trade restrictions against American poultry, and revalued the DM by 5 percent (Gavin 2004: 66).

bid to establish France and Europe as an independent third force, part of which consisted of efforts to redress the imbalances of Bretton Woods in favour of France, is the most striking case in point. But West Germany's New Eastern policy (*Ostpolitik*) comes in a close second. For West German practitioners of the cold war were engaged in a delicate balancing act. The strategic conundrum posed by the cold war was how to avoid direct confrontation between the United States and the Soviet Union on the one hand and superpower condominium on the other. The former might lead to a hardening of the fronts, while the latter might involve the mutual recognition and formalization of their respective spheres-of-influence. Both scenarios had to be avoided, as they were feared to reinforce the division of Europe and diminish the prospects of recovering the Eastern territories (Trachtenberg 1999: 151; Geiger 2008: 518) to which the commercial and property interests of a deposed Junker class and resurgent export industry continued to lay claim. The need to strike a balance between securing American commitment to Western Europe while avoiding a heating of the Cold War ultimately led to the development of an alternative vision of European security under Chancellor Brandt.

New archive-based research has challenged the widely held belief that German *Ostpolitik* was embedded in, and at best improved upon, long-standing American efforts at reaching a rapprochement with the Soviet Union (for the traditional argument of complementarity, see Niedhardt 2004; for the new reinterpretation, see Lippert 2011: xii; Fink and Schaefer 2009: 5).[88] American détente had centred on efforts to defuse the military confrontation with the Soviet Union after it had established nuclear parity with the United States (i.e. the ability to launch a nuclear warhead that could travel inter-continental distances) in the late 1950s and early 1960s. European détente was a direct response to the loss of America's nuclear advantage and subsequent attempts to ease superpower tensions. It turned out to be "most potentially divisive between the United States and its (until then)

[88] Carter (2013) considers the argument put forth by Lippert that Germany's Osthandel lead to a transatlantic 'rift' to be exaggerated; but his critique is written from the vantage point of the Carter and Reagan administration, which were not only concerned about Soviet influence over West Germany, but set out to undermine *Osthandel*. The issue is less one of the intensity of the conflict but the incompatibility of the foreign policy objectives that were to be pursued through economic détente.

most loyal ally in Europe" (Bernardini 2010: 79). Germany's *Ostpolitik* in particular grew out of the waning commitment of the United States to wage what would now amount to a mutually destructive nuclear war in order to protect West Berlin (even less likely than Western Europe) from a Soviet takeover (Lippert 2011: 15). And as the United States sought to reach a militarily less threatening *modus vivendi* with the Soviet Union, the pressures increased for West Germany to pursue the ultimate objective of reunification by diverging from its hitherto unconditional support of the American direction (Lippert 2011: 18). The result was an alternative conception of security that conflicted with, rather than complemented, American objectives. For the US, détente was to be limited to the military sphere and to remain the prerogative of the two superpowers (Lippert 2011: 18). For Germany, détente was to encompass the full range of economic, political, cultural, and scientific exchanges and, above all, to become a joint European project. Lastly, whereas the Nixon administration inherited an Eastern policy that sought to stabilize but essentially continue the systemic conflict, the social-liberal coalition government under Brandt sought to peacefully transform it (Lippert 2011: 23, 25-26). The long-term vision of Brandt was that economic interdependence would promote political integration and give birth to a pan-European security system.

What appear to be hopelessly idealist aspirations of a transformative dialogue across the iron curtain were based on sober political calculations as well as grounded in concrete material interest. The link between this geopolitical vision and economic and monetary relations *within* the West may not be immediately apparent but was in fact decisive. The economic dimension of rapprochement with the East was the precondition for a successful *Ostpolitik* (Lippert 2010: 81). The Brandt government was willing to make substantive economic overtures to Eastern Europe and the Soviet Union in the hope of re-establishing normal relations with these countries. In this respect, West European integration was important in two ways. First, a thriving common market would increase opportunities for East/West trade. And second, the West European project was to serve as a model for what the Continent as a whole could become (Lippert 2011: 20, 37).

Germany's new Eastern policy, therefore, also had an active *Westpolitik* as its strategic counterpart.[89] In part, this was certainly intended to assuage allied fears over a new Rapallo. The commitment to NATO and European integration, as Schmidt would later confide, remained fundamental pillars of German foreign policy precisely because they were "at the same time a cloak for us, under which we can hide our power a little bit".[90] In practical terms, and apart from the routine declarations of Germany's transatlantic allegiance, the Western complement to *Ostpolitik* would come to rest "less and less with the United States and more with the European Economic Community" (Lippert 2011: 15). And here, monetary issues played a critical role.

The promotion of the European project in the late 1960s and early 1970s rested squarely on efforts to move towards economic and monetary union. This, it was explicitly acknowledged, was a requirement for a successful Ostpolitik. And for such a common position to emerge, an agreement with France was seen as key. "After all", one policy document noted, "the pressure for a European breakthrough in monetary matters can only increase further during a phase of successful Eastern policy activities. This means, first and foremost, that the courting of France needs to be intensified."[91] From this perspective, then, German state managers were much more inclined to make concessions to France rather than continue to cater to the United States. Thus when Brandt embarked on its Ostpolitik, he was "not particularly disposed to make a strong effort in order to save the transatlantic bargain" that had hitherto characterized German monetary relations with the US (Zimmermann 2001: 68).

For the US, the monetary support provided by Germany as part of the offset agreements was a double-edged sword. While it helped stabilize monetary relations in the short term,

[89] Katzenstein (1982: 208) goes as far as to suggest that the EMS was the West European complement to Germany's Eastern policy.

[90] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 18.

[91] Weinstock, "Grundsätzliche Überlegungen zur gegenwärtigen währungspolitischen Diskussion", BAK B 136/7355, 9 September 1971, p. 9.

it also increased the disruptive ability of a potential Franco-German monetary bloc in the long run (cf. Gavin 2004: 66).[92] It was in part for this reason that the United States could not easily disentangle itself from its military engagement in Western Europe. For America's military presence had not simply been aimed at staking out a sphere of influence against the Soviet Union. It had also been established to contain an emergent and potentially revisionist Germany (cf. Trachtenberg 1999). This 'double containment' meant that its military involvement simply could not be reduced even if the Soviet Union had agreed to formally recognize the integrity of America's European zone of interest.

Superpower rapprochement and the implied threats of a military disengagement of the United States from Europe, important as they had been for gaining West German monetary concessions in the 1960s, had led a minority group of CSU politicians to push for military cooperation with Gaullist France, arguing that the US could no longer be expected to offer a strategy of reunification or a strengthening of European defence (Geiger 2008). One policy paper at the height of this internal debate put it starkly: "The only security that remains to us in light of this Soviet-American cooperation in favour of the Russian status quo in Europe is the fact that France has cooperated on neither the Nuclear Test Ban treaty nor the burlesque insecurity game in Geneva [i.e. the Nuclear Non-Proliferation Treaty]. France's respected *frappe de force* will therefore automatically become the security wing of German foreign policy".[93]

The dilemma for US policy makers, therefore, was that a troop withdrawal might strengthen those forces within West Germany that were frustrated with the country's asymmetrical dependence on the US military (Gavin 2004: 135), and keen to accomplish a more balanced position either by collaborating with France or seeking accommodation with Eastern Europe and the Soviet Union. For these reasons, West Germany's cold war

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[92] The Kennedy administration urged Germany not to convert surplus dollars into US Treasury gold. Nevertheless, "there was always the possibility that West Germany could turn in dollars for gold if relations with the United States soured" (Gavin 2004: 66).

[93] "Gerhard Schröder oder die Sicherheit Deutschlands", included in Kastl to Schröder, 14 September 1965, quoted in Granieri (2004: 210).

logicians were surprisingly confident about the American troop commitment as they pursued a path of greater independence. As one diplomatic cable from Washington summed up the situation in early 1972, "for the Nixon administration the existence of the alliance, the nuclear protection of Europe, the stationing of American troops and the political role that America can play in Europe to secure its Atlantic position are a complex from which not a single element can be pried out without endangering the whole."[94]

On the whole, Brandt's *Ostpolitik* had been based on the firm belief that the US could hardly afford to reduce its military presence in Europe and West Germany (Lippert 2011: 17).[95] And in turn, as his overtures towards the East began to bear fruits, this made him less immediately dependent on the US in other matters (Lippert 2011: 95). This newly gained independence is exemplified by the fact that Brandt was unprepared to make substantial monetary concessions to the Americans during the offset negotiations of 1971 and quite willing to risk its "continued military presence in Europe" (Lippert 2011: 94).[96]

In one important sense, of course, the threat of an American troop withdrawal was real—not, however, in terms of a bargaining chip that could be used at will, but rather as an isolationist scenario that both the Nixon administration and German policy makers sought to prevent—and that required a *quid pro quo* that did not guarantee continued German subordination to American monetary plans.

The notion of a 'strategic triangle', whereby Germany depended on cooperation with both the US and France and thus sought to balance between the conflicting interests of its partners, underestimates the extent to which Germany was able to pursue a monetary

[94] "Bemerkungen zur amerikanischen Außenpolitik 1973", 2 January 1972, AdsD HSA, folder 6062.

[95] Werner Lippert bases this argument on an interview with Egon Bahr, in which the personal advisor to Willy Brandt and architect of *Ostpolitik* recounts a conversation between Brandt and John McCloy. In response to an implicit threat to West German security, "Brandt apparently stated directly that he did not believe the US would withdraw its troops, no matter what the West German foreign policy was" (Lippert 2011: 190, fn. 81).

[96] Brandt to Birrenbach, 22 July 1971, BAK B 136/6220, pp. 1-2, quoted in Lippert (2011: 94).

policy rather more independently and substantially different from either the American or French position (Kreile 2006: 157). Rather than simply balancing the two sides, West German state officials had formulated an *independent* strategy that, while guided by the dependence of the economy on exports and world market access, was remarkably free from direct American tutelage.

Floating the *Deutsche Mark*

The previous chapter has demonstrated that France was far from isolated in its attempt to increase pressure on the US and Britain to bring their financial house in order. This section suggests that once we drop the unhelpful distinction between a French contender and German anchor state, we can see more clearly that Germany, too, pursued similar ends with a different set of instruments.

Anxious to avoid the charge of anti-Americanism, the rhetoric that underpinned de Gaulle's attack on the dollar as an instrument of American dominance was hardly palatable to German state managers.[97] How to respond to this overture in practical terms was a different matter, however.[98] In fact, in 1965 German officials seriously considered joining de Gaulle in asking for an increase in the price of gold (Zimmermann 2002: 226). Even the possibility of joining France in converting dollar surpluses into gold—raised most prominently by the former president of the Bank Deutscher Länder Wilhelm Vocke—was discussed (cf. Eichengreen 2011: 53). The decision not to follow de Gaulle's lead was based on rather pragmatic considerations rather than a sense of loyalty

[97] West German officials were uncertain how to interpret the press conference of de Gaulle, but that he had demanded a return to the classical gold standard was ruled out as unlikely. It was assumed that de Gaulle's more general statements had been specified and complemented by Giscard d'Estaing, and that the previous CRU proposal was contained therein ("Fragen des internationalen Währungssystems", 18 February 1965, BAK B 136/3322, p. 3).

[98] De Gaulle's verbal attacks were understood to be little more than a populist appeal to the concerns of French businessmen and the general population over an impending American 'takeover'—one that, it was noted, nevertheless echoed the unrest within German industrial circles ("Fragen des internationalen Währungssystems", 18 February 1965, BAK B 136/3322, pp. 5-6).

towards the US. At the very least, Germany would need a transitional period because the ratio of its gold reserves was considered to be relatively low.[99] Furthermore, even without an official proclamation to convert future dollar surpluses into gold, it was concluded, the Bundesbank would be able to convert part of its dollar reserves into assets denominated in DM or gold. In fact, as one document pointed out, the Bundesbank had done so previously. In 1964—despite a commitment not to convert dollars into *US Treasury* gold—it had been able to reduce its dollar reserves from 12.6 to 8.6 billion DM (see also similar figures in Loriaux 1991: 185). An official commitment to use gold for international settlements, as demanded by de Gaulle, would only make it more difficult to use previously accumulated dollars in order to settle deficits.[100]

In light of these sober calculations, the decision to forego a confrontational stance is an indication not so much of a lack of solidarity with France or any particular wartime 'debt' to the United States than the evident limits of this strategic move. While the persistent pressure, though not the anti-American overtones, of France on the United States was appreciated, it was understood that it could not be generalized. As early as 1965, German officials had concluded that any concerted attempt to convert dollars into gold would prompt the US to suspend convertibility.[101] Because dollar holdings still accounted for 40% of official Bundesbank reserves in 1965, a US gold embargo would put the Federal Republic in an unfavourable position.[102]

It was with these same reservations in mind that the possibility of an intensified and coordinated conversion policy of EEC member states was rejected. To support or advance such an initiative, it was feared, would burden the offset negotiations with the United States. Worst of all, however, it was considered ineffective. Because it would

[99] "Pressekonferenz von Präsident de Gaulle am 4.2.1965", 12 February 1965, BAK B 136/3322, p. 7.

[100] Blessing to Erhard, "Betreff: Vorschlag von Geheimrat Vocke zur Währungsreform", 22 February 1965, BAK B 136/3322, confidential, p. 4.

[101] "Schreiben von Herrn Geheimrat Dr. Vocke an den Herrn Bundeskanzler vom 16.2.1965", 4 March 1965, BAK B 136/3322, pp. 6-7.

[102] "Betr.: Schreiben von Herrn Geheimrat Dr. Vocke an den Herrn Bundeskanzler vom 16. 2. 1965", 4 March 1965, BAK B 136/3322, pp. 6-7.

prompt the US to close the gold window, it was dismissed as “not an appropriate means to force the US to improve its balance of payments”. The overall assessment of the monetary situation was, nevertheless, very similar to that of its European allies. “The fundamental problem”, as one policy document spelled it out most clearly, “consists in the fact that in the current monetary system the US assumes a position which allows it to force the rest of the world to give almost unlimited credit to finance its balance-of-payments deficit.”[103] While the United States enjoyed the benefits of this position, the responsibility for maintaining stable exchange rates was relegated to the Europeans and Japanese.

Over the course of the early 1970s, West German policy makers reluctantly, but repeatedly, resorted to floating in order to extricate themselves from this situation. The notion that the US unilaterally set out to demolish Bretton Woods thus ignores the fact that Germany had moved twice to float the DM *before* the US decided to ‘free’ the dollar from gold in August 1971 (Gray 2007: 296; Panitch and Gindin 2012: 388, fn. 49). In late September 1969, German policy makers pioneered a temporary float in lieu of an internal agreement to revalue the DM (Gray 2007: 302-3). In May 1971, the rationale was to redirect the dollar flows into the DM (Gray 2010: 161). Thus when Germany, in March 1973, forced its European partners into a joint float by threatening to go it alone (Johnson 1998: 83; Gray 2007: 321), its prior recourse to floating had already destabilized the Bretton Woods architecture.

Lest these actions be interpreted as a form of ‘anticipatory obedience’, it should be noted the United States did not welcome the German decisions to float the DM. The brief experiment of floating in 1969 “was, after all, a unilateral move that bore little in common with American plans for gradual reform” (Gray 2007: 303, fn. 30).[104] The May

[103] “Zum 38. Treffen der Wirtschafts- und Finanzminister der EWG amd 26./27. April 1971. Zu TO-Punkt 4b: Internationale Währungsfragen; hier: Andere Fragen”’, 23 April 1971, BAK B 102/84100, pp. 3, 10.

[104] Gray (2007: 303, fn. 30) notes that there is no evidence to suggest that US policy makers “specifically favored the 1969 float”. For similar indications regarding the 1971 float, see “Ihre wirtschaftspolitischen Gespräche in den USA, hier: Freigabe des DM-Wechselkurses”, 4 June 1971, BAK B 136/3323, which notes that some US officials seemed concerned about floating, arguing that the recent currency crisis was

1971 decision for an open-ended float also caused concern among American officials, who believed Germany had left the fixed-exchange-rate regime (cf. Volcker and Gyohten 1992: 74, cited in Zimmermann 2008: 168, fn. 57), and who warned their German counterparts that the recent currency crisis was “no reason to jettison the Bretton Woods system”[105]. As late as March 1972, the US pressured Germany to resist floating and encouraged the introduction of capital controls (Schmidt 1996: 174; Moravcsik 1998: 250-251; Hetzel 2002: 41-42, fn. 19). And even in March 1973, the US administration still had political reservations about the German initiative of a common European float (Trachtenberg 2011: 20-23).

To be sure, in the wake of the Nixon shock, when it seemed clear that monetary concessions would have to be made, West German policy makers were keen to convince their American partners that by floating the DM Germany had already made a significant advance contribution. Yet an earlier report had concluded pessimistically that the entire West German monetary policy—from the non-conversion pledge to DM revaluation and floating—could hardly be sold to the Americans as an act of goodwill, as it was evident that “it promises to be to our own trade and monetary advantage”.[106]

Moreover, in the eyes of some of its early advocates, the expedient effect of floating would not only be to free the Bundesbank from the inflationary effects of having to defend the parity of DM, but to expose other countries to the speculative pressures that Germany had so far faced alone. In this way, going solo would force other EEC members and France in particular into common action and build the critical mass necessary for

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“no reason to jettison the Bretton Woods system” (p. 2). Chairman of the Council of Economic Advisers McCracken, for instance, warned that “the experience of the last few months, allowing a ‘crisis’ to develop and then floating outside the rules of the system, is too uncertain and risky to be repeated” (McCracken to Nixon, FRUS 2003, doc. 157, 2 June 1971).

[105] “Ihre wirtschaftspolitischen Gespräche in den USA, hier: Freigabe des DM-Wechselkurses”, 4 June 1971, BAK B 136/3323, p. 2.

[106] “Deutsch-amerikanische Devisenausgleichsverhandlungen; hier: handels- und währungspolitisches Wohlverhalten der Bundesrepublik gegenüber den USA”, 28 May 1971, B 136/3323, p. 6.

monetary reform.[107] And it might demonstrate to the Americans, others hoped, just how frail the dollar had become.[108] "It is a somewhat nasty technique", the vice-president of the Bundesbank Otmar Emminger admitted on the eve of the DM float in May 1971. Even central bank governor Karl Klasen, who rejected floating and advocated capital controls, concurred that "we will not get out of this predicament unless the others are forced to do something, too".[109] And indeed, by floating the DM in May 1971, Germany had moved itself "out of the shooting-line" while relegating the speculative pressures into the franc and yen (Gray 2010: 161).

The point here, of course, is not to make the opposite claim: that Germany, rather than an acquiescent cold war client, was really an unruly rival making a bid for regional hegemony. This position, most strongly articulated by Erik Hoffmeyer (1993: 82), the former governor of the Danish national bank (1965-1994), holds that "the decisive change in the international monetary system after 1971 was the outcome of a German desire to unwind US influence and regain their own political independence" (cf. Zimmermann 2008: 156-157). While Hoffmeyer rightly assesses the weight of Germany's monetary decisions, he misinterprets the overall objective. In the eyes of German policy makers, the root cause of monetary turmoil was not dollar *seigniorage* as such but the expansionary purpose to which this privilege was put.[110] It was without question that "[t]he dollar will retain its importance as an intervention currency; but", one policy memorandum noted, "it will be important to abolish, as far as possible, the special advantages that the US has derived from this role of the dollar, and the dangers that result for the other countries (expansion of international liquidity)."[111] Rather than challenge

[107] For a similar view of the foreign ministry, see Zimmermann (2008: 166), who cites a memorandum holding that a limited float would "exert a healthy pressure on [German] EC partners to agree on a common stability policy" (Memorandum by von Bismarck-Osten, 6 May 1971).

[108] Poullain to Brandt, 25 August 1971, BBk HA B 330/8399, p. 1.

[109] Central Bank Council Meeting Minutes, 5 May 1971, BBk HA B 330/6158/1, pp. 5-6.

[110] "Positionspapier für die Währungsgespräche: Neuordnung des internationalen Währungssystems", 2 September 1971, BAK B 102/132970, p. 4.

[111] Ibid. West German monetary authorities were particularly concerned about the inflationary pressures that seemed to result from the US abusing this privilege. The aim of the allies, and Germany was no

America's monetary power, Germany sought to ensure that it would be used responsibly, while protecting itself from the inflationary dollar flight from the US in the meantime.

Having discarded the idea that German monetary strategy was guided by its subservient relationship with the US hegemon, how else can the German decision to float the DM be explained? Returning to the threefold interpretation introduced in Chapter 2, the remainder of this chapter asks whether private economic interests prevailed on German state managers, or whether neoliberal ideas influenced their decision to float.

It should be made clear at the outset that the adoption of floating exchange rates in the early 1970s removed only one of the pillars of the embedded liberal order of Bretton Woods. Many advanced industrialized states remained committed to macroeconomic expansion and welfare state protection at least until the failure of Mitterand's 'Keynesianism in one country' in 1983. And most of them also retained capital controls until the 1980s and 1990s. It is important therefore to distinguish between the disintegration of the parity system between 1971 and 1973 and the deluge of financial deregulation of subsequent decades. There is no immediate causal link in the way that an economistic reading of the globalizing logic of markets would suggest (Abdelal 2007: 34-35). But because exchange rate stability, macroeconomic discretion, and financial restriction were embodied in the monetary architecture of Bretton Woods, their fate was historically entwined (cf. Obstfeld and Taylor 2004: 29; Eichengreen 2008: 1).

The architects of Bretton Woods had sanctioned the restrictive treatment of finance because they feared that speculative or disequilibrating capital flows might constrain the ability of states to pursue an independent and, more specifically, expansionary monetary strategy, cause exchange rate volatility and disrupt multilateral free trade. "Faced with a choice between creating a liberal order in finance and building a system of stable exchange rates and liberal trade, policymakers in the early post-war period generally agreed that free finance should be sacrificed" (Helleiner 1994: 5). The question of how

different here, was to impose discipline and gain influence over American fiscal and monetary policy (cf. Kreile 2006: 161).

and why global finance was subsequently resurrected is therefore bound up with the question of how and why these original objectives and objections enshrined in Bretton Woods receded into the background.

The support of the United States and the United Kingdom for the emerging Euromarkets encouraged speculative attacks on the par value system between 1967 and 1973 (Helleiner 1994: 91, 100). In order to defend the fixed-exchange rate regime, Western Europe and Japan sought to negotiate cooperative capital controls. The failure to do so, according to Helleiner, "marked the collapse of the first principle established at Bretton Woods: that financial movements should be controlled in the interests of preserving a stable international exchange rate system" (Helleiner 1995: 324). Not only did the failed negotiations contribute to the collapse of the par value system; the rise of a floating 'non-system' exacerbated further the volatile capital movements that states confronted in the late 1970s and early 1980s (Helleiner 1994: 121).

The Social Base of German Monetary Strategy

With these preliminary observations, the discussion moves from the systemic to the domestic level of analysis. The argument, at its most basic, is that the coalition of post-war planners and corporate leaders that had initially supported the 'embedded liberal compromise' of restricting cross-border flows in the interest of stable exchange rates and multilateral free trade began to disintegrate in the 1960s (Helleiner 1994: 100). As American corporations internationalized their operations, they became increasingly wary of the financial restrictions sanctioned under the Bretton Woods framework (Hawley 1987: 107; Helleiner 1994: 119). Faced with the prospects of tighter controls to defend the external value of the dollar, they warmed up to the idea of greater exchange rate flexibility.[112] And lured by the new profit opportunities in foreign exchange markets,

[112] While Jeffry Frieden (1996: 111) famously predicts internationally operating economic agents to favour fixed exchange rates under conditions of economic openness, he recognizes that American banks and firms

moreover, some bankers embraced the academic argument in favour of floating as a way of reconciling a liberal trading with a liberal financial order (Aronson 1977: 142-149; Schmelzer 2010: 56, 174-175, 181). The question, then, is whether a similar constellation of social interests can be identified in Germany.

As is well established in the specialized literature, Germany's capitalist class had a vested interest in the maintenance of a fixed-exchange rate system (cf. Henning 1994). Throughout the 1950s and 1960s, the economically dominant and politically influential export sector had relied for its success on the advantages of an undervalued DM. Tied into a symbiotic relationship through interlocking directorates and cross-holdings, the large industrial corporations and the commercial banks that financed their international operations vigorously opposed even the modest revaluations of the DM in 1961 and 1969. The argument, repeated *ad nauseam* by the peak business associations BDI (German Federation of Industries) and VDMA (German Engineering Federation), was that revaluation would deal a fatal blow to the international competitiveness of the West German economy.[113]

By the end of the decade, however, the united front of industrial, financial and agricultural interests that had supported an undervalued home currency began to show some cracks. When the grand coalition government of Kiesinger refused to yield to international pressures for a stronger DM in November 1968 and instead opted for a four-percent tax on exports (and a corresponding four-percent subsidy on imports) in order to diminish its balance-of-payments surplus, it came under surprising criticism from the very class forces whose interests it had sought to defend. Much to the chagrin of policy makers, who observed that "the attitude of business to the revaluation of the DM had visibly changed", some business members of the advisory council pointed out that they

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in the early 1970s "emphasized opposing protection and getting capital controls removed" and came to see dollar devaluation as "the lesser of two evils" (Frieden 1996: 124). Frieden recognizes that his model of exchange rate preferences only partially fits what he considers a period of transition from a closed to an open economy (124).

[113] For a number of revealing examples of the fierceness of exchange-rate lobbying in West Germany, see the excellent archival research by Kinderman (2008: 856-861).

might have preferred a one-off revaluation to the more intrusive provisions of the *Absicherungsgesetz*.[114] On the whole, however, the dominant export bloc remained firmly committed to the fixed exchange rate regime that secured its international competitiveness.

Support for greater flexibility came instead from a diverse assortment of societal interests that, from 1969 onwards, began to look favourably upon a higher valued DM. Led by Economics Minister Karl Schiller and the economics profession, research institutes, and leading newspapers, a broad-based campaign emerged that advocated a higher valued DM as the external component of a programme of internal demand management that promised to redress the imbalance of Germany's heavily export-reliant economy (Gray 2007: 301). Revaluation was supported by left-wing social democrats and trade unionists, the organized interests of 'inflation-wary' small savers and home owners, and small and medium-sized enterprises in the construction, retailing and merchant sector that stood to benefit from the cheaper imports a more valuable DM would buy (Lankowski 1982a: 280, 282-3; Johnson 1998: 10).

In West Germany, then, the constellation of interests that came to support greater exchange rate flexibility was very different from the globally oriented and neoliberally minded forces that are normally associated with the push for reforms or the abandonment of the Bretton Woods regime. At the same time, the direct influence of this domestic coalition over monetary policy-making should not be exaggerated. The overall goal of reducing the export dependence of West German capitalism that had tied these diverse and incoherent interests into a temporary alliance was never accomplished (Lankowski 1982a: 285). The significance of this alternative constituency consists not in directly shaping monetary policy but rather in loosening the stranglehold of the export industry that not only rejected revaluation but preferred limited capital controls to floating exchange rates.

[114] Foreign Trade Advisory Council Meeting Protocol, 17 December 1968, BAK 102/85139, p. 3.

In order to maintain the advantages of an undervalued currency, the export-oriented alliance of banking and industry had accepted the introduction of controls on capital inflows when the DM came under pressure in the early and late 1960s (Crotty and Epstein 1996: 124). To be sure, industrialists and bankers were far from enthusiastic about these restrictions. And yet shaken by the revaluation of October 1969 and the means by which it was brought about, they continued to support them as "the lesser evil".[115] Unsuccessful in their efforts to prevent the May 1971 float, the largest industrial corporations, represented in the Economics Ministry's Foreign Trade Advisory Council, acceded to temporary capital controls in exchange for what they hoped would be a swift return to fixed, and preferably pre-floating, parities.[116] While they sought to ensure that these controls would not become too rigid, they repeatedly favoured them over floating.[117]

Even though they had, by mid-1971, come to grudgingly accept floating as a *temporary* measure, their opposition to a *permanent* float continued unabated (Kinderman 2008: 860). Abhorring the prospects of a continuously appreciating home currency[118], the German Federation of Industry—at the initiative of Otto A. Friedrich, Otto Wolff von Amerongen and Hans-Günther Sohl, the Who is Who of the German economic elite—published a memorandum in four major newspapers in late 1971 in order to defend itself against the rival, domestically-oriented alliance and to call for the restoration of fixed exchange rates.[119]

There is, of course, the theoretical possibility that an elite fraction of German capital—with a globalist rather than national outlook, and a financial rather than productive orientation—was either supportive of or at least indifferent to an appreciating DM or

[115] Semler to Klasen, 10 May 1971, BBk HA B 330/8403, p. 8.

[116] Münchmeyer to Schiller, 3 June 1971, BAK B 102/85141; Zahn to Klasen, 9 June 1971, BBk HA B 330/8412; Semler to Klasen, 13 July 1971, BBk HA B 330/8403, p. 9.

[117] von der Lippe, 12 July 1971, BBk HA B 330/8403, p. 1.

[118] Foreign Trade Advisory Council Meeting Protocol, 17 May 1971, BAK B 102/85141, p. 6.

[119] Sohl to Klasen, 23 November 1971, BBk HA B 330/8404, p. 2, as well as the attached memorandum.

floating system. Holtfrerich (2008: 39), for instance, suggests that the exclusive focus of monetary policy on domestic price stability after the DM float of 1973 might be understood as a break of the alliance between Bundesbank and industry in favour of financial interests. And the work of Kinderman (2008: 854) establishes as a general principle that the most internationalized corporations, operating across multiple areas, find it easier to balance against currency fluctuations (cf. Helleiner 2005: 26). Perhaps, then, the largest German export corporations, with production facilities in several countries, and the international banks affiliated with them, were willing to dispose of the fixed-exchange-rate system?

While divergent minority opinions undoubtedly existed within the financial and industrial community, the archival evidence suggests that they did not add up to a coherent and distinctive set of elite preferences. Thus, when the Hanseatic private banker Joachim Willink, in mid-August 1971, issued a remarkable plea for a prolonged, upward float of the DM supervised by the Bundesbank, he did so in explicit opposition to the position and interests of banking as well as industry.[120] And when the president of the WestLB—one of the most internationally active of Germany's regionally owned *Landesbanken*—acknowledged the German float as a tactical means of bringing about international monetary reform, he nevertheless rejected floating as a permanent solution.[121]

The strongest proof against this hypothesis comes from within what may be one of the most exclusive capitalist circles in post-war Germany. Throughout the 1950s and 1960s, the chief financial officers of most of the top 20 industrial corporations held regular meetings to which central bankers were occasionally invited.[122] The meetings were characterized by a generous sharing of information and a frank exchange of opinions.[123] For all that we know about the substance of these meetings in the critical phase of 1971-

[120] Willink to Klasen, 13 August 1971, BBk HA B 330/8411, p. 1.

[121] Poullain to Brandt, 25 August 1971, BBk HA B 330/8399, p. 2.

[122] Semler to Klasen, 20 October 1970, BBk HA B 330/8403; von der Lippe, 22 October 1970, BBk HA B 330/8403.

[123] Ratjen to Klasen, 5 February 1971, BBk HA B 330/8400.

1973, these corporate leaders were extremely concerned about the German experiment with floating and what they held to be very negative consequences for investment and employment.[124] Accordingly, the transition towards a general float of European currencies against the dollar on 12 March 1973 at best won the *retroactive* acquiescence of these elite circles. Ernst Wolf Mommsen, tasked by Schmidt to consult with leading representatives of banks and industry and to organize informal get-togethers with the chancellor, reported that "there is now after all almost a consensus that the attained result [i.e. a joint European float] was optimal with regards to all other alternatives".[125]

Clearly then, dominant class forces did not take a purposive lead role in formulating German monetary strategy. There is little doubt that they would have militated against comprehensive exchange controls that would have completely sealed off the German economy from the inflationary influx of dollars; but because they also vigorously opposed floating until after the event, their incommensurable preferences did not immediately prejudice the choice for one or the other. In fact, such contradictory interests may require states to make independent and proactive decisions (Hawley 1987: 145). In as much as the decision to float the DM constitutes a decisive step in the unravelling of the Bretton Woods system of fixed exchange rates, German capital was *not* its conscious author.

Even so, the question remains why West German state planners were not only ahead of the German export industry but why they would choose to turn against its interests. The previous section has already considered and, on the whole, discounted the view that German state managers acted 'on orders' from the United States. A more plausible variant of this interpretation is that German policy makers may have chosen to shoulder the burden of adjustment in the interest of preserving Bretton Woods. Perhaps, then,

[124] Central Bank Council Meeting Minutes, 1 September 1971, BBk HA B 330/6163/2, p. 3; von der Lippe, 12 July 1971, BBk HA B 330/8403; Zahn to Klasen, 26 May 1971, BBk HA B 330/8412, p. 3. The Bundesbank representatives rejected these concerns as an 'unduly pessimistic attitude' (cf. Central Bank Council Meeting Stenographic Transcript, BBk HA B 330/6163/2, 1 September 1971, p. 12).

[125] Mommsen to Schmidt, 13 March 1973, AdsD HSA 6115, p. 1.

German state managers accepted an upward floating DM as necessary to correct global imbalances and move towards a more sustainable set of exchange rates—even if this meant hurting its export industry (cf. Gray 2007: 296).[126]

In the wake of the Nixon shock, German state managers had ostensibly come to realize that the times when their manufacturers had registered record exports while the US balance of trade deteriorated were over. As one state official told representatives of the export industry, “every country had to sacrifice part of its competitiveness in favour of the US”.[127] And the German chancellor concluded in his ‘political-economic’ exposé in April 1974 that “in the interest of the whole, then, the adjustments and sacrifices associated with appreciation had—and still have to !—be asked of individual branches”.[128]

Internally, however, policy makers had come to the conclusion that the incessant complaints about the catastrophic consequences of a stronger DM had been greatly exaggerated.[129] The lessons that state managers drew from the revaluation of 1962 and 1969 floats were that despite the doom and gloom the German export industry had fared remarkably well.[130] In the decisive years of 1971-1973 at least, it seemed that the competitive position of the German export industry overall had anything but suffered. In fact, state managers observed that German exporters had been able to pass on the costs of

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[126] Gray (2007: 296) argues that “West Germans proved uniquely willing to accept a loss of competitive advantage in order to improve the overall functioning of the system”.

[127] Foreign Trade Advisory Council Meeting Protocol, 12 November 1971, BAK B 102/85143, p. 9.

[128] Schmidt, 15 April 1974, AdSD HSA 10071, p. 18.

[129] Individual sectors such as the chemical industry and mechanical engineering may have taken a hit, but whether this had to do with a stronger deutsche mark or with other negative factors such as the economic slowdown of its trading partners, the restrictive measures of the Nixon administration, or a rise in production and especially wage costs was not at all clear (“Exportsituation im Maschinenbau”, 27 December 1971, B 102/90765, p. 2; Mesenberg, “Vorschlag einer Gedankenskizze zur Einführung des Themas ‘Die handelspolitische Situation im Lichte der währungspolitischen Entwicklung’”, 9 November 1971, BAK B 102/85143, p. 3).

[130] Geberth, “Betr.: Probleme der Exportfinanzierung – Vorschläge Düren-Gutachten”, 29 March 1973, BAK B 102/139769, p. 4.

a more valuable DM to their customers abroad.[131] It is thus more likely that talking of 'concessions' was above all meant to justify a prolonged float vis-à-vis the export sector.[132] And yet, as the final section makes clear, to say that the West German state acted relatively autonomously from any particular class force is only half the truth. For its structural dependence was at the same time revealed on the terrain of accumulation.

Floating Ideas: The Case of German Ordoliberalism

Having established that the administrators of the West German state were pushed into floating neither by their American partners nor by an internationally oriented business community, the final question to consider is to what extent they may have been influenced by neoliberal ideas. Confounded by the intractable economic troubles of the 1970s, the story goes, decision-making elites were both disillusioned with what turned out to be largely ineffective Keynesian prescriptions and presented with a forcefully articulated set of neoliberal policy alternatives (Hall 1993; Helleiner 1994: 15-17; Jones 2012: 233). Gradually, policy makers turned their backs on the embedded liberal framework of thought that had prescribed an interventionist role for the state, the repression of finance and the vital importance of stable exchange rates. They converted to and converged upon a new economic paradigm that emphasized monetary restraint over expansionary policies (McNamara 1998), prioritized the free flow of capital (Helleiner 1994), and advocated floating exchange rates (Schmelzer 2010). Characterized by leads and lags, this neoliberal shift occurred first in the United States, where it "foreshadowed a similar change that would take place throughout the advanced industrial world in the 1970s and 1980s" (Helleiner 1994: 122).

[131] Mesenberg, "Vorschlag einer Gedankenskizze zur Einführung des Themas 'Die handelspolitische Situation im Lichte der währungspolitischen Entwicklung'", 9 November 1971, BAK B 102/85143, p. 4.

[132] The increasing disconnect between the parity of the DM and trade patterns was revealed in June 1974, when the Bundesbank realized just how little of an effect the instrument of setting an exchange rate actually had on the volume and direction trade flows (See the comments made by Bundesbank official Tüngeler in a meeting of the foreign trade advisory council, Foreign Economic Advisory Council Meeting Protocol, 26 June 1974, BAK B 102/139773, p. 7.

The importance of neoliberal ideas in the shift to floating has been demonstrated most plausibly in the case of the United States (Odell 1982; Leeson 2003; Schmelzer 2010). But Germany seems to make a suitable candidate for the extension of such an ideas-based account. For whilst the German legacy of organized capitalism is widely held to be at odds with the Anglo-Saxon, laissez-faire liberalism of nineteenth-century coinage, the German 'social market economy' that was instituted after 1945 also diverged from the Keynesian policies and ideas that came to prevail in much of the advanced capitalist world (Allen 1989). The German model was instead influenced by a tradition of 'ordoliberalism' that prescribed an active role for the state in continuously (re)creating market competition but rejected the redistributive, interventionist and planning aspects of Keynesianism (Ptak 2009: 112). This school of economic thought, most prominently associated with economics minister Ludwig Erhard who presided over the German *Wirtschaftswunder*, may be considered a 'specific German variety of neoliberalism' (Ptak 2009: 126). Because of the miraculous success of German post-war reconstruction based on ordoliberal ideas of free markets guided by strong states, German policy makers only belatedly, and half-heartedly, began to develop Keynesian macroeconomic tools at the end of the 1960s (Allen 2005: 199-201). Perhaps, then, the legacy of ordoliberalism, and the correspondingly late and weak commitment to Keynesianism, might explain why the mounting monetary and economic problems of the early 1970s led German state managers to return to neoliberal solutions? If so, it might be possible to incorporate the German experiment with floating into a broad-based ideational explanation of how the embedded liberal order of Bretton Woods collapsed under the combined weight of neoliberal ideas. "In West Germany", Helleiner (1994: 126) helps us to formulate this hypothesis, "the neoliberal approach was endorsed by prominent financial officials such as Otmar Emminger and Karl Otto Pöhl, as well as by the economically conservative Chancellor Helmut Schmidt". Although the quote refers to their role in pushing Britain to accept the IMF austerity package in 1976 (examined in Chapter 5), their designation as neoliberal advocates carries some significance. Emminger and Schmidt, after all, were also the two leading protagonists in the run-up to the float (as vice-president of the

Bundesbank and finance minister). And neoliberal advocates, it has been noted above, not only rejected Keynesian demand management and the use of capital controls, but also favoured a floating regime (Helleiner 1994: 15).[133]

It is indeed true that Bundesbank vice-president Otmar Emminger had early on adopted the neoliberal argument developed by Milton Friedman in favour of letting the forces of supply and demand determine the foreign value of the DM (Johnson 1998: 70). And yet up until the March 1973 float that ended Bretton Woods, his was a minority position in the Bundesbank's Central Bank Council (Henning 1994: 183). Most of the Council's members not only remained wedded to the fixed exchange-rate regime (Heisenberg 1999: 29-33; Johnson 1998: 73), but between 1972 and 1973 sought to defend this system by imposing a wide range of limitations on the movement of capital that indicated 'a significant erosion of [Germany's] traditional commitment to international liberalization' (Johnson 1998: 74; Henning 1994: 184). The faction that did favour a DM float was not guided by a neoliberal belief in the efficiency of free markets either. The primary concern of these council members was to stem the inflationary influx of dollars. The fight against inflation for them would also have to encompass regulatory controls that had little in common with the minimalist focus on the money supply that Friedman and other monetarist economists prescribed (Johnson 1998: 75).

Outside the Bundesbank the most prominent advocate of revaluation and floating was finance minister Karl Schiller, a devout Keynesian rather than a neoliberal convert. When the Bundesbank recommended capital controls in May 1971, it was Schiller who convinced the cabinet to ignore the Bank's advice and temporarily float the mark (Johnson 1998: 74). Even more significant is the fact that since 1969, Schiller had led a campaign in favour of a higher valued DM in an effort to shift the heavily export-dependent German economy towards domestic production and consumption (Henning 1994: 183; Gray 2007: 301). Schiller, and the SPD left and trade unions that supported him, saw greater DM flexibility as a step towards developing precisely those instruments

[133] I would like to thank one anonymous reviewer for suggesting that I clarify this connection.

of internal demand management that had been lacking. Revaluation was a step towards *more* rather than *less* Keynesianism. Although Schiller resigned in June 1972 ostensibly in response to the cabinet decision to tighten controls rather than follow his advice to float, Schiller had fallen out of favour primarily because of his orthodox Keynesian standpoint that public deficit spending should be limited to times of economic downturn (Johnson 1998: 78). He was replaced by Helmut Schmidt, who in this respect proved to be much less 'economically conservative' and, until March 1973, continued to favour administrative measures over a free float (von Hagen 1999: 412; Johnson 1998: 79; Panitch and Gindin 2012: 145-6).

There is, then, no straightforward connection between German monetary policy and any particular economic paradigm.[134] To be sure, German policy makers had been guided by concerns for price stability and would prove increasingly willing to use monetary restraint and fiscal frugality to this end. But this form of economic orthodoxy, which was itself founded in concrete economic interests rather than the collective memory of hyperinflation (Holtfrerich 1999; 2008), was very different from a neoliberal belief in the superior price-finding mechanism of the market. Friedman himself recognized that governments had never bought his argument (cf. Jones 2012: 220). And Emminger (1986: 251), who could otherwise be relied upon to emphasize the significance of his intellectual contributions in particular[135], discounted the importance of belief-systems when he argued that "[i]n reality the transition to floating was forced upon us by events, whatever rational considerations and expectations we had with regards to a float." Emminger's assessment of the situation is significant not only because it contradicts an ideas-based explanation, but also because it leads us back to where we started off. Paradoxically, the one interpretation left standing is the one that the second wave of IPE scholarship originally set out to argue against: an economistic reading that sees the

[134] It should be noted that Helleiner (2005: 36-37) comes to a similar conclusion in the case of Canada. Neoliberal ideas, he argues, cannot explain why Canadian policy makers favoured floating over fixed exchange rates for much of the Bretton Woods era.

[135] In his memoirs, for instance, Emminger (1986: 396) intimates that he influenced Volcker's decision to shift to monetarism in October 1979.

collapse of fixed exchange rate regimes as the product of globalizing market forces. The remainder of this chapter seeks to outline an alternative.

The chapter thus far has considered the German experience of floating and, on the whole, has discarded the explanatory models on offer at the systemic, domestic and cognitive levels of analysis as being of limited applicability. In Germany, state managers pursued a monetary strategy largely free from American instructions, were lobbied by exporters and their financiers to maintain fixed exchange rates even at the cost of capital controls, and floated the DM out of pragmatic considerations rather than ideological conviction. Germany, of course, is more than an exception to the rule. Given that its recourse to floating repeatedly unsettled and steadily undermined the fixed exchange rate system, and that the collapse of par value regime further added to the disruptive capital flows that confronted states in the second half of the 1970s, the German case casts considerable doubt on existing attempts to 'bring the state back in'.

The principal shortcoming, I suggest, is that these interpretations unduly generalize from the dominant actor in the system. The point that the states of other advanced capitalist economies also possessed considerable agency has already been established in previous chapters. With the important exception of the hegemonic imposition thesis, most of the IPE literature recognizes that other states contributed to the erosion of the embedded liberal order of Bretton Woods and has sought to build a more encompassing account. The crux of the issue—and the key insight to be examined in the remainder of this dissertation—is that they may have followed the US, or indeed led the way, for reasons that had little to do with the particular power-political considerations, societal pressures, or economic ideas that are presumed to have influenced US policy makers. The fall of Bretton Woods, understood as a political project, cannot be attributed to a single state; but neither can it be derived from a single social group or economic paradigm that supposedly guided the thoughts and actions of policy makers towards the same outcome. The key to building a more comprehensive narrative lies in recognizing this diversity, and in examining how these specific 'structured choices' fed back into a general dynamic of state-led globalization.

State Capacity, Capital Accumulation, and Structured Choices

The previous section has scrutinized existing attempts to tell the story of the fall of Bretton Woods as a process led by a multiplicity of states. It has established three points: that the international environment was shaped not by hegemonic decline or restoration but by capitalist crisis; that Germany's dominant export lobby preferred limited capital controls over revaluation and floating; and that ideational factors, if anything, were of a *pragmatic* rather than *paradigmatic* nature. Having shown the existing political-economic interpretations to be deficient, the question that remains is how else the German decision to float can be explained. In lieu of a more compelling explanation and in light of its significance, the German case is susceptible to an economistic reading that undermines the attempt to 'bring the state back in'. Does this mean we need to fall back on the initial position that sees the end of Bretton Woods as predetermined by the immanent dynamics of globalizing markets? After all, the notion that the shift to floating was a technical inevitability rather than a political choice retains superficial plausibility. On the surface, it does indeed appear that German state managers failed to control and ultimately surrendered to international capital movements. The remainder of this chapter outlines an alternative to this economistic interpretation. To 'bring the state back in', I argue, requires a more nuanced analysis of 'class' as a category that transcends the formal separation of capitalist society into political and economic sphere. What is needed, in short, is an integrated political economy approach that shifts the analysis from the dichotomy of 'states' versus 'markets' to the social relations of capitalist state and class power.

The long-standing and remarkably successful opposition of the German export bloc to DM revaluation indicates the capacity of dominant class forces in particular to lobby the state in order to advance their interests. Their ultimate aim, of course, is not the formulation of policy but the accumulation of profit, and it is in pursuit of the latter that the capitalist class indirectly structures the terrain of policy choices (cf. Gill and Law 1989). In this respect, the concept of 'class' provides the missing link between the structural forces of financial globalization on the one hand and the agency of the state on the other. It allows us to illuminate the agents that stand behind the ostensibly amorphous push and pull of market forces that are often cited as the structural determinants of state behaviour.

A closer look at the nexus of state agency and capital accumulation reveals that the destabilizing influx of dollars that confronted German policy makers on the eve of Bretton Woods did not emerge from impersonal market pressures but a concrete set of actors. And rather than anonymous, foreign speculators, it was the largest West German businesses and their *Hausbanken* (house banks) themselves that accounted for the bulk of capital inflows. In this way, the dominant export bloc played a central role in defining the particular problem German monetary authorities confronted and the particular type of solution they eventually adopted.

In an important sense, the success of the German export model was a proximate cause for the monetary troubles that pushed governing elites into the experiment of floating. The growing export surplus meant that large sums of foreign earnings were accumulated and repatriated (Lankowski 1982a: 276-277). As German export corporations expanded their operations, the costs of hedging against currency risk had to be borne by their agencies abroad rather than foreign importers.[136] Access to cheaper foreign credit also made it possible for West German corporations to circumvent the countercyclical liquidity management of the Bundesbank (Kreile 1977: 794). Lastly, monetary uncertainty and a weakening dollar in particular also induced German export corporations to resort to advance sales of dollars (and multinationals to hold their assets with German subsidiaries) in order to hedge against and benefit from possible parity changes of the

[136] cf. Semler to Klasen, 13 July 1971, BBk HA B 330/8403, p. 2.

mark to the dollar.[137] Taken together, these movements amounted to an estimated one half to two thirds of all dollar inflows that repeatedly swamped the German foreign-exchange operators and that undercut their ability to contain inflation and pursue an effective monetary policy.[138]

West German monetary authorities knew full well that West German business had contributed significantly to the enormous demand for DM and the ensuing monetary volatility and inflationary pressures. But they also realized that they lacked the regulatory capacity to separate the ‘speculative’ from the ‘regular’ capital transactions that German corporations conducted.[139] Short of an overly *dirigiste* and politically contested imposition of capital controls, regulatory action would depend on the support of the “decisive economic circles”.[140] The Bundesbank thus strove to obtain a voluntary commitment from the leading banks and export corporations to contain inflows of ‘hot money’. In order to limit the expansion of credit, central bank officials asked German banks to consult with about 80 to 100 corporations in order to convince them to limit and pay back foreign loans.[141] They also met directly with representatives of the ten leading industrial corporations, offering support in hedging against currency risk if they in turn limited their borrowing abroad—perhaps a most telling example not only of the inability to monitor capital flows but also of the fact that a small number of corporations and their banks were understood to be the main culprits.

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[137] Hankel to Schiller, 11 June 1970, BAK B 136/3323, p. 1.

[138] cf. “Aufzeichnung über Möglichkeiten, den Devisenumtausch im Rahmen spekulativer Bewegungen zu verteuern“, 29 May 1969, BAK B 130/3323, p. 2; Helleiner (1994: 103) presents similar figures for the February 1973 currency crisis.

[139] “Anwendbarkeit des §23 AWG”, 3 May 1971, BAK B 102/84100, p. 2; “Beurteilung der devisen- und konjunkturpolitischen Lage durch das Direktorium der Deutschen Bundesbank”, 11 June 1970, BAK B 136/3323, p. 2.

[140] König, “Protokoll der Besprechung mit Firmenchefs über Kreditaufnahme im Ausland und Kurssicherung von Exportforderungen am 19. Juli 1972 im Hause der Bundesbank”, 24 July 1972, BBk HA B 330/8383, p. 1.

[141] “Gespräch Bundesbank-Kreditwirtschaft am 30. Juli 1971 über die kreditwirtschaftliche Situation“, 1 July 1971, BAK B 136/3323, p. 4.

West Germany's banks, however, including some of the public-sector *Landesbanken*, were themselves engaged in facilitating foreign loans in contravention of the official monetary policy of the Bundesbank and sometimes in legal violation of the Foreign Trade Act.[142] The attempt to limit unwanted capital movements by way of a gentlemen's agreement was thus doomed from the start. Starting in March 1972, state managers resorted to an increasingly rigid system of restrictions on capital inflows that the German export bloc had sought to prevent.[143] Central bank governor Karl Klasen summed up the situation in a letter to a former Deutsche Bank colleague: "We would surely not have needed [the *Bardepot* or cash deposit system], had those in whose interest we've tried to prevent revaluations not made such a countercyclical measure necessary by borrowing too heavily abroad."[144] The system of controls proved to be particularly damaging to small and medium-sized companies. Worse still, it continued to be circumvented. Realizing that the same banks and corporations that resisted a revaluation of the DM were largely responsible for the continued influx of dollars, monetary officials viewed floating as an increasingly attractive means of limiting the sources of 'imported inflation' (Lankowski 1982: 276-277).[145]

Adhering to capital controls in order to maintain an undervalued DM would have been in the collective interest of the German export bloc. But its sway over German monetary policy had weakened, not least because of the rise of an alliance of social forces that vocally supported revaluation. This loss of influence only increased the pressure on

[142] "Betr.: Landesbank Rheinland-Pfalz", 28 September 1976, AdsD HSA 7383, pp. 1, 3; Schmidt to Poullain, 18 October 1972, AdsD HSA 5952, p. 2.

[143] The German capital control program, effective between 1970 and 1974, included: a special reserve requirement for bank liabilities to non-residents (1 April 1970); restrictions on the payment of interest on non-resident bank deposits (subject to prior approval by the Bundesbank) (10 May 1971); a cash deposit (*Bardepot*) provision that required resident non-banks to hold a portion of loans raised abroad in non-interest bearing deposits with the Bundesbank (1 March 1972); the effective prohibition ('prior authorization') of non-resident purchases of fixed-interest securities (29 June 1972), subsequently extended to shares and mutual funds (5 February 1973); a prior approval requirement for foreign borrowing by residents (5 February 1973) (cf. Dooley 1996: 261-262; Bakker and Chapple 2002: 16).

[144] Klasen to Classen, 7 March 1972, BBk HA B 330/8380, p. 2.

[145] "Anwendbarkeit des §23 AWG", 3 May 1971, BAK B 102/84100, p. 2.

individual capitalists to break ranks and hedge against a possible revaluation of the DM. And this, in turn, had the unintended effect of exacerbating the volatile conditions that ultimately drove West German policy makers into the experiment of a DM float.

In an important sense, therefore, the 'structural power' of capital had structured the choices of state managers. And yet, two important qualifications need to be added. Contrary to the way in which this power has been traditionally conceived, the decision to float the DM, paving the way for the continual revaluation of the DM, ran counter, rather than corresponded, to the interests of the dominant export-oriented elements of West Germany's capitalist class. And secondly, because the problems were attributable to concrete actors, the solution that German monetary authorities decided upon was also directed at them. From this perspective, policy makers, in opting for a float, did much more than simply surrender in the face of an unstoppable influx of 'hot money' from abroad.

In principle, the German central bank could print DMs indefinitely in order to buy up the dollars presented to it. As vice-president of the Bundesbank Emminger explained: "We called a halt to that particular game on March 2 and began 'floating', not because of any lack of funds—a central bank can create its own money without limit in order to buy up dollars—but because the inflationary effect of these dollar inflows on our monetary system had become intolerable".[146]

This fact alone, generally established but sometimes overlooked, demonstrates that far from a technical inevitability, the floating of the DM was a fundamentally *political* decision that formed part of a much more comprehensive strategy of domestic 'stabilization'.

For if inflation was the principal target, so were the banks and corporations held responsible for these inflows. The West German state used floating in order to reassert its autonomy from and authority over the dominant export bloc. As efforts to negotiate a

[146] Emminger to Petersen, 28 August 1973, BBk HA N2 K 728.

compromise had failed, German authorities moved towards floating as part of a comprehensive solution that served to fundamentally restructure their relations with the commercial banks and the export industry (Johnson 1998: 85). Floating freed the Bundesbank from the obligation of having to take in unwanted foreign currencies and limited the access of German banks and businesses to Euromarkets (Johnson 1998: 85). It also created the precondition for the introduction of monetary growth targets that was to play a central role in the Bundesbank's fight against inflation (Scharpf 1991). Although the technical soundness of the new measures ought not to be exaggerated, and although in practice the monetary authorities still had to rely on the cooperation of the banks to achieve their objectives (Johnson 1998: 87), monetarism augmented the regulatory powers of central bankers and supported their efforts to 'regain command over the liquidity of the banks'.[147]

Most importantly, the shift towards floating put an end to the export strategy of an undervalued DM that the large corporations as well as the leading commercial banks had relied upon for so long (Parboni 1981: 137). This, too, contributed decisively to the fight against inflation—if inflation is understood as a form of distributive struggle between capital and labour (e.g. Crouch 1978; Goldthorpe 1978; Devine 2007). From the 1950s onwards, German economic strategists, led by the President of the Bank Deutscher Länder Wilhelm Vocke, had pursued a form of 'monetary mercantilism' (Holtfrerich 1999; 2008) that substituted for protectionism in an age where Germany stood to benefit from worldwide liberalization. The central idea was that restrictive monetary and fiscal measures would keep price and wage levels below those of Germany's major competitors. With exchange rates among national currencies being fixed under Bretton Woods, and with the convertibility of currencies and movement of capital still restricted, these lower levels translated into a comparative advantage as German exports could be more competitively priced (Holtfrerich 2008: 35; Cesaratto and Stirati 2010: 69;

[147] Central Bank Council Meeting Minutes, 5 May 1971, BBk HA B 330/6158/1 (Gleske), pp. 4-5.

Wadbrook 1972: 61-63).[148] With the breakdown of Bretton Woods terminating the advantages of an undervalued currency, the focus on price stability became all the more important, and the commitment of both capital and labour needed to be renewed.

The extraordinary profits that the export industry derived from an undervalued DM had sparked an unparalleled series of wildcat strikes in September 1969 that set a dangerous precedent for future rounds of bargaining (Johnson 1998: 72). In the eyes of smaller firms, the large export corporations were more concerned about preventing future disruptions in production than confronting the unions.[149] An appreciating DM, it was hoped, might put pressure back on exporters and stiffen their opposition to the supposedly 'inflationary' wage demands.[150] For, being price-makers rather than passive price-takers, they had hitherto been able to translate these added costs into higher prices. In the context of an upward floating DM, however, exporters could no longer transfer these costs onto consumers without pricing their products out of the market.

Preventing a spiral of price increases and wage demands required a state and central bank sufficiently independent from the export lobby in order to admonish both social partners, and floating was meant to create this distance. While trade unions were expected to moderate their wage demands (cf. Franzese and Hall 2000: 182), corporations, too, were continuously reminded to exercise restraint in their pricing policy. Years later still, when the stabilization efforts had already proven successful, Schmidt was to point out to the executive committee of the BDI that the pricing policy of corporations would be decisive for union discipline in the upcoming round of bargaining. "[N]o one", Schmidt was advised to tell this confidential circle, "can have an interest in encouraging wild wage

[148] As the German Minister of Economics Ludwig Erhard wrote to Vocke on 2 August 1950: "If, namely, through internal discipline we are able to maintain the price level to a greater extent than other countries, our exports' strength will increase in the long run and our currency will become stronger and more healthy, both internally and with respect to the dollar" (Holtfrerich 1999: 345; recently quoted in Cesaratto and Stireti 2010: 72).

[149] Bauer to Klasen, 25 February 1971, BBk HA B 330/8473.

[150] Ibid.

movements à la summer 1969”.[151] Under a floating system, exporters needed to heed such advice because a restrictive monetary policy threatened to accelerate the upward trend of the DM and render German exports less competitive (cf. Franzese and Hall 2000: 183).

The state’s success in limiting inflationary pressures rested not only on its renewed capacity of ‘moral suasion’, but also on the mutual benefits that both ‘social partners’ could derive from reciprocal price and wage restraint. To corporations, a stronger DM meant cheaper imports of primary products (Lankowski 1982a: 36). Above all, however, maintaining lower levels of inflation promised to shore up their international competitiveness now that the comparative advantage of an undervalued currency had been lost.[152] And to the trade unions, internally divided into export-oriented winners and domestically oriented losers (Markovits 1982: 5), a booming export industry offered ‘export rents’ and associated wage and employment gains in a time of economic crisis (Webber 1983: 71).[153]

In this respect, as the next chapter shows, the shift towards a floating regime and the attendant turn towards monetarism in the course of 1973 and 1974 enabled the German state to stabilize the relationship between capital and labour in a moment of global economic turbulence (Beyer, Gaspar, Gerberding, and Issing 2008: 12). To a remarkable degree, West German state elites succeeded in preserving the ‘embedded liberal’ compromise domestically. Paradoxically, however, their ability to do so would mean the dissolution and indeed termination of the compromise elsewhere in the capitalist world in the decade to follow. For above all, the German strategy of ‘opting out of the great inflation’, as a recent policy paper puts it (Beyer, Gaspar, Gerberding, and Issing 2008),

[151] Grünewald to Schmidt, 12 April 1979, AdsD HSA 7308.

[152] See, for instance, the positive summary by economics minister Schlecht before the Foreign Trade Advisory Council: “The effects of DM appreciation from 1972 to 1976 had been more than compensated by the lower increases in the rates of inflation” (Foreign Trade Advisory Council Meeting Protocol, 22 March 1976, BAK B 102/226513, p. 12).

[153] cf. Foreign Trade Advisory Council Meeting Protocol, 22 March 1976, BAK B 102/226513, p. 12.

not only required committing domestic groups to price/wage restraint, but also extending stability politics internationally. And this outward projection, we will see, would be a much less consensual and much more conflictual process.

Chapter 5

The Defeat of Alternatives: German 'Grand Strategy' and the Rise of Neoliberalism

The two foregoing chapters have analyzed the peculiarly 'confrontation-driven' fragmentation of Bretton Woods into a fiat money and floating exchange rate system. With the OPEC oil shock in October 1973, the crisis widened from monetary turmoil to economic 'stagflation'—an ugly word that aptly describes the grim reality for working people whose livelihoods, barely sheltered for a generation from the calamities of capitalism, were unsettled by a peculiar and perplexing combination of mass unemployment and rapidly rising costs of living. Amidst growing social tensions over how to respond to this challenge, intra-core cooperation also reached new lows "as every country sought individual solutions to the economic challenges of the time" (Basosi 2011: 8).

We have asked before whether behind the facade of public pronouncements, the Nixon shock was really that shocking to those affected. The severance of the dollar/gold nexus, we have noted, had been seen coming for a long time. The ten-percent surcharge on exports included in the Nixon measures was a different matter, however (Meltzer 2009: 771; Zimmermann 2010: 137). Not only did it impact the immediate export interests. West German state managers, for one, worried about the broader constellation of interests inside and outside of Congress that called for such actions. Political observers had long been concerned about the possibility of protectionist forces gaining influence under the

Nixon presidency.[154] Seen in this light, the imposition of the surcharge appeared as a mercantilist act capable of escalating into a trade war.[155]

The strong export orientation of the German economy, reaching back to the late nineteenth century and reinforced after 1945, rendered its political administrators particularly sensitive to the risks of economic and political disruptions. Integration into the multilateral trading and financial system constructed under American leadership had allowed Germany to chart a remarkable path of economic reconstruction and political rehabilitation. But with the long boom turning into a slump and class confrontation on the rise, it seemed that a critical turning point had been reached. In a confidential memorandum written in 1974[156], the German chancellor Helmut Schmidt warned that the breakdown of the Bretton Woods monetary regime might only be the prologue to a drama that could prompt a relapse into economic nationalism and culminate in the collapse of the democratic structures of industrial societies. What is remarkable is that in this paper, not at all designed for public consumption, Schmidt was adamant that "this is not an apocalyptic vision but a real possibility of the world economy".[157]

It is in the context of this danger and opportunity that West German strategists would subsequently develop their grand designs—designs that, we will see, were not at all driven by a power-political quest for Germany's pre-war international status (Schulz

[154] See, for instance, a memorandum of the German-American Chamber of Commerce following the election of Nixon, "Die handelspolitischen Aussichten der nächsten Monate", 11 November 1968, BAK B 102/85129.

[155] State managers distinguished between the Nixon administration and the broader isolationist and protectionist tendencies represented in Congress. To what extent they believed Volcker's claim that Nixon's measures had been necessary to prevent protectionist pressures, and that the imposition of the surcharge by executive fiat rather than legislation was intended to make it easier to remove, is difficult to say with any certainty (Meltzer 2009: 771). It is possible that they accepted it as a way to pre-empt more vigorous protectionist measures. Nevertheless, German policy makers took the threat of American protectionism spiralling into an all-out trade war very seriously.

[156] Schmidt, 15 April 1974, AdsD HSA 10071 (hereafter 'Political-Economic Paper'). A "defused" (*entschärfte*) version of the paper was sent to finance ministers Giscard d'Estaing und Wim Duisenberg.

[157] 'Political-Economic Paper', p. 30. Throughout the 1970s, German Chancellor Helmut Schmidt had repeatedly warned publicly of a return of beggar-thy-neighbor policies and a coming "struggle for the world product" (1974). In retrospect, he concluded that what had been avoided in the 1970s was nothing less than "open economic warfare, one against the other" (1988: 67).

2010: 280). Compared to the problem of how to cope with the existential threat of economic and political closure, the question of how best to advance and sell the 're-entry' of Germany into the ranks of the great powers was of secondary importance. Indeed, Schmidt's now famous 'Marbella' paper of 1976/1977, frequently cited in support of such realist interpretations (cf. Schwammel 1997)[158], defined Germany's post-war ascendancy not in strictly power-political but above all in *economic* terms, and more precisely, situated it within the context of the world economic crisis of the 1970s.[159] What was astonishing, and enviable in the eyes of foreign governments, was that Germany had been much better able to deal with the economic turbulences relative to the growing indebtedness and financial troubles of its European neighbours.[160] It was this power differential, the paper argued, that was politically problematic, though at the same time "unavoidable because rooted in the economic interests of the Federal Republic."[161]

Capitalist Crisis and German Strategic Planning

The relative success of the German state to manage the crisis had found its material manifestation in a continuously growing balance-of-payments surplus and an impeccable international credit standing. Over the course of the 1960s and the 1970s in particular, the German central bank had accumulated what by then amounted to the largest currency

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[158] The relevant, oft-quoted passage in the Marbella paper noted that West Germany's "unwanted and dangerous rise to second world power of the West in the consciousness of other governments" might lead to "a revival of memories not only of Auschwitz and Hitler but also of Wilhelm II. and Bismarck... perhaps as much in the West as in the East." This made it "necessary for us, so far as at all possible, to operate not nationally and independently, but in the framework of the European Community and the [NATO] alliance. This attempt to cover [*abdecken*] our actions multilaterally will only partially succeed, because we will (necessarily and against our own will) become a leadership factor in both systems" (Schmidt, "Erwägungen für 1977", final version, 10 April 1977, AdsD HSA 6567, (hereafter 'Marbella Paper'), pp. 7, 9-10. Italics in the original. I follow the translation of Ash, who first quoted this passage in his *In Europe's Name* (1994: 87).

[159] 'Marbella Paper', final version, p. 5.

[160] Ibid., p. 8.

[161] This passage is quoted from the first draft of the Marbella paper of 5 January 1977, AdsD HSA 9302, p. 5. The equivalent, more roundabout formulation is on pp. 7-8 of the final version.

reserves in the world (Gray 2007: 307-308), and the German state enjoyed privileged access to international money markets.[162] With this growing actual and potential wealth on one side, and increasing social dislocations and economic instabilities on the other, the question arose as to what social and international purpose this arsenal might be put. Numerous ideas of how to use these resources for a range of progressive to retrograde objectives circulated within the state bureaucracy,[163], and some of them found their way into the innermost circles of policy making—attesting to the fact that by the mid-1970s, German crisis management was at a crossroads.

Overall, two very different sets of policy responses were seriously considered, hotly debated, and eventually dismissed: the first was reflective of a territorially bounded economic rationality, while the second was bound up with a more globally oriented and social-democratic solidarity. Analyzing why German policy makers ultimately decided against both of these two strategic possibilities at this critical juncture sheds new light on the structural limits of German foreign economic policy and the causes, character, and consequences of the course of action that was ultimately chosen.

A Farewell to Economic Nationalism

For the better part of a century, petroleum has been the vital source of energy of the capitalist world economy, rendering the Middle Eastern region in particular a decisive theatre of confrontation of rival imperialisms and giving rise to countless power-political ploys, intrigues and covert operations, and military interventions. The thesis that the US government conspired with the major oil companies to quadruple the price of oil in

[162] "Funktionen und Verwendungsmöglichkeiten der Devisenreserven der Deutschen Bundesbank", 20 February 1976, BAK B 102/269506, p. 2.

[163] One policy document divided the various proposals into three groups: (a) the direct or indirect investment in stockpiles of petroleum and other resources; (b) international aid measures such as development aid or foreign currency loans; (c) domestic social policy. In the mid- to late 1970s, the first two were the most intensely debated; cf. "Funktionen und Verwendungsmöglichkeiten der Devisenreserven der Deutschen Bundesbank", 20 February 1976, BAK B 102/269506, pp. 2-3.

October 1973 (cf. Engdahl 2004; Petersen 2009) thus deserves to be taken seriously—even if, to date, it finds no conclusive support in the relevant government archives (Garavini and Petrini 2011: 219-221). The recent, and near exhaustive, release of US documents paints a more nuanced picture. According to one reviewer, the American state encouraged the oil majors to accept higher prices for oil out of concern that OPEC might turn to more radical measures of nationalization, and partly because the US was less dependent upon foreign imports than its European and Japanese partners (McFarland 2012: 2). There clearly was an understanding that the US would be harmed less than its competitors, but there is no evidence of a plot to sabotage the industrial capacities (cf. Gowan 1999: 21). What the records do indicate is just how deeply the mutual suspicions among the allies ran. Far from being confined to conspiracy theories and sensationalist journalism, they extended to the very people in charge of policy.[164] French circles had warned as early as April 1973 that the US might exploit its lesser dependence on foreign oil by precipitating an energy crisis (Garavini and Petrini 2011: 220, fn. 24). And in the wake of the oil shock, German geopoliticians observed with concern that behind the facade of Western solidarity, "the French as well as the British are currently involved in more than dubious dealings with Arab countries for the long-term safeguarding of their oil supply"—information which Schmidt noted to be of "great significance for foreign and European policy".[165]

Fuelled by the 1973 oil shock, the threat of similar producer cartels, and mutual distrust, one group of German policy proposals suggested that the state draw on its foreign exchange reserves to build up raw material stocks. Rather than simply holding gold or dollars, why not have the Bundesbank diversify into other, economically more vital,

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[164] See, for instance, the interviews with James Akins, top energy specialist of the US State Department and ambassador to Saudi Arabia in Oppenheim (1976) and with the former Saudi Arabian oil minister Ahmed Yamani in the Guardian ("Saudi Dove in the Oil Slick", 14 January 2001). The latter is available at <http://www.theguardian.com/business/2001/jan/14/globalrecession.oilandpetrol>, [accessed 20 August 2013].

[165] Apel to Schmidt, 9 January 1974, AdsD HSA 8999, p. 2.

resources?[166] Alternatively, the German government could either itself acquire and store raw materials, or at least provide financial support to industry so that they could entertain their own reserves.[167] With energy sources being the most critical of these resources, these proposals form part of a more comprehensive plan that included deals with the Soviet Union (Lippert 2011), bilateral supply contracts with Middle Eastern countries, as well as the creation of a national energy corporation (through the state-sponsored fusion of VEBA and Gelsenberg in 1974/1975) that some political elites hoped might be able to balance against the big multinationals (van der Pijl 2006: 121).[168]

In these contingency preparations, one can detect the contours of a more economically self-reliant national strategy. Indeed, one memorandum traced the idea of raw material stockpiles to the proposals of the bankers Hjalmar Schacht and Rudolf Münemann in the 1950s (whom the memo referred to sardonically as 'financial geniuses'). As former President of the Reichsbank and Reich Minister of Economics under Hitler, Schacht of course provides the much more significant link to the autarky designs of German fascism.[169] Although one can surmise that in case of an acute emergency, the state might have taken a more central role and similar plans might have been acted upon, Germany's post-war dependence on a cooperative and free-trading world economy rendered such a unilateral course of action undesirable as well as unlikely (Deubner 1984: 506, 511, 532).

The available evidence suggests that any more determined plans of national energy independence were seen as unviable in face of the monopolistic control of the Anglo-American multinational giants. A direct confrontation, it was feared, might lead to a cut-

[166] Cf. Otmar Emminger, "Ausführungen des Bundeskanzlers über die Verwendung von Währungsreserven (Stichworte)", 10 August 1977, confidential, BBk N2 K 319, p. 3.

[167] Due to differences between the importing and processing industries (Foreign Trade Advisory Council Meeting Protocol, 9 April 1976, BAK B 102/226514, p. 12 (Mommsen)), opposition from the central bank, and a general aversion to state intervention, none of these plans would see the light of day.

[168] This idea was supported by domestic refineries (Kaffka to Schmidt, 24 May 1974, AdsD HSA 6170, p. 2) but opposed by the Ruhr industries ('Political-Economic Paper', p. 67).

[169] "Funktionen und Verwendungsmöglichkeiten der Devisenreserven der Deutschen Bundesbank", 20 February 1976, BAK B 102/269506, p. 3.

off from supplies. Thus the member of parliament Rudolf Kaffka thought it necessary to advise his fellow social democrat Schmidt:

> "Before going to Saudi Arabia, [economics minister] Friedrichs should visit the United States in order to achieve an agreement with the big corporations. It is to be made clear there at any price that our efforts in Saudi Arabia are only about a supplementary supply. We have so far not had any shortfalls in supplies as in Italy and France because we have pursued a politics of moderation vis-à-vis the big corporations. Hence it is to be made clear to them that we do not have the intention of building up a competition here, because the corporations are still strong and could cause us severe damage. Moreover, I am of the opinion that Yamani [the Saudi Arabian oil minister] is colluding very closely with the corporations."[170]

An independent energy policy was therefore ruled out from the start. The plans to build a national energy giant were formally buried by the controversial acquisition of the oil company Gelsenberg by Deutsche BP in 1979.[171] Pushed through against the veto of the German cartel office by means of veiled threats of an investment stop[172] as well as the personal intervention of Prime Minister Callaghan (Matthiesen 1987: 63),[173] the deal symbolizes that a central aspect of economic sovereignty had been surrendered after 1945 and irretrievably lost by the 1970s. America's post-war planners had sought to re-establish Germany as Europe's engine of growth while precluding a reprise of militarism and autarky (Painter 2012: 30). The reorientation of German industry from self-sufficiency to overseas supplies of cheap energy sources controlled by Anglo-American firms and their states restored German economic power while firmly integrating it into

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[170] Kaffka to Schmidt, 24 May 1974, personal confidential, AdsD HSA 6170, p. 1.

[171] Wolfram to Schmidt, 21 June 1978, AdsD HSA 7314.

[172] See the letter from Hellmuth Buddenberg, Chairman of Deutsche BP, to Schmidt, 25 November 1978, AdsD HSA 7314, pointing out that the decision of the government will have "immediate repercussions on the upcoming investment decisions of Deutsche BP."

[173] After a meeting of the head of British Petroleum David Steel with the chancellor (Der Spiegel 40/1978, "Fusionen: Alles beim Alten", p. 60), Callaghan personally intervened on behalf of British Petroleum in December 1978, urging Schmidt in an aide memoire to instruct his economics minister to override the veto of the cartel office; Callaghan to Schmidt, 5 December 1978, AdsD HSA 7314: "The Prime Minister has been following the progress of the deal and the Chairman of BP, Sir David Steel, has told him of the importance which his company attaches to it. The Prime Minister agrees... The Prime Minister therefore hopes that Chancellor Schmidt will do what he can to bring the deal to a successful conclusion."

global markets (Stokes 1988: 629-630). Alongside Japan, West Germany had become the advanced industrial country most reliant on imports of energy sources and other raw materials.[174] From this perspective, the trend towards the conclusion of bilateral agreements therefore posed a particular danger that those capitalist economies that were themselves raw material exporters—principally the US, Canada, Australia, and South Africa—did not face. Lacking a raw material economy integrated with its industry, the Foreign Trade Advisory Council concluded, Germany could not embrace bilateralism without amplifying tendencies that were comparatively more unfavourable to its own economy.[175] Careful not to add to existing tendencies towards economic bloc formation, German policy makers eschewed politically administered, self-help measures in favour of world market solutions.[176]

The dismissal of these more isolationist contingency plans marks a definitive break with anything even remotely resembling the geopolitical designs of German fascism. In the 1930s and 1940s, Germany had aggressively projected its power in order to carve out an exclusive and rival sphere of accumulation. But since then, German state managers had learnt to rely upon free trade and liberal multilateralism to secure the conditions of economic growth. To be sure, some reservations had been voiced by Germany's post-fascist elites about the viability of America's liberal-globalist designs and the room for manoeuvre this afforded to Germany (Neebe 2004: 506). And yet German government officials and corporate leaders in the 1950s and the 1960s both benefited from the dynamics of a rapidly expanding global economy and could count on the incentives this generated for its main trading partners to open up their markets voluntarily. Under these

[174] The particular vulnerability of West Germany did not escape the attention of US policy makers (cf. CIA, 'The Arab Oil Cutback and Higher Prices: Implications and Reactions', 19 October 1973, secret, p. 3. Available at <http://www.foia.cia.gov/sites/default/files/document_conversions/1699355/1973-10-19E.pdf>, [accessed 17 June 2013].

[175] Foreign Trade Advisory Council Meeting Protocol, 11 February 1977, BAK B 102/226516, appendix 3, Mommsen, "Sitzung des Außenwirtschaftsbeirates am 11. Februar 1977, p. 6: "There is, after all, a whole series of industrialized countries that can calmly await raw material agreements because they are themselves large producers of raw materials and because their extractive economy is integrated with their industry."

[176] Rosecrance (1986: 16) uses the 1973/1974 oil crisis to illustrate this point.

conditions, the exercise of political authority to secure export markets was unnecessary, and given Germany's recent past and conditional sovereignty, likely to be controversial and counterproductive. Instead, as we have seen in Chapter 3, German state operators sought consciously to insulate global free trade—which Germany would dominate by virtue of its economic weight—from the power-political realities of the Cold War and the concessions that a defeated and occupied Germany would have to make (cf. Rudolph 2004: 34; Neebe 2004: 509).

It is only with the economic downturn of the 1970s that this strategy of 'depoliticizing' global market relations encountered its limits. And it is, here, too, that the notion of Germany as a 'trading state' (Rosecrance 1986; Schwarz 1994; Neebe 2004) reveals its limitations as a guide to its foreign economic policy. Rosecrance, it is important to recall, explicitly distinguished his thesis from the economic interdependence literature by highlighting the agency of state managers over the structural consequences of globalization: "One should not place too much emphasis upon the existence of interdependence per se... Interdependence only constrains national policy if leaders accept and agree to work within its limits" (1986: 141). Retaining this sense of political choice turns out to be critical. For the idea that the political rulers of post-war Germany, deprived of a real military option, had fully internalized economic exchange and cooperation as the road to prosperity and security (cf. Neebe 2004: 33-34) misses out on the strategic dilemma that this avenue was now being fundamentally threatened. As a result, these applications of Rosecrance's 'trading state' hypothesis underestimate the true nature of Germany's crisis response. Rather than simply resisting mercantilist temptations, German state managers sought actively to arrest such tendencies elsewhere (Kreile 1977: 782).

In what has to be understood as a paradigmatic shift in its foreign economic policy, Germany now used its power to *keep open* rather than, as in the interwar crisis, *close off* international markets. This new approach was certainly in keeping with Germany's post-war commitment to a liberal international economic order; but it also adapted it to adverse international circumstances. German policy makers concluded that upholding economic liberal principles in a moment of generalized recession required the development of a strategy that *fused* economic and political interest and influence and projected it internationally. "[I]n this dangerous catharsis of the world economy", Schmidt's political-economic paper had noted, "the strategy and foreign policy of states ought not to be limited to their classical fields".[177] Though qualitatively different from Germany's role in the 1930s, the project of defending an integrated world market against centrifugal pressures contained a power-political dimension that transverses Rosecrance's (1986: 16) 'two worlds of international relations' and contradicts his image of an increasing differentiation of a cooperative 'trading' from a conflictive 'territorial' mode of foreign policy. Confronted with economic destabilization, social contestation, and political disagreement between Western Europe, Japan and the United States, West German strategists developed far-reaching plans for translating the growing economic weight of West Germany into political influence.

The principal aim of this 'grand strategy' was to defeat the protectionist pressures and mercantilist tendencies that emanated from other countries. Its main target, the next sections explain, was the political spectrum left of Germany's social democratic government and its radically transformative proposals of how to deal with the capitalist crisis. And the unforeseen consequence of this strategy, which was not neoliberally motivated itself, was to tip the scales in favour of the ideologically driven counter-offensive under Thatcher and Reagan at the turn of the decade.

Germany's *Nein* to Global Keynesianism

The deceleration of the great cycle of post-war expansion dissolved the uneasy marriage of market economy and social democracy and defined the political problem of the crisis decade that one might have to give way to the other (Devine 2007; Streeck 2011). The

[177] 'Political-Economic Paper', p. 33.

new political economy launched at the end of the 1970s shifted the balance vigorously towards the rule of private property and the privilege of purchasing power. But in the beginning of the decade, the governments of the centre countries faced the task of mediating between the interests of capital and a range of radical forces and reform proposals that sought to broaden the scope of social welfare and extend democratic control to the economic sphere (van der Pijl 2007: 109; Panitch and Gindin 2012: 143; Gill and Solty 2013: 57).

German policy makers concluded that the centrifugal forces threatening the liberal world economy were associated above all with the interventionist economic programmes of the left;[178] and they were far from alone in this assessment. Wage-push inflation had been identified by the OECD as a central problem affecting the industrial world in the 1960s already, and the broader issue of "too much democracy" (Gill and Solty 2013) was raised by dominant forces from across the advanced capitalist bloc since at least the middle of the 1970s. The elite deliberations of the Trilateral Commission, most significantly, warned that the demands of "strong industrial and labour lobbies" and other "new self-assertive groups" rendered advanced capitalist societies "internally more turbulent and externally less responsive to each others' needs" (Duchêne, Mushakoji, and Owen 1974: 17; Crozier, Huntington, and Watanuki 1975: 116, 165). There was even an understanding that a new politics of austerity, imposing what one dissenter described as "a little more unemployment, a little less education, a little more deliberate discipline, and a little less freedom of expression" could offer a significant corrective if not a panacea (Crozier, Huntington, and Watanuki 1975: 194). And yet the global balance in the mid-1970s rendered a direct confrontation with the forces of social and economic democracy an enormous gamble that few among the ruling elites were willing to risk. The organized strength and political representation of the working classes and their domestic and international allies was reflected in the considerations of policy makers of what could and could not be done. In this situation of stalemate, we shall see, Germany's

[178] 'Marbella Paper', final version, pp. 22-27.

crisis managers came to play a decisive role in charting the way forward. On the one hand, the external vulnerability of Germany's export-driven economy raised the costs of indecision. But more important still was that, unique among the major capitalist powers, a programme of monetary orthodoxy and reciprocal wage and price restraint might give a competitive edge to its dominant export sector and thus prove stabilizing rather than punitive.

Anxious not to support left-wing forces and their alternative policies of investment steering, nationalization, and worker control, German foreign economic strategists in the mid- to late 1970s discarded plans to deploy Germany's central bank reserves in a more outward-looking and solidaristic fashion. The initial proposal had been to turn a portion of the Bundesbank's foreign exchange reserves into loans to Eastern bloc, European deficit and developing countries. This would provide a massive stimulus to global demand and pull the advanced industrialized countries out of recession.[179] It was also a response to the explosive and uncertain international context of widespread redistributive demands *from within and without* the capitalist core. The calls for a New International Economic Order (NIEO), backed up by the OPEC oil embargo, had sown considerable disharmony within the Western camp and posed the threat of similar producer cartels (Cox 1983: 171; Krasner 1985: 92; Overbeek 2008: 183). In this respect, the proposal connected to social democratic plans for what the Austrian chancellor Bruno Kreisky had called a 'Marshall Plan' for the Third World, and held out the possibility of a far-reaching and progressive reorganization of the world economic order. Mobilizing the accumulated wealth in this way might have amounted to a genuinely hegemonic strategy—enabling both donor and recipient countries to (re)build the Keynesian class compromise by way of material concessions to subaltern forces.

These ambitious plans to globalize the embedded liberal order with the German state at the helm, initially developed by the chancellor's office and foreign ministry, were

[179] E.g. Irmler, "Vermerk: Gespräch Bundeskanzler Schmidt in Bonn am 16. Oktober 1975", 20 October 1975, BBk HA N2 K 319, strictly confidential, p. 2.

successfully opposed by the central bank and finance and economics ministries. The counterargument that swayed its proponents was that this scheme was bound to endanger Germany's stabilization strategy. Most advanced capitalist states had tried to 'paper over' the societal fault lines that opened up in the wake of the economic recession with the help of the printing press. "For governments facing conflicting demands from workers and capital in a world of declining growth rates", Wolfgang Streeck (2011: 12) recalls, "an accommodating monetary policy was a convenient *ersatz* method for avoiding zero-sum social conflict". The by-product of this coping strategy, which postponed rather than resolved the clash of distributive claims, was escalating inflation as both capitalists and workers sought to raise their relative income shares (e.g. Devine 2007: 37). The particular solution that German policy makers had found in the wake of the DM float was unique in that it had tied monetary restraint to committing both social partners to mutually beneficial wage and price restraint.

Germany's monetarist turn in 1973/1974 had been able to contain the distributive struggle between capital and labour (Beyer, Gaspar, Gerberding, and Issing 2008: 12; Franzese and Hall 2000: 182-3) because relative price stability provided differential opportunities to its dominant export bloc. The ability to maintain lower inflation levels than its international trading rivals translated into competitive price advantages that offset an appreciating DM and guaranteed profitability as well as wage and employment gains amidst global economic turbulence (Webber 1983: 71).[180] To a significant degree, Germany's stabilization policy was able to preserve the productivist consensus between capital and labour inside Germany. Crucially, however, it depended for its continued success on constructing, extending, and defending a zone of stability against worldwide inflationary pressures that the more progressive proposals were feared to exacerbate.[181] A conversion of the Bundesbank's foreign exchange reserves into loans would lead to an

[180] The origins of Germany's postwar 'neo-mercantilist strategy' have been traced by Holtfrerich (2008: 35; 1999); its contemporary relevance is discussed in Cesaratto and Stirati (2010).

[181] Flendorffer, "Verlagerung der deutschen Devisenreserven", 16 July 1975, BAK B 102/269506, pp. 3, 5; "Funktionen und Verwendungsmöglichkeiten der Devisenreserven der Deutschen Bundesbank", 20 February 1976, BAK B 102/269506, pp. 4-5.

expansion of international liquidity. Although it was recognized that this would stimulate global demand and benefit German exports in particular, the inflationary dangers were considered to outweigh these advantages.[182] German policy makers were concerned that the additional funds created through the extension of German credit to deficit countries would ultimately flow back into the German economy and raise price levels.[183]

Overall, then, the particular anti-inflationary path that German policy makers had chosen, combined with the fact that Germany had fared better than its peers, created a powerful disincentive to sponsoring a global Keynesian project. Success, after all, was defined not in absolute but in relative terms: the remarkable ability, as Schmidt's Marbella Paper had pointed out, to maintain lower inflation and unemployment rates, to sustain higher per capita income rates and even to afford larger military expenditures (relative to its GDP) than the rest of the capitalist world.[184] From this differential point of view, German self-interest trumped collective and progressive solutions. Without Germany's support, the next chapter shows, the locomotive approach of coordinating a global economic stimulus was doomed from the start. Any concerted efforts to re-stabilize embedded liberalism on an international scale were subordinated to the narrow goal of German state elites of maintaining internal order.

[182] "Verwendung der Devisenreserven der Deutschen Bundesbank", 2 December 1976, BAK B 102/269506, p. 2.

[183] The rationale for the Bundesbank's opposition to this scheme provides important insights. One of the principal concerns was that unconditional financial assistance would encourage spendthrift behaviour and exacerbate global inflationary pressures. In order to serve as "a lever of international stabilization efforts", balance-of-payments support ought as a matter of principle and as far as possible, only to be given in connection with austerity programmes. "In most cases this means: no direct bilateral currency credits, but the interposition of international institutions (IMF etc.) with the possibility of politico-economic [*wirtschaftspolitische*] conditions" (Bundesbank Board of Directors ,"Zur Frage des Einsatzes der Währungsreserven der Bundesbank", 12 October 1977, BBk HA 9661, p. 8).

[184] 'Marbella Paper', final version, p. 5.

Germany's Grand Economic Strategy

Our review of German crisis planning and the two poles of possible actions it evolved around has found that state managers, in the event, chose to pursue neither the minimal strategy of national self-reliance nor the maximal global response of reflation and redistribution.[185] In the eyes of decision makers, both were held to set dangerous precedents: other countries might follow the German lead and gear their raw material procurement or lending policies to the purpose of export promotion[186]; and financial assistance to some countries would prompt further demands from others, leading to an enormous expansion of credit.[187] In short, therefore, the limits to national independence were set by the fear of an escalating protectionism, while the limits to international solidarity were set by the fear of global inflation.

Instead, a third and, no less momentous, strategy was given precedence. What remained of the progressive scheme was the basic idea that it was in the monetary and financial sphere and through multilateral institutions that Germany could best project its political power and economic interests. Echoing the Marbella paper's famously cited assessment of the historical limits of West German foreign policy after 1945, one report noted that "[o]ur particular political circumstances and our interests continue to bar us from demonstrating our capacity, e.g. by delivering weapons, sending troops as international peace forces, accepting border guarantees, etc.". "In point of fact," the memo concluded, "the real instrument with which we can bring our strength, namely our economic and financial strength, to bear in our foreign policy lies in the sphere of financial assistance...

[185] One member of the Bundesbank's executive board argued that—given how little of an impact the much more pronounced domestic struggles had had on the distribution of wealth within capitalist societies—the efforts of the oil exporting countries to obtain a greater share in the world social product were unlikely to bear fruits (Schlesinger, "Alternativen im internationalen Verteilungskampf, der durch die Erdölpreissteigerung ausgelöst wurde", 8 February 1974, BBk HA B 330/25959, p. 2.

[186] "Funktionen und Verwendungsmöglichkeiten der Devisenreserven der Deutschen Bundesbank", 20 February 1976, BAK B 102/269506, p. 4; Flendorffer, "Verlagerung der deutschen Devisenreserven", 16 July 1975, BAK B 102/269506, p. 4.

[187] "Verwendung der Devisenreserven der Deutschen Bundesbank", 2 December 1976, BAK B 102/269506, p. 3.

Only in terms of foreign exchange reserves are we stronger than most others, without foreign policy considerations proscribing the use of this means a priori."[188]

The social purpose to which Germany's financial and monetary strength was henceforth to be put was radically different. In the midst of the 1970s crisis, German state managers followed these prescriptions in order to defy protectionism and imported inflation—first, vis-à-vis their European neighbours, and second, as Chapter 6 explains, vis-à-vis the United States. In order to maintain a free-trading world economy and to secure its competitive position within it, Germany set out to counter the interventionist and expansionary remedies of the European left. In a sense, the social-liberal government of Schmidt tried to extend internationally what had started in the early 1970s as an internal attempt to discipline militant labour, the insubordinate youth organization and the left wing of the SPD. To project power across politically bounded space rather than from the top down was of course a far more problematic undertaking. In various ways, and with varying degrees of success, German state managers mobilized their financial influence in order to shift the social balance of power in favour of those forces willing to follow German stabilization, and away from radical forces that were held to endanger access to this vital zone economically or politically (Lankowski 1982a: 344).[189] Yet German policy makers, far from seeking to impose neoliberal change, sought merely to preserve the export model that had stabilized the social-democratic bargain at home.

European Integration and the Defeat of Alternatives

As the Bretton Woods system of fixed exchange rates came apart, German state managers revived and actively promoted the monetary integration of Europe: first, in the so-called

[188] "Verwendung von Devisenreserven unter außenpolitischen Gesichtspunkten", 31 March 1976, BAK B 102/342476, pp. 2-3.

[189] As Lankowski (1982a: 344) observed, "Germany therefore used its vast foreign exchange reserves to support regimes willing to introduce austerity measures aimed at reducing public expenditure in the hope that this would directly affect the price level and therewith the ability to import".

‘currency snake’[190] and, later, in the European Monetary System (EMS). The goal was not to move towards the long-term vision of a politically unified Europe, and certainly not to build up an exclusive, rival economic bloc, but to preserve this critical outlet area for its exports in the face of protectionist and inflationary pressures (Lankowski 1982a: 344). Many scholars have argued that the long-term outcome of monetary integration was to endow the European project with a distinctive neoliberal dimension (e.g. Cafruny and Ryner 2003). The immediate concern of German state officials during the initially ‘defensive’ phase of monetary coordination, however, was to maintain at least a healthy core of hard-currency countries with the capacity to follow the stringent macroeconomic course dictated by Bonn and Frankfurt.[191] The successful operation of such a hard core would help insulate this currency bloc from global inflationary pressures as well as the more far-reaching demands for balance-of-payments support and financial aid of weaker-currency EC countries.[192] The argument that the monetary construction of the ‘currency snake’ proved a failure because so many European countries dropped out (cf. Kaltenthaler 1998: 45) neglects the fact that it was accepted by its German architects that those countries unwilling or unable to align their macroeconomic policies would have to remain outside until their politico-economic priorities had converged with those of Germany and its like-minded, smaller European partners.[193]

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[190] The European currency ‘snake’ arrangement stipulated that member states maintain the exchange value of their currencies within a margin of +/-2.25%.

[191] ‘Political-Economic Paper’, p. 21.

[192] Ibid., p. 63.

[193] Broader snake membership was not in itself desirable. It may be true that in January 1974, German Finance Minister Helmut Schmidt had to offer 9 billion DM in order to dissuade the French from leaving the Snake (Tsoukalis 1977: 129). But when Italy offered to join the snake in exchange for an EC-wide currency reserve pooling, Germany and other EC members declined (Straumann 2010: 211). And when Switzerland briefly considered joining the snake one year later—a plan strongly opposed by France (Straumann 2010: 209)—German authorities calculated that Swiss participation and an associated hardening of the currency bloc could help holding France and other weak-currency countries at bay until a more serious commitment to austerity and fiscal prudence would be forthcoming (cf. Kurth to Schmidt, “Beabsichtigtes fernmündliches Gespräch zwischen dem Herrn BK und Präsident Giscard d’Estaing; hier: Ankoppellung des Schweizer Franken an die Mini-Währungsschlange, Bezug: Vorlage von Herrn AL IV vom 19. März 1975”, AdsD HSA 6582).

Maintaining their currencies within the snake was not without difficulties for the smaller European countries either, however.[194] They, too, confronted the basic dilemma of whether to accommodate wage demands at the cost of profitability and price stability, or whether to exercise monetary and fiscal restraint at the expense of economic growth and full employment (Scharpf 1984: 259; Straumann 2010: 187-88). The decisive difference, however, was that unlike their larger EC partners, they were unable to choose their exchange-rate regime according to their domestic preferences and institutional arrangements. External factors such as EC membership, trade integration, and financial openness, new research shows, played a far more determining role than the institutionalist literature has previously recognized (Straumann 2010: 15-17). Uncertainty about the future shape of the world monetary order and the inability to exert much influence over its direction (exemplified in their exclusion from top-level monetary discussions of the major capitalist countries), coupled with the fear that their smaller economies would be particularly vulnerable to exchange-rate fluctuations, convinced them of the necessity of a fixed exchange-rate regime (Straumann 2010: 206, 210). As long as they pegged their currencies to the DM, countries could no longer freely choose between unemployment and inflation—in the case of the Benelux countries and Denmark, Germany chose for them when it shifted to monetarism in 1973/1974 (Straumann 2010: 223, 234, 239).[195] Rather than the relative strength of the labour movement determining the policy choice between inflation or unemployment, the 'imported monetarism' of the 1970s reshaped the domestic balance of forces to the detriment of the working class (Scharpf 2000: 33).

German policy makers were keenly aware that the need to maintain currencies within set margins vis-à-vis an appreciating DM had a disciplinary effect on the credit, fiscal, and spending policy of their currency partners—forcing them onto parallel planes to the

[194] This paragraph draws extensively on the recent research of Tobias Straumann (2010), who challenges the institutionalist argument (cf. Katzenstein 1985; Gourevitch 1986; Scharpf 1991) that the corporatist structure of smaller European states allowed them to pursue a tight monetary policy and to negotiate the wage restraint necessary to maintain a hard-currency peg.

[195] McNamara (1998: 157) notes that because of their small size and exposed position in the world economy, "[p]olicy emulation may not be the best way to characterize their behavior."

German stability programme.[196] The political-economic paper concluded that "[i]t is politically necessary not to have the snake appear as a currency block led by Bonn. In reality, however, we need to maintain our efforts to coordinate the general economic policies of the snake countries".[197]

This, then, is what German policy makers subsequently attempted to achieve on a larger scale. The insightful study of Carl Lankowski (1982b: 98) argues that the project of a European Monetary System that replaced the smaller currency snake from the late 1970s onwards should be seen as "a cover for demanding that the other EC governments adopt policies that would adjust their economic performance to that of West Germany; the West German government was actually asking for the initiation of austerity policies throughout Europe… Under these circumstances, the West German government was willing to support the external value of the currencies of its EC partners with its enormous foreign exchange and gold reserves."[198] Compared to Germany's smaller economic satellites, however, the extension of monetary rigor to the larger EC countries depended to a far greater extent on internal shifts in political objectives and social power relations. Through financial (dis)incentives and institutional mechanisms such as the EMS and IMF, German policy makers certainly sought to extract and lock in similar commitments, but it was far from able to simply impose its preferred course of action. If and when German state managers came close to outlining the terms of the solution, it was due to an important convergence of American and German economic thinking in the second half of the 1970s.

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[196] 'Political-Economic Paper', p. 20,

[197] Ibid., p. 63.

[198] Thanks are due to Herman Schwartz for his feedback on a version of this chapter and for sharing the quote with me.

The Limits of 'Benign Neglect' and the German-American Entente[199]

The events surrounding the breakdown of the fixed-exchange rate regime between 1971 and 1973 have been discussed earlier and need no recounting here. We have seen that it was partly due to an ill-conceived attempt to undermine a joint European float that the United States held on to a policy of benign neglect which ultimately frustrated efforts to negotiate a new monetary system.[200] What is important at this point is that by early 1976, the limits of America's *laissez faire* approach in the monetary sphere had become apparent in the face of economic turbulences that seemed capable of spinning out of control.

The decision of the Bank of Italy to withdraw from foreign exchange markets at the start of the year had seen the lira/dollar exchange rate drop by 20% in three months.[201] The British authorities, too, were believed to have forced a drop in the sterling exchange rate in early March. One memorandum observed that "[b]oth Italy and Britain, plagued by domestic inflation, are unlikely to achieve in coming months the domestic economic stability required to stabilize their exchange rates".[202] Japan, too, was suspected of practicing a 'dirty float' (Biven 2002: 108). And France, which had left the snake on March 15, was feared to join in the race of competitive devaluation. Evidently, the freedom to float had undermined whatever rules of the game had remained intact. "The principal danger in this situation involves the types of adjustment efforts that could be taken", one memo warned.[203] Rather than address the root causes of the problem, it

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[199] Parboni (1981: 138) and Basosi (2011: 109) speak of an economically conservative US-German entente.

[200] While some accounts put a heavy on the role of monetarist ideas (cf. Leeson 2003; Best 2004), Daniel Stedman Jones concludes that "Friedman was definitely not a significant influence on the administration's economic strategy" and that his "correspondence with Nixon's staff leaves the impression of a relatively powerless observer" (2012: 222). Friedman was under no illusion that "events and crises had forced a change in policy" (Jones 2012: 220).

[201] Memo from Hormats to Scowcroft, 17 March 1976, FRUS 2009, doc. 130, p. 465.

[202] Ibid.

[203] "The International Monetary Situation", Memo by Simon, FRUS 2009, doc. 132, p. 470.

appeared as if countries would resort to beggar-thy-neighbour policies or protectionist measures.

US policy makers realized that even if floating exchange rates might accurately reflect 'market fundamentals', as its academic proponents had promised, by themselves, market forces would do little to encourage responsible economic policy (cf. Helleiner 1994: 15). On the contrary, as Schmidt had told William Simon (now Treasury Secretary) and Fed Chairman Arthur Burns, floating exchange rates might lessen the disciplinary pressure on countries to control domestic inflation.[204] Worse still, in the absence of serious efforts to address underlying imbalances, gyrating exchange rates were bound to have profoundly destabilizing effects domestically and systemically.

Clearly, the pressures of floating exchange rates and capital flows did not lead to economic discipline but to disintegration. Under these circumstances, the US came to accept what German economic strategists had argued early on: that to prevent the system from collapse, *benign neglect* was insufficient. Rather than relying on the mechanism of free markets, the exercise of political influence was necessary to encourage system-conforming adjustments. American policy makers concluded that "[t]he United States, for the first time in years now has the capacity, particularly in cooperation with the West Germans, to do something about this."[205] The success of German state elites in managing the capitalist crisis by way of monetary and fiscal prudence, and their efforts to impose macroeconomic restraint via the currency snake, rendered Germany the most important ally in preventing a downward spiral of import controls and competitive devaluation (Ludlow 2012: 9).

While most scholarly attention has focussed on the Nixon and Volcker shocks as the two decisive moments in the constitution of neoliberal globalization, it was during the much

[204] "Aufzeichnung über das Gespräch des Bundeskanzlers mit Secretary Simon (Treasury) und Chairman Burns (FED) am 9. Juni 1975, 9-10.15 Uhr im kleinen Kabinettsaal", 13 June 1975, BBk HA N2 K 322.

[205] "Economic Stabilization of Western Europe", Memorandum of Conversation, 26 March 1976, FRUS 2009, doc. 133, p. 476).

neglected Ford administration that some of the most important programmatic and institutional changes took place. Under Ford, a new market-centred paradigm emerged that prioritized the fight against inflation through reducing the levels of taxation, public expenditure and state intervention (Moran 2011: 59, 61). At the international level, US policy makers began to develop a program of economic stabilization that specified conditions for financial assistance and to create an institutional mechanism for enforcing adjustments. The most lasting effect of this endeavour was to reinvigorate the International Monetary Fund (IMF) that seemed moribund when the par value system of Bretton Woods collapsed. And the litmus test was to jointly use the new instrument to induce structural adjustment in Britain and (to a lesser extent) Italy (James 1996: 285). "US/FRG cooperation", it was noted, "will be essential in any solution".[206]

That the roots of the problem and their possible solution contained a class dimension is brought out very clearly in the remarks by William Simon that "[d]eep divisions on the distribution of income have in Italy and the United Kingdom, for example, been obscured by efforts to manufacture solutions through policies which would assure rapid economic expansion".[207] The efforts to defer class struggle by Keynesian means, characteristic of the whole of the post-war era, and applicable to the United States itself, had issued in runaway inflation. Having lived beyond their means, the welfare states and working classes of Western capitalism now had to accept major concessions.

And yet, no matter how astute this diagnosis, neither Germany nor the US were able or willing to prescribe a comprehensive solution to these ills. The German government struggled to keep at bay the radical elements of the European labour movement whose alternative economic programmes threatened the German export model and the domestic

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[206] "Economic Storm Warnings", Memo from Hormats to Nixon, 17 March 1976, FRUS 2009, doc. 130, p. 467.

[207] "The International Monetary Situation", Memo by Simon, FRUS 2009, doc. 132, p. 470. The argument of Harvey (2005: 73) that the fiscal crisis in New York City served as a blueprint for structural adjustment programs in the 1980s is reflected in the assessment of US policy makers, who likened the situation of Italy and Britain to that of New York City as having lived beyond their means ("Economic Stabilization of Western Europe", Memorandum of Conversation, 26 March 1976, FRUS 2009, doc. 133, p. 476).

social compact sustained by it. While hoping to contain these interventionist and expansionary policies, German policy makers were in no position to reverse the balance of forces. For such a class realignment to occur across the regions of advanced capitalism, and for a neoliberal programme to prevail, American policy makers needed first to apply internally the economic and political lessons they had drawn from the example of the European deficit countries (Panitch and Gindin 2012: 159). In short, whereas the German state still acted to defend its embedded liberal compact at home, the US had yet to prove to the world that a full-frontal attack on the organized power of labour was feasible. It was only after Carter's final bid for a coordinated Keynesian reflation, and indeed under pressure from Germany, that this could be tried (Ludlow 2012: 24). And when it did, the neoliberal experiment departed from the fiscal conservatism of balanced budgets that had guided the Ford administration. Its success came instead to rest on the enormous tax cuts and deficit spending of the Reagan administration (Moran 2011: 60; Prasad 2012: 352).

At the midpoint of the decade, then, the capitalist world was still far away from this neoliberal resolution. The looming election of the Italian communists into power; the danger that British Labour might opt for the statist Alternative Economic Strategy, and the menacing alliance of the French socialists and communists—all these were scenarios that German (or US) state managers sought to influence but that they could not hope entirely to control. German policies and prescriptions, we shall see, narrowed the range of possible pathways out of the crisis; and in this respect Germany came to matter as much as for what it did than for what it didn't do. The course chosen, however, was in the last instance determined by the social forces on the ground, the ideas that guided them, and the access to the power of the state they enjoyed. Though unlikely in retrospect, each of these three cases had the potential of recasting the European and international order on terms detrimental to liberal capitalism and more favourable to organized labour and social welfare. Their failure, in turn, laid the groundwork for and undermined the capabilities of progressive forces to resist the neoliberal counterrevolution of the late 1970s and 1980s. And yet the fact that these alternatives never came to pass cannot itself be attributed solely to the growing strength of neoliberalism as a state, class or ideological project.

Italy was most vulnerable to external pressures; but it was geo-strategic concerns that guided the financial interventions of the US and Germany. And the Italian Communist Party, which was the main target of foreign interference but also the key auxiliary of an internationally negotiated politics of *austerità*, was guided by a peculiarly anti-capitalist rather than neoliberal critique of Keynesianism. British state managers were confronted with a full-fledged neoliberal project and constituency; but the Labour government departed from the post-war consensus selectively and sought Germany's help in avoiding IMF austerity. The lack of political alternatives, rather than the force of the neoliberal argument or the pressure of the market, best explains its actions. The French state bureaucracy under Raymond Barre, lastly, sought to emulate the German model in the absence of domestic support for neoliberalism. Its trial run of *rigueur*, made possible by its exceptional degree of insulation from wider social interests, cannot be generalized into an ideas-based account of neoliberal change.

Italy: Communist Austerity

Italy was one of the countries hit hardest by the capitalist crisis and attendant social and political upheavals. Suffering from some of the highest unemployment and inflation rates in the OECD, a deteriorating current account, and mounting public debt, Italy became heavily dependent on international borrowing and a major test case for conditional financial assistance (Sassoon 1996: 588; Bernardini 2011: 330).

The reliance on foreign credit alone meant that the path towards austerity capitalism would be influenced by external forces. But the situation was further complicated by the peculiar geopolitical position that Italy occupied by virtue of having the strongest communist movement in the cold war West. In the mid-1970s, the Italian Communist Party (PCI) seemed destined to take over the reins of power from the Christian

Democratic Party (DC) and its centrist coalition just as the crisis came to a head. The post-war objective of the United States and its NATO partners of keeping the Communists out of government and Italy firmly within the Alliance played an important role in shaping the economic 'stabilization efforts' of Italy's creditors.[208]

The German SPD leadership sought to prevent the emergence of a credible anti-capitalist and eurocommunist alternative to social democracy (Bernardini 2011: 321), and urged its socialist brother party and the ruling Christian-Democrats not to enter into the 'historic compromise' proposed by the PCI. The first German attempts in the summer of 1974 to offer bilateral financial support on the condition that the PCI would be kept out of government and that a restrictive credit policy would be maintained backfired (Bernardini 2011: 325-27).[209] Prime Minister Mariano Rumor was replaced by Aldo Moro shortly afterwards, and an inclusion of the PCI seemed unavoidable as the economic situation continued to deteriorate. In 1975, the Italian state tried to promote economic growth by expansionary fiscal and monetary measures but proved unable to stem the downward pressure on the lira and inflationary repercussions this entailed. Efforts to stabilize the lira depleted the resources of the Bank of Italy, which withdrew from foreign exchange markets between January and March 1976 (McNamara 1998: 133). The confluence of economic and political considerations is aptly described in a German memo quoted by Bernardini: "Italy is sick; an effective long-term therapy should be provided. Its Western partners have an important role to play. But coping with the present crisis is also a matter of urgency: for the first time in 30 years a fundamental change in the balance of forces has become possible."[210]

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[208] The strategic thinking of Germany and the United States converged on the creation of a multilateral instrument for enforcing adjustment and held that addressing the economic problems was central to countering the political threat of communism (Conversation between German government and US Administration, 27 July 2975, p. 219, cited in Bernardini (2011: 329)).

[209] Bernardini notes that "Schmidt urged Rumor to adopt 'German solutions' to cope with economic turmoil, and especially to curb inflation that was undermining every effort to restore economic stability" (Bernardini 2011: 326, citing Schmidt to Rumor, 23 July 1974, AdsD HSA 6549).

[210] "Aufzeichnung des Ministerialdirektors van Well, 11 May 1976", quoted in Bernardini (2011: 317).

The Americans likewise considered the situation in Italy to hold "significance for the future of the European Community, the Western economic system, and the Western political and security system".[211] German and American policy makers agreed that "unless they put their own house in order external financial assistance would be money down the drain".[212] In the first half of 1976, they settled on the IMF as the appropriate mechanism to supply these funds and enforce adjustments, and in secret meetings with Britain and France developed the economic and political conditions to be attached to a new financial package. Most central, once again, was "a cast iron pledge that the PCI would not be invited to join the Italian government" (Basosi 2011: 335; Ludlow 2012: 19). The economic dimension of the programme followed the monetary and fiscal policies that had proven to be successful in Germany. But the backlash against German interference in 1974 had made clear that the impression of direct influence had to be avoided. Accordingly, the US side concluded that "[t]he best institutional arrangement for producing conditional financing is the IMF. It…cloaks the conditionality in a multinational mantle that dilutes opposition within a borrowing country to conditions imposed by the US or other outsiders".[213]

The newly formed minority government of the DC accepted the recommendations of the Quad, and welcomed the economic conditionality as a way of keeping the communists at bay. The international negotiations enabled the DC to short-circuit parliamentary debate and to compel the PCI to support a programme over which it ultimately had little influence (Bernardini 2011: 336). In this way, financial support not only presupposed but reinforced the exclusion of the PCI from government.

[211] "Rambouillet II; Lebanon; Djibouti; Nuclear Non-proliferation", Memorandum of Conversation, 18 May 1976, FRUS 2009, doc. 138, p. 491.

[212] "The International Monetary Situation", Memo by Simon, FRUS 2009, doc. 132, p. 473; Pöhl, "Betr.: Besprechung mit Yeo, de la Rosière und Mitchell am 10./11. April 1976", 14 April 1976, AdsD DHS 5, p. 4.

[213] Yeo to Ford, 24 June 1976, FRUS 2009, doc. 146, p. 523.

The peculiar puzzle of the Italian case is why a communist party would be willing to endorse austerity. Part of the explanation certainly has to do with the realities of social and international power. After three decades of political exclusion, the PCI confronted an extensive patronage system that was hostile to a communist takeover (Sassoon 1996: 580-581, 592) and an apparatus of army, police and intelligence service that was suspected to be complicit in the wave of political violence that terrorized Italy since the late 1960s. The CIA-sponsored coup against the democratically elected socialist government of Salvador Allende in 1973 signalled that a victory at the polls might prompt a violent reaction (Brogi 2011: 322). The incessant warnings by the major capitalist powers against communist participation did nothing to assuage these fears. As a result, the PCI felt extremely vulnerable even as it gained electoral strength. It dismissed a united front of Communists and Socialists (Sassoon 1996: 572) against the ruling Christian Democrats as too antagonizing, and propounded a 'historic compromise' between all three major political traditions (Sassoon 1996: 576). The efforts of the PCI to prove itself a responsible partner in such a proposed alliance also extended to the economic crisis (Goodman 1992: 159; Bernardini 2011: 336). Without formally joining the government, the PCI supported a 'national solidarity' government in its efforts to control inflation by cutting public expenditures, raising taxes on consumption, and lowering wage costs (Sassoon 1996: 587-591).

But ideology, rather than simply political pragmatism, also played an important role in shaping the PCI's support for the monetary and fiscal restriction. However one might explain and evaluate the reasons for the PCI to support these measures, they certainly had nothing to do with the intellectual merits or even the practical successes of neoliberalism. While its support for these deflationary measures certainly indicates the widespread disillusionment with Keynesianism (Sassoon 1996: 592), the Communist Party and trade union leadership that empowered the DC to adopt *austerità* can hardly be suspected of having shared or contributed to an emerging neoliberal consensus. If one is to take ideas seriously rather than dismiss them as mere tropes that reflect material conditions, one would have to inquire how and why the PCI came to see itself as having to support this programme. Some have suggested that the PCI was guided by the image of a catastrophic implosion of capitalist society that it saw itself as tasked to prevent in the immediate interests of the working class and in the service of the longer-term transformation of the productive apparatus of society. Others have identified a solidaristic conception of sharing the burden across the classes (Simonazzi and Vianello 1998: 109; Sassoon 1996: 592-593, 589), or a certain aesthetic appeal of *austerità* as a departure from the mass consumer culture of embedded liberalism (Brogi 2011: 323). Whatever the case, the shift that occurred in the late 1970s and early 1980s had little to do with any neoliberal rethinking. Italy would continue to chart an economic course between expansion and deflation. The truly significant event was the demolition of the prospects for a distinctly communist and potentially European-wide alternative to capitalism embodied by the PCI.

For reasons very different from those that compelled the smaller EEC countries to remain within the orbit of German monetary policy, Italy was pulled in a similar direction (James 1996: 286). Economic 'stabilization', to repeat, was imposed by the United States and Germany in exchange for financial aid and the pledge that the communists be kept out of power. This intrusion into the social balance of power was reflected in the strategic thinking of the PCI and its historical compromise, which included the need to prove its crisis-management credentials between 1976 and 1979. After the PCI had served its purpose of imposing austerity on the working class, the DC terminated the national solidarity government (Abse 2005: 255-256). The entry into the ERM, unacceptable for the PCI, was used by the DC as an excuse to do so (Simonazzi and Vianello 1998: 109).

Britain and the IMF[214]

The main lesson emerging from Germany's early blunders in Italy—that political and economic conditions ought to be imposed through a multilateral framework rather than unilaterally, and that they required a government willing to tie itself to the mast—was subsequently applied to Britain in 1976.[215] The conditionality negotiations with the IMF—in practice dictated by the US and Germany, the largest contributors under the General Agreement to Borrow that supplied emergency funds via the IMF—should thus not be seen as the top-down displacement of Keynesianism (as argued, for instance, by Harmon 1997: 228-229). For a number of reasons, and in a number of ways, the British Labour had already departed from Keynesian economic orthodoxy between 1974 and 1976 (Ludlam 1992)—without, however, having fully arrived at a neoliberal solution. The IMF negotiations are but one important step on a winding road, and their significance emerges only when we travel the full distance. Let us then first consider the (limited) extent to which it was neoliberal ideas or (more plausibly) globalizing financial

[214] In accordance with the thirty-year rule, the government records on the IMF crisis were made available on 1 January 2007. As indicated in the methodological note in Chapter 1, limited doctoral funding has made it impossible to support archival research in Britain. Because of the enormous political controversy surrounding the 1976 IMF negotiations, however, most of the cabinet discussions have already been made public through tactical leaks and the personal accounts of the key participants—rendering "the debate over the IMF application…one of the most open in postwar history" (Hickson 2005: 227). To this considerable stock of knowledge an archive-based insider's view has been added by Douglass Wass, the Permanent Secretary to the Treasury at the time of the IMF negotiations, who set himself the ambitious task of completing existing narratives "based on all the official documents created at the time" (2008: x). One need not believe that his goal of developing "an objective account of what happened" (2008: x) can ever be attained to recognize that this book is likely to remain unrivalled in the scope and depth of its source material, especially as his former position gives him privileged access to and an intimate knowledge of the files of the Treasury, Cabinet Office and Prime Minister's Office, and the Bank of England (2008: viii, xii). Moreover, there now exists a series of accounts that has reassessed this episode on the basis of the records held at The National Archives and from a so-called 'open Marxist' perspective that—especially when compared to the prevailing approaches within international history—closely resembles the theoretical framework adopted here (Rogers 2009a; 2009b; 2013). None of this is to excuse not going to the archives oneself wherever time and resources permit it, of course. But it is to suggest that a second-hand reading of these new sources can make a substantial, if preliminary, contribution to our historical and theoretical understanding.

[215] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 69. Marsh (2009) was the first to discover the transcript of Schmidt's visit to the Central Bank Council in the personal papers of Otmar Emminger. An English translation has been made available at: <http://www.margaretthatcher.org/document/111554>, [accessed 18 September 2012].

markets that shaped British macro-economic policy-making (for a synthetic account see Helleiner 1994: 125-130).

The post-war Keynesian policy consensus, Hickson (2005: 222) notes, had been destabilized by the 1970s crisis and come under attack from forces on both left and right. Elected in 1974 on the campaign promise of bringing about "a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families" (quoted in Rogers 2013: 9), the Labour leadership had to contend with an ambitious 'Alternative Economic Strategy' put forth by the Labour left that emphasized the extension of public ownership, investment control, and industrial and workplace democracy (Hickson 2005: 50-53). In an era of multinational corporations and global financial flows, an effective, socialist macroeconomic strategy was held to require that Britain resort to interventionist and protectionist measures in order to restore a degree of national policy autonomy (Hickson 2005: 171).

On the side of capital, the Labour government confronted not simply the opposition of conservatives, but a forcefully articulated critique of Keynesian demand management, an ostensibly superior interpretation of the causes of stagflation and a handy set of tools and techniques for addressing them (Jones 2012: 216). In contrast to Germany, where ordoliberal ideas played very little role in the economic policy discourse (Johnson 1998: 56), in Britain we find think tanks, the business press, and the City of London that espoused the free-market fundamentalism of Hayek and Friedman (Hall 1993; Cockett 1995; Dixon 2000; Hickson 2005: 186; Jones 2012). Yet what made neoliberalism so perniciously effective was not its orthodoxy but its flexibility: "Politicians of different stripes and priorities could pick and choose from a menu of neoliberal offerings" (Jones 2012: 18) without, it should be added, having to buy the whole package. And pick and choose they most certainly did, as they navigated a difficult ideological terrain between calls for extending public authority over capital on the one hand and calls for freeing the market from an encroaching state on the other (Clarke 1987: 396-397). The Labour government (and Chancellor of the Exchequer Healey in particular) borrowed 'crowding out' arguments which held that public and private sector competed for scarce resources (Hickson 2005: 213-215).[216] It also combined supply-side reforms with an interventionist industrial policy (Hickson 2005: 216). Lastly, and largely for cosmetic reasons, they also announced monetary targets (Hickson 2005: 225).

But to speak of an ideological conversion of the Labour government would be to go too far. There is no doubt that the Labour government had already incorporated significant aspects of neoliberalism into its economic strategy prior to the 1976 IMF crisis (Hickson 2005: 223-4; 226; Jones 2012: 246-7; Ludlam 1992: 716-24; 727). Yet the very fact that policy makers chose some elements from neoliberalism but not others speaks to a significant degree of pragmatism that, as Rogers (2013: 4) has pointed out, does not sit well with the notion of a fundamental contestation of economic paradigms.[217] British macroeconomic policy had evolved from the Keynesian belief that the state could deficit-finance its way out of a recession, to the realization, epitomized in Callaghan's speech to the Labour Party Congress on 28 September 1976, that in a moment of economic crisis the fight against inflation would have to take precedence over full employment (Hickson 2005: 104).[218] This adaptation of Keynesianism to a highly inflationary environment would involve a range of new policy measures such as 'cash limits' or monetary targets; but it still sought to achieve full employment in the long run (Hickson 2005: 212), and

[216] This central element of neoliberalism, curiously, may have entered the Labour government from the left, as the 'New Cambridge' school had argued that the public sector borrowing requirement needed to be reduced as it drained funds from the private sector (Hickson 2005: 171).

[217] Hickson (2005): 223-224; 226) argues that the Labour government had come to accept elements of the 'crowding out' theory (the argument that state borrowing takes funds away from private investment and that public sector takes workers away from private sector) and supply-side policy (the argument that impediments to investment such as high taxes or a rigid labour market needed to be removed), adopted monetary targets, monetarist techniques, and the short-term prioritization of fighting inflation over maintaining full employment. He argues, however, that it had not yet accepted the argument that excess growth of the money supply caused inflation and the notion of a natural rate of unemployment. More recently, Jones (2012: 254) has argued that the Labour government had accepted the need for financial discipline but not adopted the sort of ideological supply-side policies characteristic of Thatcher and Reagan.

[218] Artis and Cobham: "as we see it, the Labor government essentially made their way pragmatically to policy settings appropriate for an inflationary era, lowering the premium on full employment and raising that on beating inflation by fiscal and monetary means" (quoted in Hickson 2005: 211).

was a far cry from the objective of Thatcher and Reagan to induce an economic recession for the sake of fighting inflation.[219] Peter Jay, Callaghan's son-in-law and advisor as well as a monetarist advocate, who had written the passage of Callaghan's speech (Hickson 2005: 104), rightly cautions that "the attempt to tell the story as though it were a kind of story of ideological evolution, revolution or counter-revolution or something, seems to me to do great violence to the actual detail and particularity of history which is much more messy than that" (quoted in Jones 2012: 247).

The significance of what was happening in Britain, then, is not to be found in the realm of ideas, but, as we shall see shortly, in the arena of class struggle. For now, suffice it say that in the final analysis, Simon Clarke (1987: 404) notes, "[s]uch policies were dictated by circumstances, rather than out of conviction, imposed by the practical failure of Keynesian measures, not adopted as the result of the theoretical or political advance of monetarism". The question, then, is what structural pressures policy makers confronted.

A useful entry point to exploring these constraints is through the lens of the so-called 'unholy trinity' (Cohen 1977; 2000) or 'policy trilemma' (Obstfeld and Taylor 2004), which identifies an irreconcilable tension and unavoidable trade-off between the policy objectives of fixed exchange rates, capital mobility, and monetary autonomy. State managers, in short, can only pursue two of these three goals at any one time without running into contradictions. The Bretton Woods monetary system had sanctioned restrictions on cross-border movements of capital in order to guarantee exchange-rate stability and to enable states to pursue macroeconomic expansion (Obstfeld and Taylor 2004: 37-38; Schmelzer 2010: 48). But with deepening financial integration and the rise

[219] Perhaps the best indication that the Labour government had not yet fully embraced neoliberal austerity were the attempts to coordinate an international macroeconomic expansion at the G7 summits in London and Bonn in 1977 and 1978 (Baker 1999: 84). British policy makers recognized the limits of an expansionary policy in their own country but still believed in the general viability of Keynesian demand management. Rather than fully rejecting Keynesianism, British Labour party, led by the Carter administration, sought to pass on the burden of an economic stimulus to those surplus countries which from their point of view seemed to be in the position to do so (James 1996: 290). There was, therefore, a growing realization of the policies that other countries ought to take. This also holds true for the US, which found it easier to dispense the wisdom of fiscal and monetary discipline in its dealings with other deficit countries rather than to apply these lessons at home (Panitch and Gindin 2012: 160).

of offshore euro-currency markets in the 1960s, capital controls were rendered increasingly ineffective, and governments with balance-of-payments deficits found that their attempts to boost economic growth prompted capital flight and currency speculation and crises (Cohen 2000: 251). To continue to defend the par value of their currencies, states would either have to abandon countercyclical measures or reinforce their administrative controls (Helleiner 1994: 10, 104).

To British policy makers, the decision to float the pound in June 1972 seemed to offer a way out of this quandary. Ceasing to defend the parity of the pound promised to preserve macroeconomic autonomy and expansionary leeway without having to sacrifice financial or commercial openness.[220] The naïve assumption was that a downward floating pound would automatically correct balance-of-payments imbalances. By improving the competitiveness of British exports and reducing the trade deficit, it was reasoned, a lower exchange rate would lessen the need to borrow abroad or attract short-term and potentially volatile sterling inflows. In this way, the two major and—from a centrist position—undesirable alternatives of either using import and exchange controls or of adopting deflationary measures might be avoided (Wass 2008: 57, 96, 146). "[I]f trade restrictions are to be ruled out…the choice presented by the forecast in its starkest terms seems to us to be the familiar one of devaluation and deflation" (Treasury paper, dated 21 November 1975, quoted in Wass 2008: 147).

Opposition to the latter course of action came from the Overseas Finance section of the Treasury and the Bank of England which proved particularly responsive to the concerns of overseas sterling holders and the financial interests of the City regarding the future value and international role of the pound (Wass 2008: 333). Short of an agreement on an active depreciation policy, it was decided to rely on downward market pressure and, at

[220] In hard-currency countries such as Germany, by contrast, floating gave the state the policy space to pursue monetary restraint without triggering countervailing inflows of capital.

most, to limit the countervailing interventions of the Bank of England. The resulting impasse, and the stubbornly stable exchange rate of the pound between 1974 and 1976, foreclosed the possibility of charting a middle course via depreciation.

The choice faced by the Labour government was thus limited to the protectionist measures advocated by the Left as a means of achieving a balance-of-payments surplus, and the painful but more manageable course of deflation. From the executive point of view, deflationary measures such as incomes policy and most importantly, public expenditure reductions, appeared to be the only viable option. It is this route then that the Labour leadership embarked on with the budget cuts of 15 April 1975 and that culminated in the IMF agreement in December 1976 (Hickson 2005: 57).

The Treasury got what it wanted when the Bank of England—whether by accident or by design—set off a fall in the exchange rate by selling sterling on 4 March 1976 and reducing interest rates on the following day. Wass insists this was ‘fortuitous’ (2008: 179; see also Hickson 2005: 74-78), but the German records suggest that the key actors thought otherwise. At a meeting of the G4 financial deputies on 23 March 1976, Derek Mitchell, head of the overseas section of the Treasury, argued that a devaluation of the pound had been necessary because of strong pressures of British industry and the Trades Union Congress. The alternative, he explained, would have been to adopt import controls.[221] The US Undersecretary of the Treasury for Monetary Affairs Edwin Yeo protested that “the way in which the pound had been floated downward constituted a clear violation of the new IMF regulations that expressly prohibit an ‘aggressive floating’”. Speaking to Pöhl in private, Yeo left little doubt that Britain was pursuing a policy of competitive devaluation.[222]

[221] Pöhl, “Betr.: Besprechung mit Ed Yeo (Undersecretary), de la Rosière (Directeur du Trésor), Sir Derek Mitchell (Secretary) und Staatssekretär Karl Otto Pöhl am 19.3.1976 in London, sowie bilaterale Besprechung mit Yeo am 21.3.1976 in Bonn”, 23 March 1976, AdsD DHS 5, p. 1.

[222] Ibid.

Either way, the Treasury welcomed the decline and therefore did not see the need to take any active measures to support sterling until its near collapse of June 1976 (Wass 2008: 346), when Britain was forced to rely on the foreign exchange support of the Bank for International Settlements (Helleiner 1994: 125). In this situation of an international loss of confidence, the middling course no longer worked. British policy makers realized even before accepting the stricter IMF conditionality that in order to restore market confidence, deflationary measures would be necessary.[223]

And yet the external pressures should not be overemphasized either. First of all, as Rogers (2013; 2009a; 2009b) has shown on the basis of a thorough review of the government records, the crisis management of the British state was forward-looking rather than merely reactive. The British state did not simply act under external pressure but also shaped the 'impression of crisis' in order to legitimate its policy choices against the opposition and alternative proposals of the Labour left. The devaluation of the pound in particular was used by the Chancellor to convince his cabinet colleagues, the party base, and the trade unions of the necessity of harsh anti-inflationary measures such as the mandatory incomes policy and budget cuts (Rogers 2013: 14-15; 2009a: 635, 643-644; 2009b: 979-982; Wass 2008: 347).

Secondly, as in the German case of floating discussed in Chapter 3, it is important here again to disaggregate the disciplinary power of capital, and to look at the particular agents that made up 'the markets' and outlined the contours of the crisis for the British state. One of the problems certainly was that investors in the gilt-edged market in the summer of 1976 were "refusing to purchase public sector debt as it feared rising inflation and expected interest rates to rise in early-September" (Hickson 2005: 99). This undoubtedly entered the official mind as a problem of market confidence that needed to be addressed (Burk and Cairncross 1992: 52). These two problems continued until October, when the decision of Healey to tighten monetary policy (raising the minimum

[223] With the import restrictions proposed by the AES (Alternative Economy Strategy) and other left Keynesians ruled out, and the modalities of depreciation in a floating system uncertain, only deflation remained as a possibility.

lending rate by 2% to 15% and increasing the ratio of sterling deposits by 2%) stabilized the pound and boosted demand for gilts. From then on, the sterling rate was the only remaining concern (Hickson 2005: 116). And here it is important to point out that the sterling troubles of 1975 and 1976 were primarily caused by a group of four major official holders of sterling (among them Kuwait, Nigeria, and Saudi Arabia) (Wass 2008: 133; 135; 336). As Wass (2008: 337) notes, "during the course of 1976 […] the main selling came from official holders, and non-official holders scarcely moved their holdings even during periods of intense uncertainty".

This new insight is extraordinarily important. Given that the predominant pressures on the pound at the height of the IMF crisis came from a small number of central banks rather than a myriad of unruly market operators, a negotiated resolution seems to have been feasible. British policy makers certainly believed as much, as they repeatedly asked for German financial assistance in offering a guarantee for sterling deposits.[224] The considerable concessions they were willing to make in exchange for Germany's support in setting up a 'safety net' for sterling balances goes to show that they still hoped to avoid the IMF rather than simply use it as a pretext for a course of austerity they had planned to pursue all along. In this crucial respect, neoliberal ideas had not yet triumphed. The problem, however, was that the German side refused to play along. Asked by a desperate Callaghan to at least offer an assurance that a safety net would be forthcoming *after* an IMF agreement had been reached, Schmidt replied that the US would not accept this.[225] But while Schmidt blamed the Americans, German policy makers were keen to avoid an agreement on sterling that might sideline the prospective role of the IMF as an enforcement mechanism (Hickson 2005: 124; for more on this see Burk and Cairncross 1992: 66-67).

[224] The British offers included concessions in the Common Agricultural Policy (CAP) and the offset agreement, as well as the sale of BP Burma oil (Pöhl, "Vermerk über das Gespräch mit Schatzkanzler Denis Healey", 9 November 1976, confidential, AdsD DHS 5, p. 2).

[225] Callaghan to Schmidt, 10 November 1976, secret and personal, AdsD DHS 5, p. 1; Schmidt to Callaghan, 16 November 1976, AdsD DHS 5.

The successful conclusion of a sterling 'safety net' may have solved a large part of the confidence problem besetting British society and saved it from the strictures of IMF adjustment. This counterfactual is important to consider for two reasons. It implies that the structural power of financial markets did not fully force the hands of powerless policy makers. Austerity was not unavoidable but was adopted because the political alternatives had been rejected. And second, Germany precluded a less painful settlement and, once again swung the balance against the embedded liberal compromise of one of its neighbours.

From the German point of view, the IMF negotiations with Britain would set a crucial international precedent.[226] This certainly meant that the conditions ought not to be too generous, as this would prompt further calls from other countries for the provision of international liquidity.[227] At the same time, the conditions ought not to be too harsh either. The German government thus took a more conciliatory stance than the hardliners in the US administration, whom Schmidt suspected to be influenced by the Tory opposition.[228] The conditions, to be sure, ought to be stringent enough to enable the government to take unpopular measures, but not as draconian as to lead to its overthrow.[229] As Callaghan was held to be the single most suitable candidate for pushing through the agenda against the majority of the Labour Party and the trade unions, West Germany cautioned the US not to push too hard.[230] A breakdown of the negotiations might give support to the radical proposals of Tony Benn, who had had taken the position "that Britain should introduce overall import quotas for manufactures, enforce exchange

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[226] Pöhl to Schmidt, 8 October 1976, personal-confidential, AdsD DHS 5.

[227] Pöhl, "Betr.: Besprechung mit de la Rosière, Yeo, Mitchel und Pöhl am 19./20.7.1976 in Paris; hier: Eventuelle Kredithilfe für Italien", 23 July 1976, AdsD DHS 5, p. 2.

[228] See Jones (2012: 379, fn. 77), who quotes a telephone conversation between Schmidt and Callaghan on 2 November 1976.

[229] Pöhl to Schmidt, 8 October 1976, personal-confidential, AdsD DHS 5, pp. 1-2.

[230] Pöhl to Schmidt, 18 October 1976, strictly confidential, personal-confidential, AdsD DHS 5, pp. 2, 4; Hiss, "Aufzeichnung des Telefongesprächs des Bundeskanzlers mit Präsident Ford am 24. November 1976, 15.30 Uhr", 24 November 1976, AdsD DHS 5; Pöhl, "Ergebnisvermerk: Betr.: Besprechung des Herrn Bundeskanzlers mit Under-Secretary Yeo, Weitere Teilnehmer: BM Dr. Apel, StS Pöhl", 3 November 1976, AdsD DHS 5.

controls, introduce a Capital Investments Committee to channel investment to priority areas, and take reserve powers to introduce planning agreements through the National Enterprise Board" (Rogers 2009b: 986). As economics minister Schlecht concluded afterwards, "had the conditions been excessive, Great Britain would have instituted direct import controls".[231]

The IMF negotiations, rather than a one-sided imposition, were a delicate balancing act for all parties involved. The British Labour government, having failed to bypass the IMF, needed it for two reasons. IMF approval would consecrate its existing economic strategy of fiscal cuts and monetary restraint which, short of an alternative 'safety net', was considered crucial in order to restore confidence in sterling (Clift and Tomlinson 2008: 546, 566; Burk and Cairncross 1992: 225). Furthermore, IMF negotiations and conditions would also help overcome internal opposition to this course of action and help to externalize the blame for politically unpopular measures.[232] From the perspective of the Fund and the two major creditors that sought to reconstruct it, "[t]he 1976 crisis was to be a major test case to see if the IMF still had a function that it could perform" (Hickson 2005: 62). The differences between the US and German side in the negotiations was more of a matter of emphasis rather than a question of fundamentally different strategies. As Yeo put it, "The Germans will be SOBs, but with us one step ahead".[233]

Both sides clearly believed that the stakes were vital. The German concerns were mirrored by the assessment, relayed by the former Secretary of State William Rogers that:

> "It was a choice between Britain remaining in the liberal financial system of the West as opposed to a radical change of course, because we were concerned about Tony Benn precipitating a policy

[231] Foreign Economic Advisory Council Meeting Protocol, 11 February 1977, BAK B 102/226516, p. 11.

[232] See, for instance, the observation by Kissinger: "If the British are smart, it could be in their interest to be pressured into agreement on conditions, so that they can say that the only reason they imposed stringent conditions on the British economy is because of those American SOBs. This is better for Callaghan than having to deal with the unions himself" ("Economic Summit at Puerto Rico", Memorandum of Conversation, 4 June 1976, FRUS 2009, doc. 140, p. 498.

[233] Ibid.

> decision by Britain to turn its back on the IMF. I think if that had happened the whole system would have come apart. God knows what Italy might have done; then France might have taken a radical change in the same direction. It would not only have had consequences for the economic recovery, it would have had great political consequences. So we tended to see it in cosmic terms" (quoted in Burk and Cairncross 1992: 77).

The difference in negotiating positions therefore did not change the close cooperation and cordial relations between US and German authorities. When William Simon left the Treasury with the outgoing Ford government, Emminger commended him for his "role in the biggest international financing operation ever…particularly as regards the economic policy conditions that have been attached to the IMF standby arrangement."[234] At the same time, it was not a neoliberal consensus that brought the two states together. The key point is that state operators did not need to share Simon's free market fundamentalism to be concerned about a potential breakaway of Britain and the chain reaction this might lead to. For the US-German entente, the IMF crisis this was not about the imposition of a particular neoliberal solution than about preventing the protectionist scenario of currency devaluation and import controls.

Inside Britain, too, the IMF crisis meant not the triumph of neoliberal ideology but the decisive break between the Labour leadership, its party base and the working class movement. It was this schism that the Letter of Intent symbolized and 'locked in'; that erupted into the Winter of Discontent in 1978-1979; and that the rapprochement within the Party after the election of Thatcher would do little to mend. In terms of the balance of class power, indeed, Britain's "people's party…set the scene for Mrs Thatcher's 'there is no alternative' slogan and policies" (Gill 1990: 100).

[234] Emminger to Simon, 17 February 1977, BBk HA N2 K734.

France and the EMS

The year 1976, lastly, also marked a turning point of sorts for France, although the more fundamental rupture with embedded liberalism would only come with the abandonment of the Keynesian experiment of 1981-1983 (Sassoon 1996: 561). As the economist Raymond Barre replaced prime minister Jacques Chirac, the failed attempt at a Keynesian reflation gave way to a precocious form of neoliberalism that most comparative-historical analyses have neglected (Prasad 2006: 258-259). The ambitious Barre Plan sought to curb inflation through monetary, fiscal and wage restraint and to boost international competitiveness by extricating the state from industry and the market economy (Moss 2005: 131; Prasad 2006: 271, 272). The Barre programme, which included the removal of state subsidies, price and capital controls, proved so unpopular that it had to be abandoned (McNamara 1998: 156; Prasad 2006: 239, 272-3). But even as it was briefly interrupted by the election of Mitterrand and an equally unsuccessful attempt at Keynesianism in one country, the lasting impact of the Barre policies was to significantly roll back the traditionally interventionist role of the state (Duménil and Lévy 2002: 37; Fourcade-Gourinchas and Babb 2002: 565). In France, then, "the full-fledged neoliberal transition resulted from deliberate choices by technocrats" (Fourcade-Gourinchas and Babb 2002: 542).

The situation in France was peculiar because it was free from either external diktat or an internal lobby (Fourcade-Gourinchas and Babb 2002: 567; Sassoon 1996: 547). To be sure, a politics of *austerité* was possible in principle because the French labour movement was weak and fragmented and its political representation split into a socialist and communist camp (McNamara 1998: 132). At the same time as there was little opposition, however, there was also practically no business support for the punitive Barre Plan either (Fourcade-Gourinchas and Babb 2002: 567).

The reason why France adopted neoliberalism independent of and indeed against the prevailing societal preferences had to with the particular state-society relationship that had developed in post-war France. The French state, in pursuit of a project of national modernization centred on rapid growth and the industrial transformation of its agricultural and artisanal economy (Prasad 2006: 236-237), had built up the organizational capacities and professional expertise necessary to impose neoliberalism from above (Prasad 2006: 276, 23; Fourcade-Gourinchas and Babb 2002: 562). As premier and economics and finance minister, Barre was placed at the helm of a centralized state bureaucracy insulated from particular societal interests, capable of imposing solutions by administrative fiat, and thus at liberty to "search for the most successful practices among neighboring states" (Prasad 2006: 276, 23). And given that in 1976, the United Kingdom and the United States hardly embodied an attractive, let alone economically conservative, alternative, the French "imitation of other countries" (Prasad 2006: 239) focussed on the German state in particular (Moss 2005: 131). Germany, after all, called for close attention not only because of the relative success of its crisis management at keeping down inflation and unemployment, but also because of the competitive challenge posed by its industry (McNamara 1998: 155). French policy makers focussed on Germany as the font of these 'best practices' in terms of monetary targeting and restriction, an anti-inflationary zeal, and a strong currency (McNamara 1998: 156). But Germany also provided an important benchmark of economic performance that they sought to match.

The French turn to freer markets under the Giscard/Barre government is thus best explained as a form of 'policy emulation' that McNamara has identified as one of the sources of an emerging neoliberal policy consensus in Europe (McNamara 1998: 130). But while McNamara sees emulation as a key element in a European-wide process of social learning inspired by the success of German crisis management (1998: 152; see also Mourlon-Druol 2012), the particular context that facilitated the adaptation of the German model in France was historically unique. The smaller European countries, we have seen, had little choice but to follow German monetarism (this is to some extent acknowledged by McNamara 1998: 157). And in Italy, German (and American) politico-economic influence was more intrusive, informed by geopolitical considerations, and entwined with a protracted class struggle (Abse 2005: 249). McNamara rightly rejects hegemonic stability theory as a framework for understanding Germany's role in the region. But by reducing German influence to "ideological persuasion and transnational learning" (McNamara 1998: 70), McNamara excludes this crucial power-political dimension of German monetary policy from her analysis.

Even in France, in fact, the role of Germany went further than providing ideological support. Concerned about an electoral victory of the French left[235], which had adopted a far-reaching Common Programme based on nationalization, welfare expansion and worker control in 1972 (Moss 2005:131), the German government had sought actively to support the Barre government (1976-1981) and its technocratic state bureaucracy in its efforts to imitate the German success (McNamara 1998: 69-71; Prasad 2006: 239).[236]

The move towards further European monetary integration needs to be seen in this interventionist context. There is no doubt that the European Monetary System (EMS) promised some important economic advantages. An extension of the more limited European currency 'snake' to France and Britain (and the *de facto* association of Austria and Switzerland) would "create a 'zone of relative monetary stability' for almost half of German exports".[237] This would meet the interests of small and medium-sized exporters that found it difficult to hedge against exchange-rate fluctuations.[238] It would also promote the use of other reserve, transaction and investment currencies[239] and spread the upward pressure on the DM.[240] Above all, however, the construction of the EMS—

[235] Concerns that an electoral victory of the French Left might lead to a breakup of the European Community are mentioned in "Vermerk über das Gespräch des Herrn Bundeskanzlers mit BM Matthöfer, BM Graf Lambsdorff und Präsident Emminger am 1.3.1978", 6 March 1978, BBk HA N2 K324, p. 2.

[236] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 8.

[237] Emminger, "Währungspolitische Fortschritte in Europa: Möglichkeiten – Probleme", 29 March 1978, BBk HA N2 K712, p. 1.

[238] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 3.

[239] Pöhl to Schmidt, 21 March 1978, BBk HA N4 1, p. 3: "It is…in our interest that other currencies are also used for transaction, investment and reserve purposes as much as possible."

[240] Pöhl, "Zur währungspolitischen Lage", 16 December 1977, BBk HA N4 1, p. 6.

Schmidt's "grand strategy for integrating Europe" (Schmidt, quoted in Marsh 1992: 233)—sought to prevent political and economic threats to the common market.

The problem was that the disciplinary effects of France's snake membership had worn off.[241] Because France had been forced out twice before, the French unions calculated that the government would do so again if push came to shove.[242] Entering a new monetary agreement was thus an important way for the Barre government to signal its determination to stay on an anti-inflationary course rather than resort to franc depreciation, and thus to get the unions to moderate their wage demands (Gruber 2000: 177-178).

The initiative to replace the snake with the EMS was an attempt by Germany to provide a revamped monetary mechanism that those forces interested in boosting economic competitiveness by driving down wage costs, cutting back government spending and containing inflation (Bundesbank Archives 1978a:8, 71; Putnam and Henning 1989: 53)[243]—exemplified by the Giscard/Barre government after 1976 and its middle-class supporters (managers of small firms)—could draw upon (cf. Parboni 1981:131; Gruber 2000:177).[244] One of the advantages was that the EMS would repoliticize changes in exchange rates that in a floating system would otherwise be left to foreign exchange markets and central bank interventions to determine. Making devaluation (and revaluation) a political decision that needed to be debated, announced and defended, it was hoped, would render governments more susceptible to social and political pressures—of lobby groups and media outlets (such as in Germany, where conservative

[241] Cf. Sohl to Schmidt, 7 December 1976, AdsD HSA 7307, p. 1.

[242] Emminger, "Währungspolitische Fortschritte in Europa: Möglichkeiten – Probleme", 29 March 1978, BBk HA N2/K712, p. 1.

[243] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, pp. 8, 71.

[244] The minority support within the Thatcher government for an association with the EMS was based on very similar considerations. As Nigel Lawson, who wrote the Medium Term Financial Strategy that became the British pendant to the Volcker shift, recalled "…starting from where we were, we needed, for a time, some external financial discipline… I just didn't think that you could not take advantage of an external discipline to try and correct serious problems in the British economy" (quoted in Jones 2012: 259).

newspapers like the *Frankfurter Allgemeine* and *Welt* had repeatedly sided with the Bundesbank's anti-inflationary course (Marsh 1992: 175)) as well as the influence of the German state and central bank.[245]

This calculation would pay off in the case of Mitterrand and the socialist government, who "believed themselves to be constrained by France's membership in the European Monetary System" (Sassoon 1996: 549). The last national Keynesian experiment foundered because of the heavy downward pressures on the franc in the high interest-rate environment created by Volcker's monetarist turn. When the Mitterrand government proposed an alternative 'European social space' in 1981, "Bonn and Frankfurt, suspecting this to be a ploy to win German acquiescence to inflationary French policies, rejected the plan" (Henning 1994: 197, fn. 39; 1998: 560). The Bundesbank signalled that it was prepared to give bilateral assistance as an incentive for France to remain in the EMS. At the same time, it categorically refused to soften the terms of the EMS.[246] In line with its position throughout the 1970s, the Bundesbank vice president held that "[w]hat we cannot accept is...access to the creation of central bank money from the outside".[247] Moreover, the Bundesbank not only rejected a softening of the EMS framework. On the contrary, as Kloten noted, "the approach [*Stoßrichtung*] ought to be another. There ought to be an offensive tactic. We want a certain hardening" (quoted in Bundesbank Archiv, transcript of central bank council meeting, 4 March 1982, p. 11). Germany used the IMF surveillance process agreed upon at the G7 Versailles Summit in June 1982 in order to increase the pressure on France, which was the subject of severe criticism in the annual report of the IMF Managing Director Jacques de Larosière.[248]

[245] Statement by Schmidt, Central Bank Council Meeting, 30 November 1978, verbatim record, BBk HA N2/269, pp. 9-10, 64.

[246] Central Bank Council Meeting Minutes, 21 October 1982, BBk HA B 330/11598/2; Central Bank Council Meeting Minutes, 6 May 1982, BBk HA B 330/11369/1.

[247] Central Bank Council Meeting Minutes, 18 March 1982, BBk HA B 330/11367/1. p. 12.

[248] Central Bank Council Meeting Minutes, 9 September 1982, BBk HA B 330/11597/1 (Pöhl), pp. 2-3.

Unwilling to drop out of the system, the government was forced to negotiate three devaluations in exchange for austerity measures that sealed the fate of left 'Keynesianism in one country' (cf. Moss 2005: 135; Moss 2000: 262).[249] Even Italy, which the record proves felt compelled to join the EMS for fear of being left out (Gruber 2000: 183),[250] refrained from devaluing its currency once it had joined the EMS (Jones 2005: 244).

The EMS, then, may be considered the institutional centrepiece of German efforts to tilt the European balance of social forces away from the left-wing and its radical programme. By ruling out a more progressive resolution of the crisis, German state managers had provided one part of the neoliberal 'solution': imposing, both domestically and in the areas under their financial jurisdiction, a programme of fiscal austerity and monetary stringency that prioritized the containment of inflation at the expense of the social-democratic goal of maintaining full employment. In a moment of deadlock between capital and labour, the West German state had effectively chosen sides. The consequence was to closely circumscribe the room for manoeuvre of progressive forces and, as the next chapter demonstrates, to prepare the ground for the neoliberal backlash.

[249] While the relevant records have not yet been released, Moss argues that the French experiment was reversed because of currency speculation and pressures by Germany applied both directly and through the EC and the European exchange-rate mechanism (Moss 2000: 262).

[250] The argument by Gruber (2000: 183) that Italy would have preferred the status quo ante but felt compelled to enter the EMS because of the high costs of exclusion finds empirical support in the archives: "More precisely, he [Andreotti] thinks it is more dangerous for Italy to stay outside than to join." (Ehmke to Brandt, "Betr.: Rom-Besuch vom 20. – 25. Juli 1978", AdsD HSA 6818, p. 3.

Chapter 6

Disciplining the Hegemon: German Monetary Power and the Volcker Shock

The previous chapter has discussed the development and deployment of a German 'stability' strategy that aimed at guarding a liberal world order against the protectionist and inflationary threats associated with left-wing responses to the crisis. In many cases, this involved collusion among the main capitalist countries, and close cooperation especially between the United States and Germany. But eventually the efforts to insulate the German economy, its economic dependencies and major export markets from a 'world of inflation' (Katzenstein 1982: 208) also brought the government into conflict with what was understood to be the major source of inflation—the United States with its laissez-faire attitude towards a declining dollar and a persistent balance-of-payments deficit.

German policy makers had long understood that the international monetary order was anything but a politically neutral mechanism, and had set out to find ways in which the underlying asymmetry could be addressed. One such proposal, dating back to 1963, suggested that a portion of the foreign exchange reserves be removed from the sphere of central banks and instead be treated as a genuine government loan from surplus to deficit country.[251] Doing so would make the political nature of having to finance the deficits of the US an explicit object of foreign policy and thus subject to negotiations and conditions. In a similar way, both the inward-looking and transformative schemes of the 1970s discussed above contained provisions for reallocating currency reserves away from the United States.[252]

[251] "Politische Aspekte des heutigen Währungsmechanismus", 16 December 1963, BAK B 136/3322.

[252] Flendorffer, "Verlagerung der deutschen Devisenreserven", 16 July 1975, BAK B 102/269506; "Anlage von Rohstoffreserven" Central Bank Council Meeting Minutes, p. 3 discusses three possibilities. The idea

The fact that these were discussed at the highest levels of policy making is in itself significant.[253] In order to commit the US to the monetary and fiscal discipline necessary for a more responsible 'global management', the chancellor insisted that the Bundesbank's reserves were not to be considered "tied up in the US as a matter of course".[254] A bureaucratic tug-of-war between the government and central bank ensued, in which the latter refused any politically motivated reallocation or removal of its reserves outside its narrowly defined purview (though the Bundesbank conceded that, in practice and unofficially, political considerations had been taken into account in the past and might again be given precedence on a case-by-case basis).[255] The problem was that a liquidation of US Treasury bills, though technically feasible, would likely be compensated and thus fail to impose effective constraints on the US budget and the expansion of US domestic demand.[256] Like it or not, the critics of these schemes pointed out, a disinvestment was simply not an effective means of exerting pressure on the US. And in terms of economically sound investment, both sides understood that there simply was no alternative to the dollar as the most liquid and fungible asset.

In this crucial sense, the grasp of *pax Americana* had indeed become too tight. Despite the disintegration of the Bretton Woods system of fixed exchange rates and the widely

of using the Bundesbank's currency reserves is dropped by the government (cf. Central Bank Council Meeting Minutes, 29 March 1979).

[253] Emminger, "Ausführungen des Bundeskanzlers über die Verwendung von Währungsreserven (Stichworte)", 10 August 1977, confidential, BBk HA N2 K 319, p. 3: "If we collect our foreign exchange reserves from [Secretary of Treasury] Blumenthal, we remove them from the purview of the American authorities and the US have to get the money elsewhere, e.g. on the capital market. Our investment in dollars means that everything is at the American disposal."

[254] Irmler, "Vermerk: Gespräch Bundeskanzler Schmidt in Bonn am 16. Oktober 1975", 20 October 1975, BBk HA N2 K 319, strictly confidential, p. 2: "The chancellor wants to induce the United States to greater participation in a responsible 'world management'. The currency reserves of the Bundesbank were not to be considered 'tied up in the US as a matter of course'… Whether the Bundesbank's currency reserves invested in the US could be used as leverage was discussed, but the opinion between Bundesbank and chancellor are deeply divided."

[255] Bundesbank Board of Directors ,"Zur Frage des Einsatzes der Währungsreserven der Bundesbank", 12 October 1977, BBk HA 9661, p. 8.

[256] Flendorffer, "Verlagerung der deutschen Devisenreserven", 16 June 1975, BAK B 102/269506, pp. 2, 4; "Verwendung der Devisenreserven der Deutschen Bundesbank", 2 December 1976, BAK B 102/269506, pp. 1-2.

denounced erratic and irresponsible behaviour of the United States throughout the 1970s, German authorities did not seek to contest the centrality of American monetary power but to harness it towards domestic and international 'stabilization' (Kreile 2006: 161). Under America's post-war leadership, the parameters of core capitalist contestation had shifted profoundly and irrevocably. Crucially, however, divergent interests and conflicting objectives did not disappear entirely but took on a new form. The refusal of the Bundesbank did not emerge from a shared central bank consensus, nor did it rule out future confrontations. The actions of the US, although they do not add up to a 'Faustian bid' for global dominance, were too ambivalent for its allies to 'renew their invitation' unconditionally. Even from within the imperial embrace of the United States, West German policy makers chose to confront the United States and continued, after the election of Jimmy Carter, "the fight against an administration that had come into power believing that inflation could cure the world".[257] And while the Bundesbank rejected a disinvestment from the dollar as counterproductive, it was ready to be enlisted in these efforts in other ways.

Derailing the Global Growth Locomotive

The presidency of Jimmy Carter epitomizes the confusion, hesitation and errors of state managers as they stumbled from welfare to austerity capitalism. Carter and his Keynesian advisors had been elected into the White House on the promise of putting together an internationally coordinated economic programme that included pro-union labour legislation, job creation schemes and a fiscal stimulus (Biven 2002). Within two years, the progressive rhetoric of restoring the New Deal coalition with organized labour had vanished (Cowie 2010). When Carter left office at the end of 1980, he had instead initiated a process of deregulation that extended to the financial sector, adopted social spending cuts, and above all sanctioned what turned out to be an excessive policy of

[257] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 69.

monetary tightening known as the Volcker shock (Prasad 2006: 62; Basosi 2010: 14; Jones 2012: 216-217, 248-249).

Those sympathetic to Carter have argued that the Keynesian prescriptions and labour aspirations faltered under adverse economic forces—inflation chief amongst them—that largely escaped the administration's control (Biven 2002). A more sceptical assessment holds that Carter was quick to distance himself from the electoral manifesto, and that a re-launch of the New Deal reflected the nightmares of Wall Street rather than a serious project of the administration. Similar to the situation in Britain, the American owners of capital and their pundits, organized in an academic and policy network that reached back to the early post-war period and across the Atlantic (Blyth 2002; Jones 2012), had seized on the economic troubles and loss of direction that marked the end of the long boom. Capitalist class organizers had successfully mobilized against and defeated the labour law reform bill of 1978. And ideological entrepreneurs had inserted neoliberal ideas into the policy debate that state managers came to rely upon in their search for a viable exit strategy.

Compared to the transformative schemes put forth by parts of the European Left, there was little that was particularly progressive about the programme of the incoming Carter administration. Amidst an increasingly unfavourable social balance of power and international economic environment, Carter would attempt one last push to overcome the domestic limitations of Keynesian demand management through a process of international policy coordination that was aimed, at most, at the conservation of the status quo. In this it was supported, most notably, by British policy makers, which had not yet fully embraced the logic of neoliberal austerity. For even though the Labour government had recognized the failure of an expansionary policy in their own country, they were keen to pass on the burden of an economic stimulus to the countries that enjoyed large trade surpluses and thus seemed in a more favourable position to pull the world economy out of the deepest recession since the end of the war (James 1996: 290; Baker 1999: 84). The main reason why the attempts to coordinate an international macroeconomic expansion at the G7 summits in London and Bonn in 1977 and 1978 failed, and why a neoliberal alternative was subsequently tried, has to do with the intransigence of Germany—the single most important economy where monetarism, far from an ideology of class war, had proven effective in ameliorating distributive conflict and in sustaining the post-war consensus (Johnson 1998).

The Carter administration came to power with a two-pronged international programme. On the one hand, it sought to realize the proposals developed by the influential Trilateral Commission—a private policy planning group established in 1973—to create a multilateral system of governance in which the US, Western Europe and Japan would jointly manage economic and political interdependence (Gill 1990). And on the other hand, the Carter administration sought to solicit international support for a Keynesian programme of demand management that had been developed by the OECD in 1975 and that was supported by many Trilateral Commission members (Biven 2002).

The newly established G7 summits became the focal point of the efforts of the Carter administration both to multilateralize the making of foreign economic policy, and to organize an internationally coordinated macroeconomic expansion. As Carter drew on a core group of Trilateral Commissioners that staffed his administration for both economic advice and the institutionalization of the summits, the two endeavours have at times been mistaken for the one and the same. Yet the fact that high-level economic diplomacy became regularized at the same time as a final bid for a global Keynesian solution was made should not lead one to conflate the agenda and the architecture of the summits.

The vision of trilateral management of interdependence developed by the Commission and embodied in the G7 both *preceded* and *outlasted* the short-lived experiment of an international stimulus package that the incoming Carter administration pursued at the 1977 and 1978 summit meetings in London and Bonn. Once this so-called ‘locomotive strategy’, which would have required Germany and Japan to act as engines of global growth, had fallen by the wayside, the same institutional infrastructure came to play a central role in endorsing, reinforcing, implementing, and monitoring neoliberal policies

(Baker 2006: 25). The G7 framework of governance—while itself an embodiment of relations of power and exclusion—did not prejudice the policies that were tried and ultimately adopted.

The significance of the G7 lies less in prescribing a particular solution to the political and economic challenges of the 1970s than in ensuring that the pathways out of the crisis of the 1970s would not be mutually exclusive and destructive. The 'G7 nexus' (Gill 1999) is both an organizational expression of the dynamics of integration that had conjoined the advanced capitalist economies after 1945, and a concerted effort, led by the US, to navigate the tensions between growing economic interdependence and an incomplete internationalization of political authority.[258] In a moment of economic crisis and uncertainty, the purpose of the G7 was to cultivate mutual trust, a shared sense of responsibility, and a common worldview among the state personnel of the major capitalist countries (Putnam and Bayne 1984: 197-201; Baker 2006).[259] This particular form of political socialization of the heads of state and government, paralleled by informal and intimate exchanges in a number of public and private policy planning forums, helped to identify and negotiate political differences and foster cooperation. Reflecting and reinforcing the unprecedented degree of economic integration of the advanced capitalist countries, the G7 helped to prevent a relapse into protectionism (cf. Putnam and Bayne 1987: 27; Gill 1999: 140).[260]

The most influential account of economic summitry has been provided by Putnam and Henning (1989: 133, fn. 114), who conducted high-level interviews with almost all of the

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[258] As Keynesian-style policy coordination gave way to convergence around the principles of sound money and open markets, peer pressure among summit leaders was underpinned by a comprehensive system of peer review of national policies at the finance ministerial level (Putnam and Bayne 1984: 197; Baker 2006: 25).

[259] More specifically, state leaders could learn, as Trilateral member and US deputy sherpa Solomon put it, "of the common pressures each of them is under from protectionist forces at home" (de Menil and Solomon 1983: 44).

[260] Pöhl, "Vermerk über ein Gespräch StS Pöhl mit Undersecretary Yeo und Directeur du Trésor, de Larosière, am 20. November 1975 in Kronberg/Taunus", 21 November 1975, strictly confidential, AdsD DHS 5, p. 1.

key individuals involved in the London and Bonn summits. Their main argument, informed by a model of ‘two-level games’ (Putnam 1988), holds that the international negotiations allowed a small faction within the German government that favoured macroeconomic expansion—individuals in the economics ministry and chancellery and leadership in the trade unions and left wing of the SPD (Putnam and Henning 1989: 107)—to link up with their Keynesian counterparts in the US and Japanese government, and to use the leverage of the negotiating process to overcome the opposition of FDP, Bundesbank, the majority of economic officials, as well as banking and industry (Putnam and Henning 1989: 107). Schmidt, in short, is said to have harnessed the external pressure from the US towards the adoption of a fiscal stimulus for which he would otherwise have had little domestic support (Putnam and Henning 1989: 67; Biven 2002: 151).

Paradoxically, even though the Bonn summit has since been “heralded as a paradigmatic case of international economic cooperation” (Bryant and Hodgkinson 1989: 2), most observers agree that the substantial outcome of the summit was a failure (Putnam and Henning 1989: 19). As Holtham (1989: 141) has demonstrated, there are two divergent and politically motivated interpretations as to why. Some suggest that trilateral macroeconomic coordination, though well-intended and a step in the right direction, was counteracted by events like the Iranian revolution and the second oil crisis that changed the global parameters in unexpected ways and rendered the stimulus ineffective (Holtham 1989: 141; Henning 1996: 57). Had these external shocks and, from the problem-solving perspective of world economic management, ‘unfortunate events’ not occurred, this position implies, a global reflation might have proven successful. The prevailing view today is that the overall approach was not simply badly timed but inherently flawed (Henning 1996: 57). From this perspective, a hesitant Germany had been drawn into an ill-fated Keynesian experiment of demand management that negatively affected domestic price levels and Germany’s balance-of-payments position (cf. Giersch et al. 1992: 240-243). Having learnt its lesson the hard way, German policy-makers supposedly resolved ‘never again’ to depart from their anti-inflationary programme (cf. Allen 2005: 214). In essence, this is not a debate about the historical record but an interpretative struggle between Keynesian and neoclassical economists that centres on different conceptions of appropriate macroeconomic policy. In the heat of the debate, the actual events of the Bonn summit and the larger context had been lost, and the triumph of the latter over the former created a lasting myth that, Holtham rightly feared, would be impossible to correct.

Critical approaches have argued that German state managers refused to do very much to begin with (Parboni 1981: 125; Lankowski 1982b: 100; Parboni 1988: 48). The work by Gill (1999: 132) on the emerging G7 nexus points out that previous summit communiqués had already articulated an anti-inflationary perspective. Putnam and Henning (1989: 42) admit that this reflected the monetarist perspective of Germany, which was opposed to the expansionary plans that the British Prime Minister Callaghan had raised as early as 1975 (Biven 2002: 98). At the 1976 Puerto Rico summit, Schmidt insisted that "[o]ur priority must be to check price increases and to strengthen confidence among investors… If we have an inflationary environment there is less confidence. Increases in inflation increase risk, and make it seem prohibitively expensive to undertake large investments. Expansion requires that prices be held in check. And employment increases are not possible in the face of growing rates of inflation." And he warned that "[i]f we again lapse into inflation, we could again find ourselves back at square one in less than two years".[261] In London in the following year, Schmidt and his summit 'sherpa' Karl Otto Pöhl reiterated the strong anti-inflationary stance, managing to insert into the final communiqué the phrase "inflation does not reduce unemployment. On the contrary, it is one of its major causes" (Putnam and Henning 1989: 42).

On the whole, German policy makers had been extremely concerned about the inflationary effects of the stimulus package prepared by the incoming Carter administration and its attempt to enlist the surplus economies in this endeavour (Biven

[261] Memorandum of Conversation, 27 June 1976, FRUS 2009, doc. 148, pp. 541-542. Callaghan replied that "we also see unemployment as a major social evil… we place as much emphasis on lowering unemployment as Helmut does on reducing inflation" (Ibid., p. 543).

2002: 99; Stein 2010: 160). Together with Japan, the German delegation refused American pressures at the London summit. The leaders of the two countries rejected binding growth targets and merely restated the going economic predictions even though it was already clear that these would not be met (Biven 2002: 112; Stein 2010: 161).

It should also be noted that the Americans, rather than counting on Schmidt's commitment, sought to apply pressures outside the bargaining table in order to get Germany to reflate. In order to increase the pressure on Germany and Japan, the US announced it was going to expand no matter what. If Germany and Japan chose not to follow suit, they would have to tolerate the appreciating DM and yen and associated loss in export competitiveness that would result from the American trade deficit. Throughout 1977, America abstained from foreign exchange interventions in favour of a declining dollar in the hope that Germany and Japan would choose to stimulate their economies (Biven 2002: 108, citing Putnam and Henning 1989: 36-7). And indeed there is at least one documented occasion (one of the pre-summit meetings of the G5 deputies on 16 June 1978) when the Americans intimated that the US would cause difficulty through its foreign exchange policy if their German counterparts were too obstinate.[262] In addition, they threatened they would not attend the Bonn summit unless Germany committed to a stimulus, thus ruining a PR opportunity for Schmidt (Biven 2002: 146-147).

Despite, or because, of these threats, the bargaining process that led up to the Bonn agreement was fraught with considerable tensions and shrouded in uncertainty. German policy makers entered the negotiations convinced that what was to be negotiated was a 'quid pro quo' that sought to commit the US to an anti-inflationary monetary policy and an energy-saving programme[263] and that assumed that Germany had already done its

[262] Lahnstein to Matthöfer, "Betr.: Treffen der G5-deputies in Paris", 16 June 1978, confidential, AdsD DHS 11, p. 2.

[263] By keeping the price of oil below world levels, the US encouraged the consumption and import of petroleum that weighed down on the balance of trade and the foreign exchange rate of the dollar and thwarted international attempts to reduce the costs by conserving energy (Putnam and Henning 1989: 56).

part.[264] Emminger summed up the view that “because of international obligations, something has to be done in order to increase the pressures on the others”.[265]

At the Bonn summit, Germany rejected an explicit economic growth target but agreed to a considerable fiscal stimulus of “up to 1%” of its GDP (Stein 2010: 170). Although German policy makers honoured this commitment, the devil is in the detail. The stimulus overwhelmingly took the form of tax cuts that were meant to offset ‘bracket creep’: a process whereby inflation pushes tax payers into higher income brackets, increases the overall tax burden, and limits aggregate demand (Holtham 1989: 147-8). Such compensating measures, Holtham notes, had been repeatedly used in the past and had again been made necessary by the record tax revenues of 1977 (1989: 147-8). Germany’s summit commitment was therefore nothing out of the ordinary. In fact, one of the political participants at the time has concluded that “one can dispute whether…the German decision would not have been taken without the summit” (Tietmeyer 1988: 137, quoted in Truman 2004: 238, fn. 9). It may be fair to say that the summit determined the scope and timing of these measures, but, as Holtham concludes, this is “a far cry...from the claim that the German government reluctantly but altruistically agreed to something at the summit that was contrary to its interests” (Holtham 1989: 147). Cleary, then, Germany’s was not at all an exceptional experiment in macroeconomic demand management. Emminger, who opposed the fiscal stimulus from the outset, criticized the prevailing view that the German state “was pumping 1% of GDP into the economy” as giving the false impression of some deficit-financed job creation scheme (1986: 428).

The claim by Putnam and Henning that Schmidt signalled informally that he preferred to be pushed in an expansionary direction, and used the negotiations to build a Keynesian coalition is questionable (cf. Putnam and Henning 1989: 36).[266] Indicative of the

[264] “Zum Staatsbesuch von Präsident Carter vom 14.7.-15.7.1978”, 26 June 1978, BBk HA N2 K286.

[265] Central Bank Council Meeting Minutes, 10 August 1978, B 330/9084/1, part II, (Emminger), p. 7.

[266] Prior to the Mondale visit, Putnam and Henning note, Schmidt had stated publicly that those in the Carter administration who asked Germany to stimulate should “please better shut their mouths” (1989: 130, fn. 52). After the meeting in Bonn, Schmidt was reported to be incensed at having been lectured to (Putnam

uncertainty of German economic policy, he had toyed with reflationary proposals in 1973-1974, but since 1976 had come down on the side of anti-inflation (Putnam and Henning 1989: 35; Biven 2002: 149-150). Although Schmidt asked Emminger for the Bundesbank's support in implementing the German commitment on the final day of the summit (presumably by refraining from tightening monetary policy)[267], he soon distanced himself from the Bonn agreement. Addressing the Bundesbankers four months after the summit and *before* the tax cuts came into effect, he dismissed as 'nonsense' the notion that Germany ought to act as a locomotive and noted that, just as the Americans hadn't lived up to their commitments, Germany had only done half of what they were supposed to do.[268]

Lastly, the fiscal measures implemented after Bonn were offset by the restrictive monetary stance taken by the Bundesbank at the end of 1978 and throughout 1979 (Marsh 2009: 90; Truman 2004: 285-286; Holtham 1989: 151, 152). Encouraged to continue its stability course by the economics ministry, the Bundesbank had already committed to monetary restraint in mid-December 1978 when it decided to announce an ambitious monetary target of 6% to 9% which, it was clearly understood and explicitly stated at the time, would make restrictive measures inevitable.[269]

Though primarily with a view to setting the tone for the new EMS rather than as an explicit countermeasure to the summit decision (cf. Holtham 1989: 152-3),[270] Germany's monetary tightening cancelled out whatever 'stimulus' the tax measures (which were really more of a 'demand-neutral' equalizer) provided. Taken together, "overall German

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and Henning 1989: 36). There is a good chance that the impression the Mondale delegation had that Schmidt wouldn't mind being pushed into a fiscal stimulus was mistaken.

[267] Schmidt to Emminger, 17 July 1978, BBk HA N2 K 286, p. 2.

[268] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 7.

[269] Central Bank Council Meeting Protocol, 13 and 14 December 1978, BBk HA B 330/9657, pp. 13, 18. Emminger reminded his colleagues of having committed to a restrictive course of action in a subsequent meeting in mid-January (Central Bank Council Meeting Protocol, 18 January 1979, BBk HA B 330/9659, p. 12).

[270] Central Bank Council Meeting Protocol, 18 January 1979, BBk HA B 330/9659, p. 14.

macroeconomic policy in 1979 was anti-inflationary" rather than expansionary (Holtham 1989: 143, 159). The second oil shock was only an afterthought in this, and served primarily as a means of justifying the anti-inflationary stance of the Bundesbank internationally.[271]

German policy makers, rather than being caught out by unforeseen economic developments (Kreile 2006: 165), had already turned their backs on the locomotive approach prior to the spike in oil prices. It was the operators of the Japanese rather than the German state, for whom "[t]he idea of an expansionary policy was not as inherently unacceptable" (Biven 2002: 102), who now found their macroeconomic leeway curtailed by a newly inflationary environment.[272] The international outlook of German authorities, and the basic consensus between state and central bank, was the same as in 1973/1974.[273] This was especially so as the Bundesbank observed that German business seemed prepared to use the oil shock as an excuse to raise prices.[274] The implications for economic policy, the Central Bank Council concluded, was that the room for price increases needed to be narrowed down as much as possible. Only then could a devastating wage-price spiral be prevented. An expansion of domestic demand that Keynesian proponents asked for would only accelerate inflation, increase balance-of-payments problems, and fuel social conflict across the advanced industrial world.[275]

On the whole, therefore, there is scant evidence that the Carter administration had compelled German state managers into a failed Keynesian experiment (cf. Giersch et al. 1992: 242; Kreile 2006: 165). In fact, as the next section demonstrates, the exact opposite was the case. Having resisted American calls for macro-economic expansion, German policy makers now pushed the US into a 'successful' neoliberal experiment.

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[271] Central Bank Council Meeting Protocol, 15 March 1979, BBk HA B 330/9662, p. 3.

[272] Ibid., pp. 3-5.

[273] Ibid., p. 17; for the endorsement of the Bundesbank's policies by the chancellor, see Central Bank Council Meeting Protocol, 31 May 1979, BBk HA B 330/10140, p. 3.

[274] Central Bank Council Meeting Protocol, 15 March 1979, BBk BA B 330/9662, p. 16.

[275] Ibid., p. 5.

Because the Bonn summit has been falsely depicted as an exemplar of international policy coordination, and because it has been conflated with trilateral precepts of global leadership, it has been misread by some as a concerted effort by ruling elites from the G7 countries that, guided by a 'productive-capital' perspective, sought to boost industrial expansion and renew the 'embedded liberal' class compromise (cf. van der Pijl 1989b: 64-65; Overbeek 1993: 115). From this perspective, the failure to restart global economic growth heralded the ascent of a rival 'money-capital' fraction that supported the neoliberal restructuring of the post-war world political economy.

The above analysis suggests that a transgovernmental coalition eager to rescue the embedded liberal order never emerged in the first place as the state operators of at least one of the surplus economies[276] critical to the success of the locomotive strategy had decided to defect. The reality is that German authorities had resolved to stay their anti-inflationary course at the cost of derailing the global growth locomotive even before it could take off. Their reasons for doing so, however, was rooted in their attempts to sustain the domestic post-war settlement, even if this meant frustrating the efforts of others to accomplish the same.

The Bonn summit, then, cannot be seen as a watershed in the international balance of power between those ruling class elements that "still favoured conciliation with the forces of reform" (Overbeek and van der Pijl 1993: 18) and those elements that advocated class confrontation. The distinction between the interests of a 'productive capital' fraction to preserve the embedded liberal compromise with labour, and the interests of a 'money-capital' fraction to demolish it, turns out too rigid to account for these nuances—not least because the actions of the German state and capital fall in between.

[276] While the case of Germany is sufficient to debunk the myth of the Bonn summit as a classical case of international policy coordination, the role of Japan deserves closer consideration. I plan to do so in a separate piece.

In some respects, the contours of the shift from maintaining full employment towards a 'war on inflation'—reflected in the summit communiqués from 1976 onwards (Gill 1999: 132)—had already been apparent in the German response to the global recession in 1973/1974, the French efforts to mimic *Modell Deutschland*, the British attempts to stabilize sterling, and the American and German prescriptions for how foreign governments ought to deal with their economic and financial troubles. And on the other hand, Stephen Gill (1990: 227) has pointed out that the political and economic elites of the trilateral countries—even after the failure of a programme of global reflation—still shied away from risking an economic recession for the sake of disciplining labour.

Overall, then, the change in the social balance of power and ruling class strategies towards neoliberalism was a more protracted and complex process (e.g. van der Pijl 2012: xii) in which states and social forces uncommitted to an ideologically-driven counter-attack on the welfare state and organized labour had a crucial role to play in shaping the ultimate outcome. The question of whether a global reflation might have worked if only Germany had held up its end of the bargain cannot be answered conclusively. It is true the post-war model of Western capitalism had reached its limits. The challenge to the established international order, however, came initially from the global left: the trade union basis of the social-democratic and socialist parties, the non-aligned national liberation movement of the third world, and the real existing anti-capitalist modernity in Eastern Europe, China and the Soviet Union (van der Pijl 2006; Panitch and Gindin 2012: 143; Gill and Solty 2013: 58). Even if one were to contend that embedded liberalism was finished, it does not follow that the rise of neoliberalism was preordained (Schmidt 2011). By prioritizing internal stability, German state managers had not only precluded radical proposals that sought to overcome the crisis by transcending capitalism, but even centrist Keynesian attempts to extend the lifeline of the embedded liberal order. Far from inevitable, the movement towards neoliberalism depended for its power of persuasion and mobilization on this lack of prospects.

From Benign Neglect to the Volcker Shock

Far more important than the package deal reached at the Bonn summit was the structural weakness of the dollar that forced the United States decided to reverse its policy of 'benign neglect' in the course of 1978. American policy makers had remained indifferent to a declining exchange rate of the dollar after the termination of Bretton Woods. For most of 1977, US policy makers had hoped that an appreciating DM would get Germany to stimulate its economy (Putnam and Bayne 1984: 70-71). But in December 1977 and January 1978, US monetary officials grew increasingly concerned that a steadily weakening dollar might turn into a freefall (Parboni 1981: 130-31; Biven 2002: 119-120). US monetary officials thus began to intervene in foreign exchange markets in order to stabilize the dollar (Truman 2005: 353)—with little success. After the dollar declined by 18% vis-à-vis the DM between August and October 1978 and a panic loomed, the US announced a dollar rescue package that included monetary tightening and the procurement of foreign currency to finance foreign exchange interventions (Biven 2002: 169-170).

German central bankers congratulated themselves for having followed the Swiss example of waiting out their American counterparts.[277] The chancellor credited German intransigence at the Bonn summit for the American change of heart,[278] while the head of the Bundesbank Otmar Emminger pointed to German restraint in foreign exchange interventions (Emminger 1986: 382, 384). Added to this, one of Germany's central bank council members believed, was the threat that OPEC countries might raise the price of oil or cease to quote it in dollars altogether.[279] The claim made in one CIA report that "[t]he

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[277] Central Bank Council Meeting Minutes, 10 August 1978, BBk HA B 330/9084/1, part II, p. 1.

[278] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 7.

[279] Foreign Economic Advisory Council Protocol, 17 November 1978, BAK B 102/226521 (Gleske), p. 5; see also Eichengreen (2011, 185, fn. 41): "Some argue that the shift was no coincidence—that, in a telling sign of how a country's policies can be influenced by foreign powers that hold its debts, veiled threats from OPEC about dumping the dollar compelled Carter to attach a higher priority to fighting inflation and shift from Miller to Volcker".

anti-inflation and dollar support programs adopted by the United States in the fall of 1978 were the result in great part of allied pressure"[280] was premature in that the real showdown was to come in the following year, but is much closer to the truth. For while supporting American interventions with a comprehensive dollar rescue programme in November 1978 (Bordo et al. 2010:19), Germany began to step up the pressure on the United States to finally commit to a serious anti-inflationary programme (Truman 2005: 354).

The drive toward European monetary union has to be placed in this context. A successful EMS, Schmidt had hoped, would add "very strong additional psychological pressure" on the United States to give up its policy of benign neglect.[281] We do know now that it was met with much greater scepticism on the part of the Carter administration than its programme of trilateral management and public endorsement of European monetary integration would have one believe (Biven 2002: 168; Basosi 2010). German authorities in particular noted American concerns over a common European dollar policy.[282] In fact, the Americans had complained earlier that "dollar interventions within the 'snake' are unnecessarily exacerbating the weakness of the dollar"—a criticism to which the Bundesbank objected.[283]

But European monetary integration, Schmidt believed, was also to prepare Germany politically for what he held to be a looming stand-off with the United States.[284] There

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[280] CIA National Foreign Assessment Center, "Changing Power Relations Among OECD States", 22 October 1979, Jimmy Carter Library, Donated Historical Material, Brzezinski Subject, box 16, RAC 10/14/1, confidential, p. 4. The document is cited in Basosi (2010: 14). An online version is available at <http://www.margaretthatcher.org/document/C28E73FAD72D4604BD1BF3A26BDA1E30.pdf>, [accessed 24 September 2012].

[281] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 9.

[282] Central Bank Council Meeting Minutes, 15 June 1978, BBk HA B 330/9082/2, part I, (Pöhl), p. 5.

[283] "Note on Interventions in the Snake, 9.3. 1978", BBk HA N2 K 732, p. 1.

[284] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 70. This possibility had been recognized in the contingency plans of American strategists over a decade earlier, which had warned that "[i]nstead of submissively accommodating themselves to the U.S. Plan X offensive…, the Eurobloc members might also choose to adopt an aggressive posture", including "a

was, the chancellor professed in his December address to the Bundesbank's central bank council, a definitive limit to German interventions in foreign exchange markets in support of the dollar. Making this clear to the Americans, and withstanding the pressures once the proverbial 'end of the line' had been reached, would require the political support of the European partners.[285] And indeed the Bundesbank had begun to significantly scale back its foreign exchange interventions (Emminger 1986: 392). From a highpoint of 1:10 in November 1977, the monthly ratio of US to German dollar purchases declined to 5:1 in September 1979.[286] Stabilizing the dollar exchange rate, German policy makers resolved, was now to be put on the shoulders of the US and to be achieved primarily by way of domestic economic measures.[287] Within limits, the Bundesbank at times even sold dollars to prevent too strong a devaluation of the DM and to protect itself against inflation.[288]

Germany's support was crucial because the dollar troubles and wider economic turbulences of the 1970s had elevated the DM to the world's alternative reserve currency and anchor of the European monetary system (Bordo et al. 2010: 12). This made the DM more important than any other hard currency. Accordingly, the US Federal Reserve focussed primarily on the dollar/DM exchange rate and intervened almost exclusively in German marks in order to stem the decline of the dollar (Bordo et al. 2010: 12). Germany's reservations were noted with concern by American policy makers, who repeatedly called for more visible interventions and even accused the Bundesbank of

deliberate program of pushing the dollar lower and lower" ('Contingency Plan X: A Proposal to Force Major Surplus Countries to Support the Dollar at Present Parities or to Allow a Relative Appreciation of Their Currencies', pp. 38-39. cited in Gavin (2004: 169)).

[285] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, pp. 69-70.

[286] Quantitative data on US and German foreign exchange interventions (net purchases and sales of dollars) is presented in Bordo et al. (2010) and available from the website of the Federal Reserve Bank of St. Louis at <https://research.stlouisfed.org>, [accessed 22 August 2013].

[287] "Internationale Währungsfragen, USA-Reise von BM Dr. Lambsdorff", 31 January 1979, BAK B 102/269501, p. 2.

[288] Central Bank Council Meeting Protocol, 15 March 1979 (28 March 1979), BBk HA B 330/9662, pp. 14, 16; Central Bank Council Meeting Protocol, 31 May 1979 (15 June 1979), BBk HA B 330/10139, p. 8.

letting the dollar slide intentionally.[289] What made matters worse was that the US, which hardly held any foreign currency prior to 1980, needed to borrow the marks that it used to buy up dollars in the market (Bordo et al. 2010: 12, 19, 21, 29). Yet the Bundesbank, its single most important off-market supplier, not only reduced its own interventions but also "grew increasingly reluctant to extend further credits without changes in U.S. macroeconomic policies" (Bordo et al. 2010: 19, 25, 30, 40).[290]

The situation came to a head when a new dollar crisis emerged in the second half of 1979. While US authorities intervened on a massive scale between June and September, the Bundesbank held off.[291] The newly appointed Chairman of the Federal Reserve Paul Volcker was alarmed that "[i]f the market gets in its head that the dollar is really going down [against the DM], would we be able to stop it without spending a lot more money than we're already spending?".[292] His worries were justified. When Volcker met with Schmidt in Hamburg on 29 September on his way to the IMF meeting in Belgrade, the dollar had fallen to its lowest level against the DM since its international rescue in November 1978 (Silber 2012: 166). At the same time, the DM balance of the Fed had dropped from $1,485 million at the end of August to $138 million at the end of September (and $72 million in October).[293] In an internal memo quoted by David Marsh (2009: 89), Anthony Solomon noted that "we face… a situation that could quickly degenerate into a full-blown destructive crisis" and that "we are being bled to death and

[289] Central Bank Council Meeting Minutes, 28 June 1979, BBk HA B 330/10141/1, p. 3; Emminger, "Telefongespräch mit Paul Volcker am 25. Juni 1979", 25 June 1979, BBk HA N2 K 322, p. 1.

[290] In his memoirs, Schmidt (1989: 265) whitewashes the situation, writing that "we could meet the request only to a limited degree because we took the risk of inflation in our own country seriously; every mark spent in support of the dollar bloated the German money supply."

[291] Schulmann to Schmidt, "Ihr Telefongespräch mit Präsident Carter, hier: Währungsfragen", 21 September 1979. AdsD HSA 6587, p. 1.

[292] Transcript of FOMC Meeting, 18 September 1979, p. 3. Available at <http://www.federalreserve.gov/monetarypolicy/files/FOMC19790918meeting.pdf>, [accessed 4 February 2013].

[293] The holdings of the US Treasury declined from $2,208 to $759 million (and to $435 million in October). The data has been compiled by Michael Bordo, Owen Humpage and Anna Schwartz, and made available at <http://www.clevelandfed.org/research/data/fx-intervention/index.cfm>, [accessed February 4, 2012.)

will have to let go."[294] On October 4—two days before the Fed announced the sea-change in its monetary policy known as the Volcker shock—the German central bank governor Emminger concluded that "if the Americans continued to intervene in this vein as over the last days, they would be finished very quickly".[295]

The minutes of the high-level Hamburg meeting indicate that the lukewarm response of German authorities to the critical dollar weakness had culminated in a refusal to continue to intervene against underlying market forces. The German chancellor complained bitterly that currency interventions had had an inflationary effect, forcing the Bank to adopt a restrictive policy that had hurt the economy and drawn the criticism of the unions. Since he was facing the toughest election of his career, Schmidt dismissed any further dollar support measures as pointless and damaging. "The United States", Schmidt is reported to have said, "could not demand from us that we ruin our economy for their sake".[296] Without a restoration of the political and economic fundamentals, Schmidt concluded, there could be no stabilization of the dollar.[297]

Some have suggested that Volcker sought to use German criticism at Hamburg in order to overcome internal opposition to his monetarist plans (cf. Volcker and Gyohten 1992: 168; Truman 2004: 286). Edwin Truman, who worked for the Federal Reserve Board in this period, speaks of a "pro forma effort by the U.S. Treasury officials to enlist additional German support" (2004: 286) and explains that it was important "to have done so in order to bring [Treasury and the Council of Economic Advisors] around to accepting the need for fundamental monetary policy action" (2005: 353). This reading suggests that a transgovernmental coalition emerged that was intent on circumventing the bureaucratic inertia that stood in the way of a radical change of course. While worthy of

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[294] Solomon, "US/German monetary cooperation – Talking Points", 27 September 1979, quoted in Marsh (2009: 89).

[295] Central Bank Council Meeting Minutes, 4 October 1979, BBk HA B 330/10146, p. 17.

[296] "Vermerk über das Gespräch des Herrn Bundeskanzlers mit Secretary Miller und Chairman Volcker im Überseeclub Hamburg am 29. September 1979, von 12.00 bis 14.15 Uhr", 1 October 1979, BBk HA N2/K322, p. 11.

[297] Ibid., p. 5.

further consideration beyond the scope of this dissertation, the issue with this interpretation, as it stands, is that it fails to account for the considerable tensions between German and US policy-making. The archival records confirm significant external economic and political pressures behind the formulation of the Volcker programme (Woolley 1984: 103-4). To reduce them to being "part of an international policy coordination process" (Truman 2005: 353) is suspect of intentionally glossing over these frictions. It is highly unlikely, for instance, that the heavy criticism Volcker himself came under at Hamburg when he asked for additional support measures to flank his anti-inflationary programme was merely scripted.[298]

The more plausible explanation, provided by one of his biographers, is that Volcker, too, only fully embraced the new policy in the week between the Hamburg meeting and his early departure from Belgrade (Silber 2012: 166). In this view, the Hamburg meeting did not simply endorse Volcker's monetarist views but delimit the monetary options available to the Fed in a situation where market rumours and turmoil had "worked together to pound a fatal stake into the credibility of the FOMC as the country's bulwark against inflation" (Lindsey, Orphanides, Rasche 2005: 210). The idea that Volcker let himself be pushed ignores that Hamburg was but the final step in a decision-making process that German opposition had helped to structure. Emminger's admission to the Central Bank Council that "we have made a theoretical contribution [to Volcker's programme of 6 October] by illuminating policy in Hamburg" is an uncharacteristic understatement.[299] For rather than inspire Volcker, the Hamburg meeting substantially narrowed his scope of action. The imperative for US policy makers, moreover, was not to copy German monetarism, but to match its anti-inflationary achievements under conditions that were far more adverse and that seemed to require far more drastic

[298] Emminger, for instance, complained to his fellow Bundesbankers that Volcker had gone so far as to request that German monetary authorities commit to a fixed target rate target rate between DM and dollar, deviations from which would oblige central bank interventions (Central Bank Council Meeting Minutes, 4 October 1979, BBk HA B 330/10146, p. 5).

[299] Central Bank Council Meeting Minutes, 18 October 1979, BBk HA B 330/10147, p. 4.

measures. To argue that both ‘monetarisms’ were guided by neoliberal ideas is to ignore their very different social functions (Johnson 1998).

The real significance of the Hamburg meeting is amply reflected, though not fully revealed, in the transcripts of the emergency meeting of the Federal Open Market Committee (FOMC) on October 6—for Volcker stopped the tape recorder when relaying the position of his foreign correspondents on the dollar crisis (Stein 2010: 230).[300] Crucially, he concluded that an international dollar support programme similar to the November 1978 rescue package would not be forthcoming.[301] This put the US in an enormously difficult situation, for it was just such a programme that market participants expected to be announced (Stein 2010: 230).[302] Without an international component to flank domestic measures, monetary officials had to fear that even a large increase in the discount rate (a staggering 2% were on the table) might not be enough to reassure markets. The German refusal to rescue the dollar at Hamburg, probably in conjunction with broader European opposition at Belgrade (Greider 1987: 118; Stein 2010: 230), had removed the last remaining alternative to the radical change in operating techniques proposed by Volcker.

Domestic inflation was of course the primary target of the Volcker shock. But the declining dollar had been its mirror image (Treaster 2004: 53). As Stephen Axilrod, tasked in mid-September to outline the new policy proposal, recalls, “it was...a deteriorating trend in markets generally that was continuing into late summer and early fall, especially in the foreign exchange market, that clearly signaled the need for a paradigm shift in domestic monetary policy” (Axilrod 2005: 238). The external value and internal value of the dollar were mutually reinforcing and inseparable (Treaster 2004:

[300] Two pertinent lines of the transcript were also redacted.

[301] Transcript of FOMC Conference Call, 5 October 1979, p. 7. Available at <http://www.federalreserve.gov/monetarypolicy/files/FOMC19791005confcall.pdf>, [accessed 4 February 2013].

[302] Transcript of FOMC Meeting, 6 October 1979, p. 4. Available at <http://www.federalreserve.gov/monetarypolicy/files/FOMC19791006meeting.pdf>, [accessed 4 February 2013].

68). This meant that the failure of the Fed to contain inflation and its inability to improve the deteriorating exchange rate were connected; and that is why Germany's fading support for the latter, as Volcker realized, raised the stakes for the US to achieve the former (Bordo et al. 2010: 24-25). In principle, the central bank should be able to solve both issues by forcefully raising interest rates. But after a decade of inflation, the commitment of the Fed to do this had come to be seriously questioned both at home and abroad (Axilrod 2005: 238). The loss of faith in the Fed's willingness to pursue an anti-inflationary course was thus bound up with an erosion of confidence in the dollar as a secure investment which, in September 1979, turned into a veritable dollar flight (Lindsey, Orphanides and Rasche 2005: 198). It was under these conditions, ultimately, that the Federal Reserve adopted the new approach as a "comprehensive symbol" of its determination to tighten monetary policy regardless of the consequences (Panitch and Gindin 2012: 167).[303]

The German welfare state and social market economy were soon to become one of the many casualties of the Volcker programme and its calculated disregard for the social and global ramifications of escalating interest rates and a deepening world recession. In an important sense, however, these negative repercussions need to be seen as the blowback of Germany's strategy. German state elites, for much of the 1970s, had sought to impel the United States towards fiscal and monetary discipline, and from the Bonn summit onwards, had focussed on the DM/dollar exchange rate as the vehicle for bringing this pressure to bear on their American counterparts. By reducing foreign exchange interventions, restricting American access to DM, and, finally, rejecting an international dollar support programme, German policy makers had contributed significantly to the external pressures that drove the US into the Volcker experiment that raised interest rates to unprecedented levels in order to induce a recession and break the strength of organized labour.

[303] On the interpretation of the Volcker shock as driven by the efforts of the Fed to restore its anti-inflationary credibility, see Hetzel (2008: 150).

The German state, then, was a critical force of neoliberal change against the will of its administrators, who had sought myopically to maintain an international environment conducive to preserving peace and prosperity within their society. And yet their successes at defending the domestic compact from the global forces of protectionism and inflation frustrated attempts to transform the Keynesian truce in the interest of the working class or at least refurbish it in the service of the existing state of affairs. By precluding potentially more progressive alternatives and committing the United States to monetary rigour, German state elites helped to inaugurate the neoliberal counterrevolution.

To argue that Germany propelled the United States towards the Volcker shock is not to deny the importance of internal factors. Future research will need to broaden the analysis and consider, from the standpoint of US policy makers, how precisely these external pressures interacted with societal demands for an anti-inflationary programme. Some critical accounts, however, are in need of immediate revision. For what can be said with certainty is that the Volcker turn can no longer be seen as either a coup of international *haute finance* (cf. Greider 1987: 118; Duménil and Lévy 2004: 165; Harvey 2005: 45; Stein 2010: 227) or as the final step in a plan to reassert American power over and against the interests of its core country rivals and a disobedient periphery (Gowan 1999: 40; Gowan 2001: 366). In probing the plausibility of these two interpretations, the remainder of this chapter and the next seek to outline prospective avenues of investigation.

The first point that follows from the argument above is that the adoption and adaptation of monetarism by the Federal Reserve was pragmatic rather than ideologically driven. Volcker, after all, was never particularly enamoured with the parsimony of monetarist economics (McNally 2011: 33; Panitch and Gindin 2012: 167; Madrick 2011: 160) and, though certainly exposed to neoliberal ideas, was not part of this intellectual movement himself. Volcker had rejected monetarist proposals in the past, and the excessive tight money policy that the Fed followed under his leadership departed radically from the slow and steady rate of growth of the money supply that Friedman had prescribed (Neikirk

1987: 66-67; Treaster 2004: 149). His relationship with Friedman and other monetarists was less than amicable (Silber 2012: 150). While Volcker disapproved of the inflexible recommendations of the monetarists, Friedman and Meltzer harshly criticized the track record of the Fed (Neikirk 1987: 92). In the depths of the recession that was to follow, Friedman was keen to distance himself from a policy he had followed with a mixture of goodwill and scepticism (Silber 2012: 148-149). In a speech to the Mont Pelerin Society, he was adamant that "[i]n October 1979, the Federal Reserve in desperation adopted monetarist rhetoric. It did not then and has not since adopted a monetarist policy" (Friedman 1983: 1). Both the alteration of monetarism adopted by Volcker in 1979 and its denunciation by Friedman three years later are perfect examples of the plasticity of ideas in the face of changing economic and political circumstances and considerations. To fully understand the significance of ideas, they have to be seen in a larger social context.[304]

Volcker's former job at Chase Manhattan and the New York Fed certainly exposed him to the strongly anti-inflationary views that prevailed in the international banking community in the late 1970s. At the same time, his active membership as North American Director in the Trilateral Commission also means that he was familiar with the concerns of those international elites that, in 1979 still, feared the political costs of curing wage-push inflation and labour insubordination through a prolonged recession (Gill 1990: 227).[305] The reasons why Volcker chose to do precisely that, I argue, cannot be reduced to the persuasive power of ideas, nor can it be explained in terms of his allegiance to the financial rather than the productive interests of society.

The fight against inflation, after all, was not advocated by high finance alone, but supported by a broad coalition of industry, the trade union leadership, middle-class tax

[304] A Bundesbank memo also criticized the technical imperfections and limitations of the new steering process and the erratic fluctuations of the interest rate that were likely to follow (Dudler and Tröger, "Die neue geldpolitische Konzeption in den USA", 3 June 1980, BBk HA B 330/106567, p. 8).

[305] The connection of Volcker to international planning bodies that promoted a neoliberal agenda is extremely tenuous. He was *not* part of the Shadow Open Market Committee. The *Lobster* argued that there is evidence he attended a meeting of the Pinay Circle in Washington, but this was in December 1979.

payers, property holders, and small savers (Panitch and Gindin 2012: 170). Moreover, the Volcker programme involved a painful adjustment process not only for uncompetitive industries, but also for globalizing finance. Stein notes that "[h]igh and volatile interest rates caused the biggest collapse of financial institutions since the Great Depression, as more than a thousand thrifts with assets over $500 billion failed" (Stein 2010: 265). Even some of the largest US banks were pushed to the brink of bankruptcy by the record interest rates and the default of developing countries on their loans (Stein 2010: 266). The international debt crisis not only threatened the stability of the global financial system but also undermined the dominant position that multinational banks had acquired as the intermediaries of petrodollar loans to the third world. The new regulatory regime adopted under Reagan promoted the rise of nonbank financial firms that increasingly rivalled the transnational commercial banks (Sassen 2008: 157; 1991: 66, 71). The fact that new financial actors emerged from the fallout of the Volcker shock and benefitted from the subsequent liberalization drive casts further doubt on the story of a 'financial coup' (cf. Duménil and Lévy 2004; Stein 2010: 227). Because they involved serious shocks and invited new competition, it is unlikely that these policies emanated from the established financial circles, even if these reforms subsequently allowed *rentier* interests to encroach upon political institutions and capture increasing shares of national wealth (Epstein and Jayadev 2005). Instead, the Volcker shock and ensuing world recession, as Gill (1990: 213, 217) points out, had the *unintended effect* of deepening the structural power of internationally mobile capital. And in this respect, Volcker's programme needs to be seen as but one episode in a larger process of post-war financial globalization in which American capitalism and its state had assumed a central position that, built upon the latter's role in managing contradictions and conflicting interests, can even less plausibly be portrayed in instrumentalist terms (Krippner 2011: 13; Panitch and Gindin 2012: 7).

Nor can it be understood in terms of hegemonic restorations. Some scholars have sought to bring the domestic and international contexts together by tying the interests of finance to the reassertion of American supremacy (Duménil and Lévy 2004: 210; Gowan 1999: 68-69) establishes an explicit, if empirically undeveloped, link between the influence of finance and the reassertion of American supremacy. In his account of the monetarist turn, for instance, Arrighi (1994: 323) argues that the US entered into an alliance with private finance as it sought "by all available means the latter's assistance in regaining the upper hand in the global power struggle".

The problem is that these explanations grossly overestimate the predatory nature of America's shift from post-war inflation to the new austerity. Long-term interest rates had been rising since the mid-1970s, and at the time Volcker took office an economic downturn already loomed on the horizon. It is more accurate to say that the Fed amplified and prolonged an approaching crisis rather than engineer a world economic recession. The problem, as summarized by the agents of the German export bloc, was that inflation would continue if the recession was too mild and too short.[306] And the possible solution, Stein has argued, was just as widely shared. "Everybody knew that you could get rid of inflation by producing a steep recession. What was different after 1979 was that the people in power were willing to accept the costs" (Stein 2010: 267). Rather than being the final in a series of ingenious moves on the geostrategic chessboard, the Volcker shock applied a well-known recipe.

Moreover, the monetary programme of the Fed, rather than unilaterally imposed, sought to enlist the cooperation of the major central banks and the multinational financial institutions under their authority.[307] To fully enforce the special marginal reserve requirements that flanked his anti-inflationary strategy, Volcker had to rely on the goodwill of American banks not to circumvent the new rules (Helleiner 1994: 136). And to prevent US corporations from avoiding these restraints by borrowing offshore, Volcker asked Emminger and other central bankers "by whatever means you consider appropriate to urge the principal banks in your country, whether or not they have branches and agencies in the United States, to support our program while these temporary measures are

[306] Foreign Economic Advisory Council Meeting Protocol, 4 September 1979, BAK B 102/226523 (Wolff von Amerongen), p. 4.

[307] Central Bank Council Meeting Minutes, 17 April 1980, BBk HA B 330/10651, p. 3.

in effect”. As he explained, “it is an important condition for the success of our program that banks, foreign as well as domestic, avoid taking advantage of possible special opportunities that almost inevitably tend to develop under the circumstances”.[308] Whether or not this appeal bore fruit, and whether the informal influence of other central banks over market operators reached further than the limited success of the US (Greider 1987: 143-145) is a different question. The key point, however, is that the Fed’s programme was designed as a multilateral undertaking from the start.

Most importantly, international central bankers encouraged the Federal Reserve to see the restrictive monetary policy through to its end—even as the prospects of a global economic crisis grew ever larger. The German central bank, in late May 1980, rejected an American proposal to jointly lower interest rates. Markets would read this as the end of the anti-inflationary programme and downward pressure on the dollar would recur, Pöhl warned.[309] And the Swiss central bank governor—at an annual international banker’s meeting that unanimously called on the US to maintain its restrictive monetary policy—“went as far as to call a recession necessary in order to break the mentality of inflation”.[310]

Overall, then, the notion that the Volcker shock and Reagan revolution enabled the United States to reassert its dominance misses the fact that American leadership did not need to be enforced internationally in this way. To a large extent, it was already being demanded by the main capitalist states and their leading classes for much of the 1970s. America’s partners were quite willing to ‘renew their invitation’. What they required in return was that the US submit to the same sort of economic discipline it had begun to impose on other countries in cooperation with Germany and through the IMF. The

[308] Volcker to Emminger, 27 November 1979, BBk HA N2 K 322, p. 1.

[309] Central Bank Council Meeting Protocol, 29 May 1980, BBk HA B 330/ 10655, p. 3. Central Bank Council Meeting Minutes, 29 May 1980, BBk HA B 330/10655, p. 2.

[310] Central Bank Council Meeting Minutes, 12 June 1980, BBk HA B 300/10666, p. 4.

German state, thanks to the central role of the DM and Bundesbank, was the purveyor of this message.

The chapter has argued that the US abandoned Keynesian demand management in favour of monetary conservatism under the political and exchange-rate pressures of Germany in particular. To get serious on inflation, we have noted, was not enough, however (Harvey 2005: 23-4). In order to restore international competitiveness, and, incidentally, offer a general rather than particularistic way out of the global crisis, the income share of workers also had to be reduced. And to do that, it was understood, the source of their organized strength needed to be targeted. In this respect, the Volcker shock did not simply replicate, in hothouse fashion, Germany's turn to 'monetarism', but endowed it with a distinctive dimension of top-down class warfare that would become characteristic for the neoliberalisms constructed simultaneously in the US and UK (Panitch and Gindin 2012: 171).

The reasons why the Volcker's Fed, and the Reagan administration ultimately chose to go on the offensive, I propose, may have to do with the fact that its emulation of Germany's low-inflation regime took place in an entirely different international economic and socio-political context. In Germany, the fight against inflation had served to maintain the comparative advantage of the export economy and thus commanded the support of dominant capital as well as the associated trade unions. Yet this competitive element at the heart of Germany's crisis management meant that it could not be replicated with similar results. In Germany, as Emminger put it, the support of all social groups and the majority of the population was the *conditio sine qua non* of an effective stabilization policy.[311] But in the US, the situation was the opposite. Because the anti-inflationary program was intended to *restore* rather than, as in the German case, *maintain* price stability, business confidence, and international competitiveness, its success depended not

[311] Emminger, "Geldpolitik und Wahrungsstärke - Geldmengenziel als Wundermittel?", first draft, 28 May 1977. BBk HA N2 K 731, p. 4.

on sustaining the social consensus but on terminating the post-war contract with labour.[312]

Hence the United States, with Volcker, and the United Kingdom, under Thatcher, would pursue a monetary policy with the intent to break the back not simply of inflation, but of organized labour (Panitch and Gindin 2008: 31). Because the Fed proceeded by trial and error (Newstadt 2008:99), the true nature of this shift escaped German policy-makers even months after Volcker had announced his anti-inflationary plan of action. Serious doubts about whether the government would stay course in the year that Carter stood for re-election persisted well into 1980, and German authorities were cautious to criticize policies that they had been pushing onto the US for years.[313] It is only with the Reagan administration that German officials realized that the objective was, in fact, to induce a recession and to terminate the post-war compromise between capital and labour. [314] Recognizing the enormous stakes of the "grand experiment" the US had embarked on, Germany's crisis managers remained deeply sceptical. Reagan, they believed, was trying to do the impossible, and the chances of success, they estimated, were smaller than 50%.[315]

In any case, it was understood that the American "all-or-nothing" strategy could not and would not be tried in Germany. Schmidt's political-economic paper had declared that "[w]e will not go as far as to cause a 'stability crisis' of employment for the sake of price

[312] In Germany, as opposed to the US and UK, "stability does not have to be regained," the German G5 deputy Schulmann summed up the position of the two countries (Schulmann, "Betr.: Treffen der G-5 Deputies in London am 19.2.1981", 23 February 1981, AdsD DHS 11, p. 7).

[313] Central Bank Council Meeting Minutes, 2 October 1980, BBk HA B 330/10665 (Schöllhorn), p. 7.

[314] Schulmann observed that his American counterpart Beryl Sprinkel "wishes for a recession as soon as possible" (Schulmann, 14 September 1981, "Betr.: G5D am 8. 9. 1981 in Paris", AdsD DHS 11, p. 1). See also Schulmann, "Betr.: Treffen der G-5 Deputies in London am 19.2.1981", 23 February 1981. AdsD DHS 11, p. 9.

[315] Schulmann to Schmidt, "Betr.: Deutsch-französische Haltung in Wirtschaftsfragen im Vorfeld des Europäischen Rates vor Maastricht; hier: Sondierungsgespräch mit GS Wahl und MP Barre in Paris am 12.3.1981". AdsD DHS 23, p. 1.

stability".[316] This position was reiterated in 1981 when the Keynesian minority speaker of the central bank committee and 'social conscience' of the Bundesbank (Marsh 1992: 67) Nemitz pointed out that they could not use the recession as an instrument of economic policy in the way that the Americans did.[317] And he was not alone. Following the American lead, Emminger's successor Karl Otto Pöhl argued, would amount to "throwing down the gauntlet in front of large groups of society".[318] Small and medium enterprises were bound to suffer, some concluded[319], and the number of bankruptcies would increase, others predicted.[320] The economic advantages were of course seen as well. A high-interest rate regime would accelerate the structural adjustment process, benefitting profit-making, solvent enterprises, while pushing uncompetitive firms out of the market.[321] And yet the socially explosive dangers of maintaining high interest rates while simultaneously removing the social safety net and unemployment insurance were equally apparent. In this respect, the market fundamentalism that characterized the Thatcher-Reagan counterrevolution did not make any significant inroads into the Bundesbank in the early 1980s.[322] On the whole, the crucial difference between the US and Germany remained that, as the German G5 deputy Schulmann and personal aide to Helmut Schmidt concluded, "for us, after all, the preservation of the social consensus is a key factor of our economic policy".[323]

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[316] 'Political-Economic Paper', p. 55.

[317] Central Bank Council Meeting Minutes, 5 February 1981, BBk HA B 330/11164, part II, p. 6; Central Bank Council Meeting Minutes, 17 December 1981, BBk HA B 330/11364/1 p. 8.

[318] Central Bank Council Meeting Minutes, 5 February 1981, part II (Pöhl), pp. 1-2, 6.

[319] Central Bank Council Meeting Minutes, 19 March 1981, BBk HA B 330/11167, (part I), p. 15.

[320] Central Bank Council Meeting Minutes, 19 March 1981, BBk HA B 330/11167, (part I), p. 17.

[321] Central Bank Council Meeting Minutes, 19 March 1981, BBk HA B 330/11167, (part I), pp. 19-20.

[322] Dismissing market fundamentalism as illusory, Pöhl asserted that "[t]o make do without a social safety net and generous unemployment insurance is impossible. Then the unemployed would very difficult to bear politically. Those 9-10 million unemployed could someday lead to an explosion" (Central Bank Council Meeting Minutes, 3 June 1982, BBk HA B 330/11370/1, pp. 19-20).

[323] Schulmann,"Betr.: Treffen der G-5 Deputies in London am 19.2.1981", 23 February 1981, AdsD DHS 11, p. 9.

The German state, of course, was anything but an impartial arbitrator between capital and labour. The supposedly inflationary wage increases were, in essence, understood to be the "cardinal problem" of the entire world of industrial societies.[324] The share of working people in the wealth of society was deemed to be prohibitively large. And yet since the early 1970s, the managers of the German state and the owners of capital had been put on the defensive by the radical demands (including expanded social security, an extended codetermination, and investment controls) of the trade union base, the Young Socialists and the SPD Left (Webber 1983: 66-67). Under these conditions, the Bundesbank President Klasen had concluded in 1971, a 'modified appeasement' of trade union demands would be unavoidable. Only in the long term, he wrote to Otto Andreas Friedrich—president of the BDA (Federation of German Employers' Associations) and logistician of Hitler's rearmament effort—might it be possible to forge a common sense of austerity that instilled in 'the man on the street' the idea that one cannot consume more than one produces, and that could drive a wedge between the masses and their functionaries.[325] Even as employers had been able to resist the most ambitious reforms, and as confrontation under Brandt gave way to a more cooperative tripartite crisis management under Schmidt (Webber 1983), neither the German state nor its capitalist class dared to take on the unions directly.[326] As the IMF recognized in its 1978 Article IV consultations with Germany, any improvement in the profit situation of enterprises required "a reduction in the rate of rise of real wages (and in some cases...a reduction in real wages). ... Most countries, however,—and Germany seems to be no exception—find it difficult to induce a behaviour of wages which will, by itself, allow an improvement in profits and then in turn investment and employment".[327] While its low-inflation regime gave differential opportunities to dominant export interests, Germany could not provide a solution to the systemic loss of profitability. Only the United States, with Volcker, and

[324] 'Political-Economic Paper', p. 52.

[325] Klasen to Friedrich, 30 April 1971, BBk HA B 330/8383.

[326] Klasen to Berenberg-Gossler, 28 May 1974, BBk HA B 330/8374.

[327] IMF, "Germany – 1978 Article IV Consultation Discussions: Some preliminary remarks", AdsD DHS 11, pp. 4-5.

the United Kingdom, under Thatcher, would be prepared to go further, and chart a general path out of the crisis of post-war capitalism.

The international repercussions of the Volcker shock—the outcome of incessant pressure on the US to commit to an anti-inflationary programme—would ultimately pull German policy makers in the same direction. For at the heart of Germany's exit strategy lay a critical contradiction. The relative success of its crisis management was premised not only on building and extending a zone of stability in a world of inflation, but most importantly on maintaining lower rates of inflation than its international competitors. In the aftermath of the first oil shock, Germany had benefitted from a relatively more restrictive credit policy. But similar successes could not be expected if all countries pursued a restrictive course.[328] As one American critic pointedly put the question, "what would have happened if all countries had pursued policies similar to those of Germany in 1973-74? Wasn't your success at least in part a result of the fact that other countries went 'the expansionist way'?"[329] This meant that the German model could not be generalized without undermining the key to the success of Germany's growth strategy. It could command the consensus of the dominant export interests and the incorporated trade unions because, and as long as, it maintained this crucial comparative advantage in price stability. The anti-inflationary crusade that Germany had embarked upon therefore turned out to be not only irreproducible but self-defeating. For as soon as other state elites mustered the political will to apply the lessons of monetary restraint and fiscal prudence, the limitations and indeed fragility of the German model became apparent. Germany's anti-inflationary path out of the crisis had had the side-effect of turning the DM into the world's second reserve currency, notwithstanding the efforts of its monetary technicians to limit or at least manage its international attractiveness. With the US, Britain and Japan registering similar successes at coping with stagflation, this position of the DM was

[328] "Bericht über die Sitzung des Wirtschaftspolitischen Ausschusses (EPC) der OECD am 20. und 21. November 1980", 24 November 1980, BBk HA B 330/10669, p. 7.

[329] R. Solomon to Emminger, 25 June 1979, BBk HA N2 K 737.

thrown into question and became a liability.[330] German monetary authorities now found themselves bound to follow the US and UK interest rate hikes in order to maintain the confidence of investors in the DM as a hard currency and to stem capital outflows even at the expense of the domestic economy.[331]

When German interest rates reached a post-war record in May 1980 and the economy went into recession, the Schmidt government briefly opened up to the French plea for collectively bringing down interest rates (Marsh 2009: 91). The opposition of the Bundesbank and the election of a Socialist government ensured that Schmidt would remain isolated until his government was overturned. Ironically, “Helmut Schmidt, a prime instigator of the American credit squeeze, finished up as yet another victim” (Marsh 2009: 91). Whereas in the US and the UK the interest rate hike formed part of a larger project designed to defeat and roll back organized labour and dismantle welfare state regulation, in Germany high interest rates were adopted only under external pressure, implemented only with hesitation, and compensated for. The coming-into-power of Kohl in 1982 was, in this respect, a mere changing of the guard. The neoliberal turn of West German society he had promised would not come to pass for another decade and a half (Prasad 2006: 163); but under Schmidt’s social-liberal government, as this dissertation has shown, Germany had contributed decisively to its global emergence.

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[330] Central Bank Council Meeting Minutes, 11 December 1980, BBk HA B 330/11161, (Kloten), p. 7: “If successful, this anti-inflationary policy would mean that the potential for an appreciating DM will increasingly melt away. In this case, we could not hope that the DM will assume a stronger position in foreign exchange markets. The Japanese now manage to deal with their problem; and it now looks as if the Americans and the British will succeed as well. We are not sure about the French.”

[331] Pöhl to Schmidt, 16 June 1980, BBk HA N1 4: “In my view, the implications of this situation for our economic policy are clear. We need to pursue a policy that reduces the current account deficit. A decrease in domestic demand is going to help us in this. Our level of interest rates needs to be attractive enough to draw in foreign capital in order to compensate at least partially for the current account and capital account deficit. After all, we cannot raise any doubts abroad as to our resolve to do everything we can to ensure that the DM will remain a ‘hard currency’. Only in this way can we nip expectations of devaluation in the bud. This plan may temporarily come into conflict with our internal economic wants and needs, such as an economic slowdown. Nevertheless, I believe we need to see it through at almost any cost if we want to maintain the strong economic position of the FRG. It needs no special emphasis that such a plan is incompatible with a reprise of the “locomotive theory”.

Chapter 7

Reagan's Revolution: Neoliberal Globalization and American Power

The key argument of this dissertation has been that Germany had helped to shape the global balance of power and intellectual climate that allowed for neoliberalism to be successfully tried in the US and the UK. To highlight the role of Germany in preparing the counterrevolution that took place under Reagan and Thatcher is not at all to diminish the significance, but rather to sharpen the understanding, of what was 'achieved' during their incumbency. For the truly radical nature of what was done to working people under the aegis of Reagan and Thatcher only becomes apparent if we do not assume that the 1970s were simply a period of continuous ideological preparation, capitalist class mobilization, or systematic hegemonic reconstruction.

There is no doubt that in this period of economic uncertainty, neoliberal ideas gained prominence and ruling elites organized domestically and internationally to defend capitalism against popular-democratic forces. What allowed the counterrevolution to take place, however, was not simply the strength and coherence on the part of capital, but also the weakness and isolation on the part of labour and its advocates (Jones 2012: 271). As previous chapters have shown, German state managers had contributed enormously to this disorganization of progressive forces, without being themselves committed to neoliberal ideas or the restoration of capitalist class domination. It was enough for Germany to remain in the centre for the pendulum to swing violently to the right. The fact that the main alternatives, with the exception of Mitterrand's ill-fated Keynesian *course solitaire*, had already been ruled out explains why Reagan and Thatcher were able to pursue so radical an agenda with only a modicum of consent. In this sense, this chapter argues, the neoliberal social and international order that emerged in the 1980s and 1990s is best described as 'post-hegemonic'.

Twin Revolutions: Reagan and Thatcher

The pragmatic adoption of neoliberal ideas and policies by centre-left governments averse to free market ideology and supportive of the social compact had depleted the political imaginary and foreclosed alternatives of action. In this way, societies had been rendered susceptible to the neoliberal restructuring that was to ensue in the 1980s. Yet the rise of neoliberalism was neither complete nor inevitable when Thatcher and Reagan assumed office in May 1979 and January 1981 (Jones 2012: 253-4). The ideological triumph of 'the market', and its implantation in the social fabric and individual psyche, *presupposed* the political defeat of organized labour that had been the font for popular-democratic challenges to capitalism for over a century (Sassoon 1996; Gill and Solty 2013). In this crucial respect, the victory of neoliberalism was both 'late and lucky'. It could be declared only after the British miner's strike had been crushed in 1984/1985 and the owners of capital had been enabled and encouraged to take the offensive. Until that point, even a neoliberally minded Thatcher and Reagan government could not follow "an ideologically consistent agenda" but had to rely on a combination of fortunate circumstances and popular measures to stay in power (Bulpitt 1986: 34; Jones 2012: 271). Paramount among these, the chapter argues, was the peculiar and unplanned policy mix of high interest rates and deficit spending that funnelled global capital into the US and funded the fiscal measures that enabled the Reagan administration to bring the attack on labour and the welfare state to a 'successful' conclusion.

The neoliberalisms constructed in the United States and the United Kingdom ran parallel and mutually reinforced each other. Both Reagan and Thatcher were elected primarily because the left-of-centre governments that preceded them had gambled away their political credibility as they sought, unsuccessfully, to apply many of the economic ideas championed by the right without alienating their traditional base (Stein 2010: 262-3; Prasad 2006: 100; Jones 2012: 253, 263). But in lieu of a strong electoral mandate for neoliberalism, the free-market zeal of Reagan and Thatcher was not enough. Both newly elected governments were initially concerned to consolidate their hold on power. This meant that neither Thatcher nor Reagan could simply translate their utopian vision of market society into policy. Instead, they needed first and foremost to organize sufficient political support for their neoliberal ideas (Bulpitt 1986; Jones 2012: 271). Thus while the long-term goal of reining in government largesse and trade union power was the same, the tactics differed according to the obstacles they confronted and the opportunities that presented themselves along the way.

In the United States, the Reagan administration could seize upon a deregulation drive that had originated as a social movement against the collusion of state and big business and that the social forces of capital and conservatives had been able to steer it into an anti-statist direction (Prasad 2006). The Reagan administration put the emphasis on reorganizing state capacities from regulating the economy in the interest of social protection to fostering financial and economic competition and liberalization (Prasad 2006: 43-44, 63). Moreover, the enormous income tax cuts, combined with massive military expenditures, produced record deficits that served as an excuse for gutting welfare programmes and social regulation. This single most significant element of Reagan's neoliberalism, Prasad has argued, was opposed by organized business which had lobbied for corporate tax cuts instead and worried about the looming deficit (Prasad 2006: 48-49; Stein 2010: 264-265).

Prasad's (2012: 353) conclusion that the "[t]he origins of neoliberalism are not to be found in the disproportionate influence of business interests" is overstated in as far as it misses the ideational and structural dimensions of capitalist power (Gill and Law 1989). American business had been crucial in creating the conditions and defining the substance of this broader neoliberal experiment. Far more forcefully still than its European and Japanese counterparts—or even the situation in Britain, where it was a fraction of the Conservative Party rather than ideological entrepreneurs (Prasad 2006: 151)—American business offered a diagnosis of the economic and political malaise built upon neoliberal precepts. Since the late 1960s, business had come under attack from an array of societal interests that threatened to undermine the profitability and the legitimacy of American corporate capitalism (Smith 2000: 172; Panitch and Gindin 2012: 163). In the mid-1970s, the American capitalist class began to organize a collective response. Deepening ties with the capitalist elites of other countries, founding and funding numerous business lobby groups and conservative think tanks, American business managed to change the public discourse in a pro-business, anti-government and anti-union direction (Gill 1990; Smith 2000; Blyth 2002: 155). Through like-minded policy groups, research institutes and think tanks, the business financial press, higher academia and the economics profession, capitalist class actors had been able to influence the terms of debate, define the character of the problem and delineate the range of available solutions (Blyth 2002; Mudge 2008: 707).

But Prasad's careful archival research serves as a reminder that the imperative of broadening the appeal of neoliberalism did not always coincide neatly with the interests of the owners of capital. The US did not simply enact neoliberal policies at the behest of Wall Street but also with a view to the popular appeal of these reforms. The extraordinary departure from the conservative principles of balanced budgets by a Republican administration was considered necessary in order to maintain popular support among the top-income, but also middle and working class voters. The significance of the neoliberal turn was not its instrumental role in *restoring* ruling class power, courtesy of a process of financialization, but to build popular support for neoliberalism even as the socio-economic gains of the New Deal were being systematically undermined. The tax cuts, Prasad had argued, were implemented not because they conformed to business interests but because they appealed to voters that had been pushed into higher tax brackets by inflation (Prasad 2006: 61).

The defeat of inflation and organized labour were used synonymously. The triumph over inflation was measured in terms of the concessionary wage agreements that unions were now being forced to negotiate.[332] This is apparent in Volcker's assessment that "the most important single action of the administration in helping the anti-inflation fight was

[332] Regan, quoted in Schulmann, "Betr.: G-5 M Treffen am 17.01.1982 in Versailles", AdsD DHS 11, p. 1.

defeating the air controller's strike" (Volcker 1994: 162, quoted in Stein 2010: 267) which, as Volcker more recently noted, did "even more to break the morale of labor" than the "breaking of the pattern of wage push in the auto industry" (Volcker, quoted in Panitch and Gindin 2012: 171-172).

In addition to relying on the disciplining force of structural unemployment, the American state also directly confronted the unions (Blyth 2002: 182). Reagan's dismissal of 11,400 striking air traffic controllers and their replacement by military personnel in 1981 sent a powerful signal that a frontal attack on labour was not only desirable but feasible. Businesses not only felt confident to take harsher measures against unions; they were empowered to do so by Reagan's subversion of the National Labor Relations Board (NLRB) (Stein 2010: 267; Blyth 2002: 182-183). Moreover, "the London Times celebrated *Mr Reagan's Short Way with Strike* and expressed the hope that Conservative Prime Minister Margaret Thatcher would follow Reagan's example" (McCartin 2011: 330). And indeed one Downing Street official confirmed that the crushing of PATCO strengthened the Thatcher government in its resolve to weaken the unions and confront the miners (Jones 2012: 267).

The associational strength and adversarial position of the trade unions in Britain, as opposed to their incorporation into the nexus of state and capital in Germany, made them the principal target of Thatcher's neoliberal programme. The plans for legally curtailing the power of trade unions had been developed in 1977, and the frustrations of voters with organized labour in the wake of the Winter of Discontent explains Thatcher's electoral success (Bulpitt 1986: 34; Prasad 2006: 100, 106). But it was not until the miner's strike of 1984 that the Thatcher government would launch a carefully orchestrated, full frontal attack on the unions (Jones 2012: 256-7; Evans 2013: 39). In the meantime, the Thatcher government followed a more cautious course of action that built on those elements of neoliberalism that promised the broadest electoral appeal and offered the least opposition, including from within the conservative party (Bulpitt 1986).

Unlike the failed incomes policy, monetarism promised to curb inflation without relying on the goodwill of the unions (Bulpitt 1986: 34-35; Prasad 2006: 107, 142). Catering to the traditional fiscal conservatism of the Treasury and the Bank of England, monetarism was redefined to include and tightly control public spending (Prasad 2006: 109, 118). And because of the electoral promise of income tax cuts *and* a balanced budget, an increase in the less visible sales tax was chosen as the politically most expedient way of combating inflation by inducing a recession and increasing unemployment (Prasad 2006: 118). The Thatcher government also embarked on an extensive privatization programme after earlier steps in this direction had proven to be more widely popular than initially anticipated (Prasad 2006: 122-123; 135; Evans 2013: 35). And the crucial element in Thatcher's efforts to 'popularize' neoliberalism was the sale of council houses which held out the possibility for former tenants to become home owners (and conservative voters) and was supported by an overwhelming majority of voters (Hay 1992; Prasad 2006: 141; Evans 2013: 35).

The real 'accomplishment', in the case of both Thatcher and Reagan, was not to follow a fully developed ideological road map but to manoeuvre the political terrain so as to sustain an attack on the welfare state and organized labour under economic and political circumstances that were far less propitious than might appear in hindsight. Neoliberal ideology can help explain why Thatcher and Reagan were willing to risk this confrontation, but it is only after the event—as "the American political establishment discovered that deficits and increasing poverty did not make the president unelectable" and "British politicians learned that three times as many unemployed as in previous administrations did not make the government unelectable" (Prasad 2006: 98)—that its lessons were more widely accepted and applied.

Fuelling the Neoliberal Revolution

To repeat: the election of Reagan indicated general dissatisfaction with Carter's economic policy rather than a political shift to the right (Stein 2010: 262-3), and although Reagan carefully crafted his neoliberal reforms upon voter's preferences regarding tax cuts and deregulation, his approval ratings had dropped to 35% in 1982 (Stein 2010: 267). Yet what made his experiment workable were the massive inflows of foreign capital that were attracted by record high interest rates (Helleiner 1994: 148; Stein 2010: 268-269).

Crucially, according to Krippner, this was "an inadvertent discovery rather than the culmination of a carefully executed plan to draw the world's savings to U.S. financial markets" (Krippner 2011: 87, 92). Initially, the Federal Reserve had sought to limit the inflow of foreign funds as they threatened to frustrate its efforts to tighten the money supply (Helleiner 1994: 135-139). It was only because capital was absorbed by a newly deregulated, highly profitable, and rapidly expanding financial sector that its inflationary impact was lessened (Konings 2007: 55). And it is only in retrospect, as Martin Konings points out, that "the Fed found, to its surprise, that the ongoing expansion of money and credit no longer resulted in high rates of inflation" (2007: 54).

The FOMC minutes make clear that even though the Federal Reserve was concerned about attracting foreign capital, it felt compelled to maintain high interest rates in order to countervail the extremely loose fiscal policy of the Reagan administration (Stein 2010: 266). What Volcker had feared from the outset would be an "inevitable collision" between Reagan's fiscal laxity and the Fed's monetary restraints turned out to be a boon (Silber 2012: 206). The opposition between Volcker's monetarism and Reagan's much maligned 'voodoo economics' produced the peculiar policy mix of monetary stringency and fiscal stimulus that created and sustained the attractive investment climate of a high dollar and high interest rate (Krippner 2011: 96).

The Reagan administration, too, remained sceptical and only belatedly recognized the potential advantages of foreign capital investment (Niskanen, interviewed in Krippner 2011: 95). The massive inflow of funds not only helped to offset the trade and current account deficits; the Reagan administration also learnt that it could afford to run federal deficits because foreign investors—now private rather than central bank agents, and Japanese investors at the forefront (Murphy 1996: 129-134, 144-145; Brenner 2006: 189)—seemed to have developed an insatiable appetite for US Treasuries (Krippner 2011: 87).

On a much larger scale than Thatcher, who had used the North Sea oil revenue to finance its income tax reductions, the US government was able to finance both its massive tax cuts and military expenditures through the sale of Treasury bonds. While the Volcker shock radically disinflated the world economy between 1979 and 1982, the subsequent fiscal and military expansion, as well as financial deregulation, helped the US economy stage a more vibrant recovery than its core capitalist rivals (Gill 1989: 33).

Global capital inflows, in short, both *enabled* and subsequently *rewarded* the neoliberal counter-revolution, providing a critical measure of electoral support and economic dynamism even as organized labour and the welfare state were being directly attacked and systematically undermined. The result of this experiment was to strengthen immeasurably, but rather inadvertently, the unilateral capacity of the United States. But rather than simply provide a new lease on life for a declining hegemon, it gave rise to a historically novel form of capitalism that involved three unexpected transformations: despite the predictions of hegemonic decline and geopolitical fragmentation, the role of the US became more central and the system of global governance more tightly integrated. Despite the social and international challenges to global capitalism that dominated in the first half of the 1970s, the rule of transnational capital was ultimately strengthened at the expense of organized labour. And despite popular-democratic aspirations for post-Keynesian and socialist modes of life, neoliberal ideas have today become deeply ingrained in the mentality of individuals.

Back to the Future

The global financial meltdown of 2008 and ensuing world economic recession have exposed a debilitating division of labour in which the failure of economics to anticipate the crisis is exacerbated by the difficulties of political science to assess its social significance. Devised to bridge this disciplinary divide, the field of International Political Economy (IPE) would seem to be well placed for an intellectual renaissance. Four decades after its inception as an Anglo-American subfield of International Relations (IR), an integrated analysis of the pursuit of 'power and plenty' would seem to be more pressing than ever. Amidst divergent national and global responses and conflicting interests over macroeconomic imbalances, currency realignments and the competitive reregulation of financial sectors, one of the foundational concerns of IPE has acquired a renewed sense of urgency: how far, and under what conditions, can the advanced capitalist countries manage global instabilities, negotiate political differences, and sustain a liberal international economic order?

Yet judging by the recent debate over the 'state of the discipline' that Benjamin Cohen's intellectual history of the field has prompted, IPE is a far cry from realizing this potential (Cohen 2008; Phillips and Weaver 2011). According to Cohen, what began forty years ago as an open-minded and inter-disciplinary exchange has fragmented into two separate camps: an 'American school' of IPE that privileges methodological individualism and quantitative methods; and a 'British school' that favours interpretive methods and holistic theorisations (for an overview of the various interpretations, see Weaver 2011: 144). Whereas Cohen (2008: 175-178) employed this categorization in the hope of overcoming this schism and combining the forces of rigour and reflexivity, parsimony and pluralism, some of the rejoinders have struck a much sourer note. Obsession with formal modelling, some contend, has left 'American' IPE unable and unwilling to ask fundamentally political questions about structural power and social change (Keohane 2011: 39; Kirshner 2011; McNamara 2011). Meanwhile, others have argued that the penchant for abstract theorising and political posturing of 'British' IPE has come at the expense of empirically grounded and open-ended research (Underhill 2011: 153; Blyth 2011: 138; Cameron and Palan 2009; Farrell and Finnemore 2011: 64).

Paradoxically, the debate over the legacy of IPE—framed in terms of the causes, consequences, value and validity of an alleged US/UK cleavage—has itself become symptomatic of some of the major shortcomings of the field. There is a clear danger that what started out as a useful review of the intellectual lineage of IPE may turn into a self-indulgent and scholastic introspective that detracts from the substantive concerns that it ought to help us better understand (Phillips and Weaver 2011: 1; Katzenstein 2011: 105; Lake 2011: 45; Weaver, 2011: 142; Helleiner 2011: 178). Moreover, a number of critical scholars have cautioned that the demarcation of two schools of IPE has effectively narrowed the terms of engagement to a rationalist and constructivist variety of institutionalism (van Apeldoorn, Bruff and Ryner 2011: 216), and that critical IPE perspectives have been too readily dismissed or ignored (Cox 2011; Murphy 2011; Hveem 2011). If anything, the debate would seem to be a reminder that the history of IPE has also been one of academic gate-keeping and exclusion—a fact that the image of two schools drifting apart not only adds to, but obscures rather than illuminates.

Are critical scholars then to follow Cammack's scathing criticism and its conclusion that it is best to 'bury IPE' (Cammack 2007: 18), as it never offered room for a radical analysis of the global political economy to begin with? The problem, of course, is that even if we were to jettison IPE, some of "the big, important, real world puzzles" (McNamara 2011: 65) will remain (Germain 2011: 84). Paramount among them, this dissertation has argued, is the question of how far global capitalism can, in fact, be collectively managed. It is this concern that, at the end of capitalism's golden age, brought scholars of different theoretical persuasions together, that both narrowly positivist and overly theoretical approaches have lost sight of, and that the contemporary crisis of global capitalism has brought back to the fore. And it is a problématique, moreover, that is theoretically and politically important not only for those who wish to facilitate inter-capitalist cooperation, but also for those seeking to support anti-capitalist resistance.

This dissertation has argued that an answer to this problem needs to be found on the grounds of history rather than deduced from any abstract laws of motion—whether the latter are conceptualized as eternal swings between international anarchy and hierarchy or a globalizing logic of markets. Critical scholarship is best equipped to do so because it is sensitive to the historically variant and socially constructed nature of international systems, and because it zeroes in on social contradictions and contestation as key dynamics of qualitative world order change. This dissertation has argued that the globalizing outcomes of the crisis of the 1970s were, in a closely delineated and yet crucial sense, driven by 'conflict' not only *within* but also *between* the advanced capitalist countries. In this respect, it challenges the two prevailing post hoc rationalizations within IPE that assume that inter-state conflicts in the 1970s did not matter either—as realists have argued—because they were temporarily submerged by cold war bipolarity or—as liberals imply—because they had been sublated by an incipient globalization.

There is no doubt that the reconstitution of the economic basis, social balance of power and state forms of Western Europe and Japan under the active and purposive leadership of the United States had created a qualitatively new capitalist order that broke with the old forms of inter-imperialist rivalries. The break-up of the capitalist world into hostile trading and monetary blocs similar the 1930s, while predicted by a number of realists and Marxists and on the minds of some political elites and foreign policy intellectuals in the 1970s, was never actually in the cards. The United States was not in decline to begin with, and to attribute (counter-)hegemonic interests to America's allies turns out to be misleading. And yet the reverse assumption that any tensions among the major capitalist powers were superficial and inconsequential is to miss out on the new dynamics of economic and political competition that, while rooted firmly within the existing structures of American hegemony, contributed to how the crisis of the 1970s ultimately played out. In the context of the seventies' crisis, this confrontation between the main capitalist countries and their American *primus inter pares* involved questions of how best to deal with the vexing issues of monetary disorder, decelerating growth, rampant inflation and mass unemployment, how to accommodate incompatible national crisis responses in an interdependent world economy, and how to influence the policy choices of others. In their efforts to cope with these problems, the leading states chose creatively and competitively among a range of policy responses that impinged on one another, and that combined to fundamentally reshape the international character and social purpose of capitalism.

To fully understand the new world order that emerged out of the crisis of the 1970s, then, it is necessary to shift attention from the agency of the United States and its elites to the strategic perspective of other states and social forces, and the specific political and economic challenges and opportunities they confronted. This study has chosen Germany as its focal point of analysis. After 1945, the German state turned from erstwhile saboteur of American globalism to one of the most influential supporters of an open and multilateral world economy. For this reason, it offers crucial insights into the nature of American hegemony during the 1970s and beyond.

The analysis has found that, in the face of a global economic crisis that threatened to undermine the basis of its social compact with labour, Germany's capitalist state mobilized its monetary power to defend its main export markets against protectionism and to protect the cost advantage of its export model from imported inflation. The success of this grand economic strategy had highly contradictory consequences: while it stabilized the relationship between capital and labour internally, it led to the gradual erosion and, in the case of the US and UK, the outright abdication of embedded liberalism.

The point of this study, on both methodological and empirical grounds, is not at all to argue that Germany alone was responsible for neoliberal globalization. It is instead to argue that we need to broaden our analysis of the origins of neoliberalism, and that the findings of this study can help us do so in several respects.

First of all, the examination of German economic crisis strategies provides an important corrective against accounts that—with the benefit of hindsight—have tended to overstate the unilateral agency and strategic vision of the United States that, in a bid to restore its supremacy, acted as the architect of neoliberal globalization. The transition from the golden age of embedded liberalism to the global age of neoliberal capitalism cannot be told in terms of a single dramatic arc extending from Nixon's decision to close the gold window in 1971 to Volcker's punitive interest rate shock in 1979. Rather than pursuing a coherent and aggressive master plan, US policy makers only hit upon and fully embraced a neoliberal solution after much trial and error (Krippner 2011), and under pressure from a German state and central bank that for years had urged the US to live up to its global responsibilities of managing capitalism in the collective interest of the West.

Far from arguing that the United States was unimportant, the point is simply to argue that its global role in the 1970s cannot be understood through the lens of hegemonic decline or resurrection. Reflecting the new international power and purpose of the United States, the US dollar had emerged after 1945 as the central currency of the reconstituted capitalist world economy. The American payments deficit—primarily the result of foreign development aid and military support—symbolized the growing responsibilities that the US had assumed for the construction and maintenance of global capitalism. The ability of the United States to issue the international currency with which to settle its payments deficit, to be sure, meant that it could avoid deflationary measures in order to restore international balance (Hudson 2003: 15). Yet the true testament to American power was not its putative ability to toss aside the rules of Bretton Woods once they no longer suited its immediate self-interest, but rather to extend the lifeline of a system that had been critical to capitalist reconstruction but had become economically unsustainable and politically contested in the 1960s. Chapters 3 has argued that France in particular frustrated these attempts at preserving the status quo and that the Nixon shock had been predetermined by France's attack on the gold pool. And Chapter 4 has argued the German float had weakened the fixed-exchange rate regime before the United States supposedly jettisoned it.

Rather than inaugurating a Faustian bid for global dominance, Krippner (2011: 91) explains that Nixon's decision to cut the dollar from gold "was still an effort to escape the constraints of the global system and not yet an effort to harness global capital markets to domestic political objectives." It allowed the US to externalize and postpone an economically painful and politically cumbersome internal adjustment.

The perplexing consequence of finally accepting neoliberal discipline, or rather of imposing this discipline on its working class (Panitch and Gindin 2012: 15), was to broaden the international economic and geopolitical scope of action of the US by boosting its capacity to draw in foreign capital and to borrow without limits.[333] Yet the long-run process of financial deregulation that made this possible—involving the phasing out of capital controls in 1974, the lifting of interest rate ceilings under Carter in 1980 (Jones 2012), and the authorization of an 'offshore' banking centre in New York (Helleiner 1994: 138-139)—proceeded haphazardly (Krippner 2011) and involved a dialectic of "state intervention and financial innovation" (Hawley 1987: 120) that cannot be reduced to a "seamless alliance between government officials and business elites" (Krippner 2011: 13) any more than it adds up to a coherent programme of hegemonic reassertion.

In a number of respects, of course the neoliberal revolution was indeed bound up with the coercive reassertion of American power. The access to international finance allowed the United States to engage the USSR in what turned out to be a ruinous arms race for the Soviets. The ideological and military confrontation with the Soviet Union under Reagan's presidency also reinforced the role of the United States as leader of the West and imposed a greater measure of alliance coherence after a decade of economic and political détente (Saull 2007: 157-8). The military standoff also produced frictions with those of America's NATO allies who had entertained close economic ties with the Soviet Unions. But whatever losses resulted from the economic sanctions against the Soviet Union were

[333] In this crucial respect, "[t]he monetarist transformation of American finance…had little to do with the American state submitting itself to the dictates of international finance" (Konings 2007: 55).

more than compensated for by the considerable, and far more politically reliable, export opportunities produced by Reagan's military spending.

The anti-communist crusade of Reagan and Thatcher, supplemented by the latter's Falklands War, also served as a classic political expedient to unite society against an external enemy, and afforded a degree of cohesion amidst the structural transformation both societies were undergoing. The new Reagan Doctrine reignited the cold war in the third world, where the United States pursued a strategy of low-intensity warfare against revolutionary governments in Nicaragua and Grenada and an often imagined Soviet encroachment (Saull 2007). The United States, Thatcher related the Manichean worldview to an incredulous Schmidt, confronted a communist problem in Latin America just as Europe did in its backyard.[334] More important still than the defeat of national liberation movements was the third world debt crisis induced by the Volcker shock, which destroyed whatever hopes remained that European social democracy might side with the forces of a New International Economic Order.

The key point remains that America's triumph over labour militancy, third world nationalism, and Soviet communism in the 1980s and 1990s was about far more than simply renewing America's global dominance and its relative strength vis-à-vis its capitalist partners. With the Volcker shock and Reagan revolution, to be sure, the allied attempts to gain a more direct say in the making of America's international policy backfired. And yet even as the Reagan administration eschewed multilateral coordination (or rather their Keynesian agenda) in favour of unilateralism, it outlined the contours of a general solution to the crisis of global capitalism. And the institutional framework created in part to promote a more equal sharing of privileges and responsibilities now facilitated the radical redefinition of social purpose that was involved in the entrenchment of global capitalism. Out of the crisis of post-war capitalism and the defeat of the forces of social and economic democracy, a qualitatively new social and international order arose.

[334] Zeller, "Vermerk über ihr Telefongespräch mit PM Thatcher am Dienstag, 24. Februar 1981", 26 February 1981, AdsD HSA 6593, p. 4.

To stress the unintended consequences of Reagan's neoliberal experiment is not suggest that the role of the United States can be wholly reduced to that of a blundering giant. Krippner's otherwise compelling account may give this impression as it focuses on a cascade of internal crises facing US state managers while ignoring the international causes and consequences of their actions. The argument of this dissertation, by contrast, is that the crisis and transformation of embedded liberalism is best understood as an interactive process driven by a number of states. While the 1970s are indeed "a decade during which capitalist states and bourgeoisies stumbled through strategic confusions as well as class and international conflicts" (Panitch and Gindin 2003: 17; Newstadt 2008: 96), the key point is that they did so collectively—though not always cooperatively. From this perspective, unintended outcomes are not simply the product of chance or miscalculation on the part of one country's policy makers, but rather are to be seen as a composite of the attempts of several states to solve problems and prod others in a desired direction.

While this dissertation has focussed primarily on the crisis management (and its profound but self-undermining effects) of Germany, US policy makers pursued an even more comprehensive grand economic strategy. To emphasize the contingent and unplanned success of the final and decisive step towards neoliberal globalization taken by the Reagan administration is at once to recognize that American policy makers had worked consistently towards a resolution of the crisis throughout the 1970s and in numerous respects. While outside the purview of this study, one may hypothesize that these aspects in the making of global capitalism may have been subject to similar dynamics of strategic action and response.

The previous two chapters have argued that Germany had helped to create the necessary international and social conditions for neoliberalism to succeed. The argument that German state operators both frustrated Carter's attempts to fuel global demand and limited Volcker's options to global deflation challenges the narrowly instrumentalist conceptions of neoliberalism as a coup of financial elites. The fact that German state managers had pushed monetary and fiscal responsibility onto the US for the better part of a decade makes it difficult to maintain that a financial or rentier fraction of capital hijacked the policy making process to advance its agenda (e.g. Greider 1987; Crotty and Epstein 1996; Epstein and Jayadev 2005; Stein 2010). It is of course difficult to disprove the counterfactual case that the Volcker shock would have happened even without the intense German pressure on US policy makers.[335] Yet the crucial point remains that the foreclosure of what may have been viable alternatives had already occurred much earlier, and Germany, we have seen, had been central to this through its actions and inactions. Moreover, the plausibility of the counterfactual argument rests squarely on the assumption that a broader realignment of social forces and more incremental shift in economic thinking had already occurred in the United States and thus made an outside imposition redundant. The notion that Volcker acted on behalf of financial elites is misleading precisely because it abstracts from the broader change in the social balance of power and intellectual climate that made the neoliberal experiment possible (Duménil and Lévy 2004: 165; Stein 2010: 227).

In this respect, the argument that the most immediate political pressures Volcker responded to came from the German state and central bank rather than *haute finance* turns out to be crucial. Rather than simply shift the focus from the 'special interests' of international finance to those of German state managers, it serves to open up to this critical turning point to a more fine-grained and full-scale investigation.

The conclusion of this dissertation, then, is not that Germany's influence was somehow all-decisive, but rather that we need to consider the whole range of state actors, social forces and ideas that contributed to the making of neoliberalism. This means that critical scholarship needs to insert an intermediate step in its explanations of the origins of neoliberalism that interrogates the failure of potential alternatives on its own terms rather than deriving it from the strength of the neoliberal project (Schmidt 2011). The neoliberal restructuring of the global political economy could ultimately only triumph after

[335] I would like to thank Eric Helleiner for pointing my attention to this possible counterargument.

progressive challenges to the failing Keynesian order had been removed. And the reason they fell by the wayside, the German experience suggests, may have little to do with the social and ideological forces promoting neoliberal solutions.

In the case of Germany, we find a government that remained uncommitted to neoliberalism as a project of restoring ruling class power (van der Wurff 1993: 182). On the contrary, German policy makers sought to sustain, as far as possible, the productivist consensus that was being threatened as a result of the crisis. Nevertheless, we have seen that the particular way in which they strove to do so domestically led to the opposite outcome internationally. Far from being the helpless victim of the neoliberal counterrevolution of the late 1970s, Germany had made an initial and decisive, though not fully deliberate, contribution to its global emergence.

This, then, raises the question of whether the shift from embedded to neoliberalism can still be understood in terms of a paradigmatic change of ideas (cf. Helleiner 1994; McNamara 1998; Blyth 2002). The assumption that policy makers shifted from Keynes to Hayek not only underestimates the importance of non-ideational factors, but also misses out on qualitative shifts in the constitution of social and international order and the inter-subjective understandings that underpin them.

The decisive victory over the working classes in the United States and the United Kingdom created an intensely competitive form of capitalism. This new model of economy and polity derived its advantage from its ability to dispose of, and do without, the compensation and protection that had hitherto been considered indispensible for buying the allegiance of labour and for maintaining social cohesion and political stability. It is in this sense that one may speak of a 'transnational learning process' that, rather than guided by economic ideas or institutionalized interactions (McNamara 1998; Mourlon-Druol 2012), was shaped by practical results and had started with the relative success of German state managers in combating inflation. From the German vantage point, the experiment involved the inversion of what the political left had demanded in the early 1970s. Rather than "test the weight of the financial burden which the private sector economy could be made to carry", as a former politician of the SPD had put it (Jochen Steffen, cited in Webber 1983: 66), neoliberal politicians now sought to probe the carrying capacity of society in the interest of private enterprise.[336] In this respect, the neoliberal programme of Thatcher and Reagan not only had a disciplinary intent but also a demonstration effect. Their re-election proved not only that organized labour could be taken on and defeated, but also that such class confrontation could be politically stabilized and could serve to restart the capitalist engine.

The great unwinding of the embedded liberal compact rewarded the US and the UK as the prime movers towards neoliberalism. It rendered the economic success of the capitalistically developed societies contingent upon the degree to which they could mimic the Anglo-American example. The diffusion of a neoliberal form of capitalism reinforced the centrality of the US. But it proceeded very differently than the replication of the American state/society complex after 1945. The US had actively encouraged the import of Fordist and Keynesian methods of economic organization and social stabilization. It had tolerated a variety of organized capitalisms that employed various strategies of state intervention, nationalization, and economic planning in the pursuit of the embedded liberal compromise. And it had sought to create an international environment in which these different institutional variations could flourish. By contrast, the neoliberal reorganization of the core capitalist economies in the 1980s and 1990s was structurally induced (Gill 1989: 33).

America's post-war hegemony had been premised upon the internationally and socially organized consent of both potentially rival capitalist elites and potentially unruly masses. The emerging world order was of a different quality. Even where neoliberalization did not involve the one-sided termination of the post-war social contract, the creeping erosion of welfare state regulation, the de-legitimation of social democracy and the decline of trade unionism turned the active consent of an economically organized, politically

[336] Ehmke to Schmidt, 20 October 1980, AdsD HSA 6818, personal confidential.

represented, and socially protected working class into the passive acquiescence of an increasingly fragmented, marginalized, and precarious labour force (Gill 2008: 125).

The disparaging description of 'consensus' given by Thatcher in her speech at Monash University in 1981 as "something in which no one believes, but to which no one objects" may serve as an apt description of a new economic philosophy that was shared initially only by a handful of ideologues but soon appeared to be without alternatives and beyond the reach of democratic politics even to those that had derided these ideas only a few years earlier. One question for further research is thus whether the so-called Washington Consensus and post-war Keynesianism can really be understood as functionally equivalent 'economic paradigms' (cf. Babb 2013), or whether neoliberalism is best approached as a different order of social knowledge. The new consensus, after all, is no longer premised upon a politically negotiated agreement but on the silent understanding that there is no alternative. The embedded liberal compromise was explicitly understood as a bargain between two formally equal partners, even as the organization of the economy systematically privileged the power and interests of one over the other, external supports. Neoliberal 'common sense', by contrast, has largely accepted the market as the unquestioned arbiter of life chances. It is in this sense that one may qualify the new type of international and societal rule that was built upon the rollback of the labour movement, the resubordination of the South and the collapse of really existing socialism as 'post-hegemonic' (Gill 2008: 204).

The contemporary crisis has raised concerns about the future of international order that echo the situation of the 1970s. In keeping with the insight of critical scholarship that the character of the crises, as well as the forms of capitalist sociality that constitute the international system, vary across space and time, direct parallels between then and now cannot be drawn.

The relative resilience of Rhineland capitalism in the face of the neoliberal onslaught of the last thirty years has led some to speculate that "[h]ad the countries of the *Keynesian compromise* been able to define an alternative less inflationary policy, under German leadership, it is not obvious that the turn to neoliberalism would have been taken" (Duménil and Lévy 2005: 37). Building on these insights, some contemporary observers have called upon the German government and opposition parties to assume the responsibilities of a "benevolent hegemon" (Soros 2012) and act as sponsor of a global New Deal (Hein and Truger 2010).

Against such aspirations and prescriptions, it needs to be pointed out that Germany's strategy of crisis management in the 1970s pointed in a *post*-hegemonic direction. To be sure, *within* German society, the low-inflation model based upon reciprocal wage and price restraint had offered advantages to, and gained the support of, both dominant exporters and incorporated trade unions. The international extension of this model, however, could not offer the same opportunities and did not entail a similar degree of consent. At least initially, the German model was adopted not because of any shared understanding among political (and economic) elites of the preferable solution to the crisis but under the immediate impression, and indeed pressure, of Germany's practical achievements.[337] The problems of wage-push inflation were certainly recognized, but the political and economic costs of disciplining labour through monetary tightening seemed prohibitively high. Only in Germany, were relative price stability translated into export competitiveness, could monetary restraint stabilize the social-democratic bargain. The extension of the German anti-inflationary project via the snake and EMS, however, contained a compulsive element, offering exchange-rate stability while forcing adhering countries to follow the macroeconomic example of Germany. And lastly, even when and where an anti-inflationary program had gained the support of financial and industrial circles (Moss 2000: 265), the model of monetary and fiscal prudence could not be replicated without undermining the Keynesian compromise.

[337] Statement by Schmidt, Central Bank Council Meeting Minutes, 30 November 1978, BBk HA N2 269, p. 9: "That is to say, these countries have ultimately adopted the German example of stabilization politics since May 1973 not because they or their political leaders like it. Not because they have realized that this is better in principle, but because they have had to experience in practice that we have fared better with it."

The German solution, to be sure, involved constructing, extending, and maintaining a zone of stability in a highly inflationary global environment. But this was only the necessary and not the sufficient condition for Germany's economic success. For the model to work, Germany had not only to keep down inflation but to maintain *lower* rates of inflation than its competitors. This competitive element meant that Germany's was an inherently particularistic mode of crisis management that turned out to be self-limiting when exported to other state/society complexes.

The chances that Germany today might emerge as the new driver of demand-led growth are virtually nil if we recall that German policy makers in the 1970s turned down similar propositions under conditions that were far more favourable to a progressive reorganization of the global political economy. Although social democrats were in government, and despite a strong political left and organized labour movement as well as widespread social and international demands for redistribution, German state managers would not cede to calls for a global reflation for fear that this would undermine its anti-inflationary path out of the crisis (Cesaratto and Stirati 2010: 79). And yet while Germany is unlikely to play such a leadership role in the current context even under a new government, past experience suggests that it is not going to withdraw from the European project either (cf. Young and Semmler 2011). In the context of the 1970s crisis, after all, German state managers also renounced an inward-looking and self-reliant course of action. They instead chose the 'flight forward', elaborating a grand strategy that gave impetus to the further monetary and economic integration and institutional organization of Europe, while limiting decisively the leeway for solidaristic alternatives. The onset of the financial crisis has coincided with a remarkable recovery of the German model of capitalism from almost two decades of relative stagnation and malaise. In a situation where Germany's managerial capacities to shape the future of the European and international order have been strengthened by a rebounding export economy, rising tax revenues and low borrowing costs just as disintegrative social, economic and political pressures are mounting, we can expect Germany to project its monetary and financial influence across and beyond Europe in ways that will be similarly transformative, and perhaps just as socially regressive, as in the 1970s.

The dissertation serves to draw attention to the unintended consequences not only of German crisis responses in the 1970s, but—more broadly—those of the leading states and social forces today. As the progressivist view of the globalization project is rapidly fading, and a declinist scenario has reasserted itself, a comprehensive political-economic analysis of the current crisis would do well neither to overstate the significance of purposive globalist designs, nor to exaggerate the dangers of economic and political fragmentation, but instead to focus on the complex interplay of divergent and potentially conflicting strategies that are likely to propel the global political economy of the early twenty-first century in novel directions. If history teaches us that revolutionary movements may seize upon splits within the ranks of the ruling classes, one important task of radical IPE may be to trace the frictions that emerge between those in power in moments of crisis, past and present.

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