Chapter 3: The Global Plan

The remarkable opportunity

The United States of America came out of the *Second World War* as the major and, in fact, if one excludes Switzerland, the *only* creditor nation. For the first time since the rise of capitalism, all of the world's trade relied on a single currency, the dollar, and financed from a single epicentre, Wall Street. While half of Europe was under the control of the *Red Army*, and Europeans were openly questioning the merits of the capitalist system, the *New Dealers*, who had been running Washington since 1932, realised that history had presented them with a remarkable opportunity: To erect a post-war global order that would cast American hegemony in stainless steel. It was an opportunity that they seized with glee.

Their audacious scheme sprang from the two sources that lie behind every great achievement: *Fear* and *Power*. The war endowed the United States with unprecedented military and economic might. But, at the same time, it acted as a constant reminder of America's failure properly to come to terms with the legacy of 1929 before the Japanese navy unleashed its bombs and torpedoes over Pearl Harbour. The *New Dealers* never forgot the unexpectedness of the *Great Depression* and its resistance to 'treatment'. The more power they felt they had in their hands the greater their fear that a new 1929 could turn it into thin ash running through their fingers.

Even before the guns had gone silent in Europe, and before the Soviet Union emerged as a dragon to be slain, the United States understood that it had inherited the historic role of reconstructing, in its image, the world of global capitalism. For if 1929 nearly ended the dominion of capital at a time of multiple capitalist centres, what would a new 1929 do when the larger game, global capitalism, revolved around a single axis; namely the dollar?

In 1944 the *New Dealers*' anxieties led to the famous Bretton Woods conference. The idea of designing a new global order was not so much grandiose as it was essential. At Bretton Woods a new monetary framework was designed acknowledging the dollar's centrality but also taking steps to create international shock absorbers in case the US economy wavered. It took fifteen years before the agreement could be fully implemented. During that preparatory phase, the United States had to put together the essential pieces of the jigsaw puzzle that I call the *Global Plan*, of which Bretton Woods was an important piece.

Bretton Woods

While the war was still raging in Europe and the Pacific, in July 1944, seven hundred and thirty delegates converged upon the plush Mount Washington Hotel located in the New Hampshire town of Bretton Woods. Over three weeks of intensive negotiations, they hammered out the nature and institutions of the post-war global monetary order.

They did not come to Bretton Woods spontaneously but at the behest of President Roosevelt whose *New Deal* administration was determined to win the peace, after almost having lost the war against the *Great Depression*. The one lesson the *New Dealers* had learnt was that capitalism cannot be managed effectively at a national level. In his opening speech Roosevelt made that point with commendable clarity: *"The economic health of every country is a proper matter of concern to all its neighbours, near and far."*

The two issues that were, ostensibly, central to the Conference were the design of the post-war monetary system and the reconstruction of the war-torn economies of Europe and Japan. However, under the surface, the real questions concerned the institutional framework that would keep a new *Great Depression* at bay and who would be in control of that framework. Both questions created significant tensions, especially between the two great allies represented, in the US corner, by Harry Dexter White[1] and, in the British corner, by none other than John Maynard Keynes. In the aftermath of the conference, Keynes remarked: *"We have had to perform at one and the same time the tasks appropriate to the economist, to the financier, to the politician, to the journalist, to the propagandist, to the lawyer, to the statesman - even, I think, to the prophet and to the soothsayer."*

Two of the institutions that were designed at Bretton Woods are still with us and still in the news. One is the *International Monetary Fund* (IMF), the other the *International Bank for Reconstruction and Development*, today known simply as the *World Bank*. The IMF was to be the global capitalist system's 'fire brigade'; an institution that would rush to the assistance of any country whose house caught (fiscal) fire, handing out loans under strict conditions that would ensure that the failures would be fixed and the loans repaid. As for the *World Bank*, its role would be of an international investment bank with a remit to direct productive investments in regions of the world devastated by the war.

However, the one institution that left the greatest mark on post-war history is no longer with us, its demise in 1971 marking the end of the *Global Plan* and the beginning of the *Global Minotaur*'s reign: It was the new exchange rate regime that came to be known as the Bretton Woods system: A system of *fixed exchange rates* with the dollar at its heart. The main idea was that each currency would be locked to the dollar at a given exchange rate. Fluctuations would be allowed only within a narrow band of, plus or minus, 1% which governments would try to stay within by buying or selling their own dollar reserves. A re-negotiation of the exchange rate of a particular country was only allowed if it could be demonstrated that its balance of trade and its balance of capital flows could not be maintained given its dollar reserves. As for the United States, to create the requisite confidence in the international system, it committed to peg the dollar to gold at the fixed exchange rate of $35 per ounce of gold and to guarantee full gold convertibility for anyone, American or non-American, wanting to swap their dollars for gold.

During the debate on what that new system should look like, John Maynard Keynes made the most audacious proposal that has ever reached the bargaining table of a major international conference: Create an *International Currency Union* (ICU), a single currency (which he even named it: the *bancor*) for the whole capitalist world, with its own *International Central*

[1] White was an ardent *New Dealer* and avowed Keynesian. A Harvard PhD economist, he served in the US Treasury as assistant to Secretary Henry Morgenthau. A committed internationalist, he not only helped create the IMF but also became its director. In 1947, he resigned abruptly under a cloud of innuendo that he had acted as a Soviet spy. He died the following year of a heart attack.

Bank and matching institutions. Keynes' proposal was not as impudent as it seemed. In fact, it has stood the test of time quite well. In a recent BBC interview,[2] Dominic Strauss-Kahn, the IMF's current Managing Director, called for a return to Keynes' original idea as the only solution to the troubles of the post-2008 world economy. But what was the proposal's gist? It was to bring on the benefits of a common currency (trade facilitation and convenience, price stability, predictability in international trading) without suffering the main demerits that come when disparate economies are monetarily bound up.

The lost opportunity

The problem with currency unions, as Argentina were to discover in the late 1990s and Europe in the aftermath of the *Crash of 2008*, is the simple fact of life that trade and capital flows can remain systematically unbalanced for decades, if not centuries. Some regions within a country (e.g. the Stuttgart area in Germany, the Greater London area in Britain, or the Shanghai region in China), come what may, will *always* post a surplus in their trading with other regions (e.g. with eastern *Länder*, with Yorkshire, or with the western provinces of China). Similarly with states within federations: California will never balance its trade with Arizona and Tasmania will always be in deficit *vis-à-vis* Victoria and New South Wales. Given that these trade imbalances are chronic, something has to take the slack; something must give.

When each of these entities has its own currency, it is the exchange rate that gradually shifts in order to absorb the strain caused by the trade imbalances. Before the euro was established, Germany's persistent surplus *vis-à-vis* countries like Greece and Italy resulted in a gradual devaluation of the drachma and the lira relative to the Deutschmark. Thus balance was maintained as the growing trade asymmetries were cancelled out by analogously deepening imbalances in the exchange rates.

However, once these economic regions are bound together with the same currency (as in the United States or the eurozone), something else is required to release the tension caused by unbalanced trade and capital flows: Some *mechanism for recycling surpluses* from the surplus regions (e.g. London or California) to the deficit regions (e.g. Wales and Delaware). Such recycling can take the form of simple transfers (e.g. paying unemployment benefits in Yorkshire by taxes raised in Sussex) or, and this is much more desirable for both the surplus and the deficit regions, the form of productive and profitable investments in the deficit regions (e.g. directing business to build factories in North England or Ohio).

In a sense, the reason why the dollar-zone, i.e. the United States, is a successful currency union whereas the eurozone is plagued with crises, is because America features at least two *Surplus Recycling Mechanisms*[3] whereas Europe sports none. Indeed, without an effective *Surplus Recycling*

[2] Sunday, 19th Dec 2010, 17:00, BBC Radio 4

[3] One such mechanism is a simple *Transfer Union*: The unemployment and health benefits of distressed states are paid for by Washington, dipping into taxes raised from surplus states, like California and New York. The second mechanism is the military-industrial complex: Whenever Boeing or General Dynamics got a large Pentagon contract to build a new fighter jet or missile system, it was stipulated that some of the production facilities be located in depressed, deficit, states.

Mechanism in place, a currency union is bound to succumb to tectonic shifts that, eventually, cause great cracks to form before the union shatters.

At Bretton Woods, where the whole post-war order was being blueprinted, Keynes was a concerned man. He knew that, just like the pre-war *Gold Standard*, an international system of fixed exchange rates would not be able to sustain serious shocks. He predicted that even minor crises could bring on a major Crisis. To avert that, the new international system ought to feature a *Global Surplus Recycling Mechanism*. Its purpose? To prevent the build-up of systematic surpluses in some countries and of persistent deficits in others.

Why were trade imbalances such a source of worry? Keynes believed that, if global trade was badly imbalanced, with some countries (e.g. the United States) enjoying large surpluses and others in deep deficits, a small crisis anywhere could easily turn into another global catastrophe. To begin with, note that trade deficits usually go hand in hand with governments that are also in deficit. Suppose that a crisis were to happen anywhere in the Bretton Woods system. The fall in demand would trickle down to the deficit countries. And then all hell would break loose.

Once the crisis began, in a surplus or a deficit country, it wouldl soon reach some deficit nation. Even if it arrived in the form of a small downturn, some debtors would be made to feel that they were carrying too much debt. Keen to reduce their exposure, they would then cut spending. But since, at the level of the national economy, society's overall demand is the sum of private and public expenditure, when a large segment of the business community try to reduce debt (by cutting expenditure), overall demand declines, sales drop, businesses close their doors, unemployment rises and prices fall. As prices fall, consumers decide to wait for them to fall further before buying costly items. The debt-deflation vicious cycle thus takes hold.

Now, since this is a deficit country, the government is more likely than not to labour under an already considerable budget deficit (taxes less than expenditures) and a large accumulated public debt. The recession squeezes taxes, boosts the state's deficit and forces the government to pay higher interest rates to service its increasing debts. Politicians react instinctively by cutting down public spending in the midst of the recession. Thus, with both private and public expenditure falling fast, domestic demand collapses.

In a knee jerk reaction, the stricken government, unable to increase public expenditure itself, will seek ways to 'import' demand from abroad. This meant, Keynes surmised, that it would purposely violate the rules of the Bretton Woods system. Why? The 'system' requires that, to counter the tendency of the currency to fall during the debt-deflationary crisis, the government should use its dollar reserves to stabilise it within the original ±1% band. But the government, desperate to increase exports as the only way to counter the recession, would have every incentive to do exactly the opposite: To hoard its dollar reserves and to approach instead the Bretton Wood system's administrators with pleas that its currency be allowed to devalue.

All sorts of excuses could be made in support of this demand (e.g. that the country has run out of dollars). Keynes knew that, at a time of crisis, it would be politically impossible to force the deficit countries to apply the agreed rules. Other deficit countries would follow suit and the system of fixed exchange rates would collapse. Precisely as it did on 15th August 1971!

With these troubled thoughts in mind, Keynes designed and proposed the ICU so as to deal with two potential problems at once: To avert systematic trade imbalances and to endow the commonwealth of capitalist nations with the flexibility necessary to deal with future catastrophic crashes (like that of 1929). The proposal was simple and audacious at once: The ICU would grant each member country an overdraft facility, i.e. the right to borrow at zero interest from the *International Central Bank*. Loans in excess of 50% of a deficit country's average trade volume (measured in *bancors*) would also be made but at the cost of a fixed interest rate. In this manner, deficit countries would be given the flexibility to boost demand in order to arrest any debt-deflation cycle without seeking to undervalue the currency.

At the same time, there would be a *penalty for excess trade surpluses*: Recognising that a systematic surplus is the other side of the problematic coin of a systematic deficit, Keynes' proposal stipulated that any country with a trade surplus exceeding a similar percentage of its trade volume be charged interest and its currency would, therefore, be forced to appreciate. These penalties would, in turn, finance the loans to the deficit countries, acting as an automatic *Global Surplus Recycling Mechanism*.

Lionel Robbins, an influential British economist and the pioneer behind the rise of the *London School of Economics and Political Science*, wrote that, upon hearing Keynes' proposals, the conference participants were stunned. "[I]t would be difficult to exaggerate the electrifying effect on thought throughout the whole relevant apparatus of government... nothing so imaginative and so ambitious had ever been discussed". Nevertheless, the intellectual value and technical competence of this well laid plan was not in tune with America's priorities.[4]

The United States, exiting the war as the world's powerhouse, had no interest in restraining its own capacity to run large, systematic trade surpluses with the rest of the world. The *New Dealers*, however respectful they might have been of John Maynard Keynes, had another plan: A *Global Plan* according to which the dollar would become the effective world currency[5] and the United States would export goods *and* capital to Europe and Japan in return for direct investment and political patronage; a hegemony based on the direct financing of foreign capitalist centres in return for an American trade surplus with them.

The Rise of the Fallen

The *Global Plan* started life as an attempt to kickstart international trade, create markets for US exports, and address the dearth of international investment by private US companies. But before long it developed into something bigger and better.

To give the Bretton Woods a strong backbone, the *New Dealers* were determined to support the dollar by creating, within the Bretton Woods fixed

[4] White's unequivocal words were: "We have been perfectly adamant on that point. We have taken the position of absolutely no."
[5] It is important to note that, as the war was coming to its conclusion, all war-torn European nations were highly indebted to the USA and transferred large amounts of gold to the USA, a fact that contributed to the latter's determination to turn the dollar into the Bretton Wood's system's central axis.

exchange system, at least two additional strong currencies that would act as shock absorbers in case the American economy went into one of its many periodic downturns. The idea was to find ways to absorb such shocks until Washington managed to reverse the downturn in its own backyard. Without these supporting pillars, the Bretton Woods system, they feared, would be too precariously balanced.

However, strong currencies cannot be willed into existence. They must be underpinned by heavy industry as well as adjacent trade zones, a form of *Lebensraum* (or vital space) that provides the requisite demand for its manufacturing products. The *New Dealers*, thus, understood that their work was cut out for them. Had they not been energised by the experience of running the war economy for four long years, it is doubtful whether they would have taken on a task of such scope and ambition.

It is history's wont to turn unimaginable developments into seeming inevitabilities. At war's end, with Germany still smouldering, divided into different occupation zones, devastated, despised by the whole world; with Japan still numb at the humiliation of surrender, wounded by the nuclear attacks at Hiroshima and Nagasaki, coming to terms with the immense death toll on the east Asian and Polynesian battlefields, and labouring under an American occupation,... the writing of the eventual post-war script was definitely *not* on the wall!

No one had an inkling of the role that these, once proud but now ruined, countries would be playing within a few years. The notion that Germany and Japan would become pillars of the new *Global Plan* was as outlandish as it was outrageous. And yet, it was the notion on which the *New Dealers* converged around 1947. How did that choice transpire? The answer is: Gradually!

The *Global Plan*'s architects

Four *New Dealers* played crucial roles in fashioning the *Global Plan.* They were, not by chance, also the architects of the *Cold War*. They shared a pragmatic view that was forged during the war and hatched under the shadow of the *Great Depression*. Convinced that 'free market capitalism' had to be planned meticulously by Washington, and in a manner not too dissimilar to the successful running of the war economy, they sought to project on a global canvass the successful recipe that had brought America out of the doldrums. Intent on winning the Peace, they sought to empower US business through a combination of *New Deal*-inspired interventions and the technological advances achieved by the military-industrial complex. The four men in question were:

James Forrestal, *Secretary of Defence* (previously *Secretary of the Navy*)

James Byrnes, *Secretary of State*

George Kennan, *Director of Policy Planning Staff* at the State Department and renowned ‘prophet’ of Soviet containment

Dean Acheson, Leading light in all major post-war designs (the Bretton Woods agreement, the *Marshall Plan*, the persecution of the *Cold War* etc.) and *Secretary of State* from 1949 onwards.

At first, it was inconceivable that Britain would not be a central pillar of the *Global Plan*. However, the fiscal weakness of the British state, its fast declining industry, the 1945 electoral victory of the Labour Party, the clear reluctance to come to terms with the impending *End of Empire* and, last but not least, the slide of the pound to eventual non-convertibility, alerted the *New Dealers* to the possibility that Britain is better left out of the *Global Plan*. Britain had to experience the Suez Canal trauma, in 1956, not to mention the undermining of its colonial rule in Cyprus by the CIA throughout the 1950s, before realising this turn in US thinking.[6]

Once Britain was deemed 'inappropriate', the choice of Germany and Japan increasingly appeared entirely logical: Both countries had been rendered dependable (thanks to the overwhelming presence of the US military), both featured solid industrial bases, both offered a highly skilled workforce and a people who would jump at the opportunity of rising, Phoenix-like, from their ashes. Moreover, they both held out considerable geo-strategic benefits *vis-à-vis* the Soviet Union.

Nonetheless, that realisation had to overcome a great deal of resistance grounded on an opposite instinct: the urge to punish Germany and Japan by forcing them to de-industrialise and return to an almost pastoral state from which they would never again find it possible to launch an industrial-scale war. Indeed, Harry White, the US representative at Bretton Woods, had advocated that Germany's industry be effectively removed, forcing German living standards to those of its, less developed, neighbours. In 1946, the Allies, under the auspices of the *Allied Control Council*, ordered the dismantling of steel plants with a view to reducing German steel production to less than six million tons annually, i.e. around 75% of Germany's pre-war steel output. As for car production, it was decided that output should dwindle to around 10% of what it was before Germany invaded Poland.

Things were a little different in Japan. Administered as an occupied country by one man, General Douglas MacArthur or SCAP (Supreme Commander of the Allied Powers), United States policy could be dictated directly, unencumbered by the need to negotiate with other allies (as was the case in Germany). MacArthur decided that Japan should not go through an equivalent process to de-Nazification and went to great lengths to exonerate the Emperor and the Japanese political, military and economic elites. Nevertheless, during the first two years of occupation, he too had to argue vigorously with Washington policymakers against punishing Japan by destroying, or severely circumscribing, its industrial base.

The sea change against the idea of flattening Germany's and Japan's industrial sectors came with the increasing tension between the United States and the Soviet Union. It was George Kennan's *Long Telegram* from Moscow in February 1946, heralding the *Cold War* spirit, that created the circumstances for a change of heart about Germany. The pivotal moment came in 1947 when President Harry Truman (who had taken over in 1945 after President Roosevelt's passing) announced his notorious *Doctrine* in 1947: The United States would, from that moment onwards, make the containment of Soviet influence its top priority.

The first on-the-ground manifestation of the *Truman Doctrine* was the American involvement in the brutal Greek Civil War (which the British had started but could not afford to finish). A few months later the proxy war that unfolded on the mountains of Greece nearly turned into a direct confrontation when the Western occupiers in West Berlin tussled with the Soviet occupiers

[6] It was at that point that successive British governments began clutching at straws; namely, the 'Special Relationship', which turned the UK into a minor executor of US policy in exchange for privileged access to the US market for British multinationals and the linkage of the City of London to Wall Street.

of East Berlin; a mêlée which led to a prolonged air-lift of supplies from Western Germany to West Berlin, over the lines of the *Red Army*.

The *Cold War* had thus began. From the perspective of the *Global Plan*, the *Truman Doctrine*, the Greek Civil War and the Berlin crisis signalled the end of any plan to level W. Germany or to keep a grudge against the Japanese. The road was thus clear for turning the two conquered industrial nations, Germany and Japan, into the *Global Plan*'s pillars.

The Marshall Plan to dollarise Europe and rehabilitate Germany

The speech by which President Truman announced his *Doctrine*, on 12th March 1947, contained some firm financial data: The United States was committing $400 million to a Civil War that still haunts Greeks to this day. A few months later, on 5th June, George Marshall, Truman's *Secretary of State*, addressed a Harvard audience with a speech that marked the beginning of the *Marshall Plan*: a massive aid package that was to change Europe forever.

Its formal name was the *European Recovery Program* (ERP), the brainchild of the *Global Plan*'s four architects already mentioned earlier. The fact that it was meant as a game changing intervention, the purpose of which was clearly to establish a new *Global Plan*, can be gleaned from some key words employed by Marshall in that important speech: *"The modern system of the division of labour upon which the exchange of products is based is in danger of breaking down."* The point of the *Marshall Plan* was, put simply, to save global capitalism from some future 1929-like Crisis.

During the first year of the *Marshall Plan*, the total sum involved was in the order of $5.3 billion, a little more than 2% of the United States' GDP. By 31st December 1951, when the *Marshall Plan* came to an end, $12.5 billion had been expended. The end result was a sharp rise in European industrial output (about 35%) and, more importantly, political stabilisation and the creation of sustainable demand for manufacturing products, both European and American.

Not all of the *New Dealers*, it must be said, bought into the *Truman Doctrine* and the *Marshall Plan*. For instance, Henry Wallace, the former Vice President and Secretary of Agriculture, who was fired by Truman for disagreeing with the *Cold War*'s imperatives, referred to the *Marshall Plan* as the 'Martial Plan', warning against creating a rift with America's wartime ally, the Soviet Union, and remarking that the conditions by which the Soviet Union was invited to be part of the *Marshall Plan* were designed in order to force Stalin to reject them (which, of course, Stalin did). A number of academics of the *New Deal* generation, amongst them Paul Sweezy and John Kenneth Galbraith, also rejected Truman's cold warrior tactics. However, they were soon to be silenced with the witch-hunt orchestrated by Senator Joseph McCarthy and his *House Committee on Un-American Activities*.

The *Marshall Plan* involved not only a great deal of money but also vital institutions. On 3rd April 1948, Truman established the *Economic Cooperation Administration* and thirteen days later the United States and its European allies created the *Organisation for European Economic Co-operation* (OEEC), with a remit to work out where to channel the funding, under what conditions, and to which purpose. The first Chair of the OEEC (which later, in 1961, evolved into what we know today as the *Organisation for Economic Cooperation and Development*, the OECD) was *Robert Marjolin*.[7] One of the most unsung yet lasting legacies of the *Marshall Plan* was the integration of defeated and despised Germany into the institutions of European integration.

Indeed, the Americans' condition for parting with about 2% of their GDP annually was the erasure of intra-European trade barriers and the commencement of a process of economic integration that would increasingly be centred around Germany's reviving industry. In this sense, the *Marshall Plan* can be fruitfully thought of as the progenitor of today's European Union. Indeed, from 1947 onwards the US military (and in particular the Joint Chiefs of Staff at the Pentagon) called for the *"complete revival of Germany industry, particularly coal mining"* and pronounced that the latter was acquiring "primary importance" for the security of the United States.

However, it would be a while longer before the rejuvenation of Germany's industrial might would become an openly declared aim. For even as the *Marshall Plan* was unfolding, the dissolution of German factories was continuing. It is indicative of the period that the German Chancellor, Konrad Adenauer, pleaded in 1949 with the Allies to put an end to factory liquidations.

The most resistant of the Allies to the notion of an industrialised post-war Germany was, as one might have expected, France. The French demanded the implementation of the 29th March 1946 agreement, in which the Allies had ruled that half of Germany's industrial capacity would be destroyed (involving the demolition of 1500 plants). It was, at least in part. By 1949 more than 700 plants had been disassembled and Germany's steel output was reduced by a massive 6.7 million tons.

So, what was it that convinced the French to accept the re-industrialisation of Germany? The United States of America, is the simple answer. When the *New Dealers* formed the view, around 1947, that a new currency must rise in Europe to support the dollar, and that this currency would be the Deutschmark, it was only a matter of time before the plan to destroy German industry would be scrapped. The price France had to pay for the great benefits of the *Marshall Plan*, and for its central administrative role in the management of the whole affair (through the OEEC), was the gradual acceptance that Germany would be restored to grace, courtesy of the United States' new *Global Plan*.

In this context, it is useful to think of the *Marshall Plan* as the *Global Plan*'s foundation stone. And when the *Marshall Plan* began running out of steam, in 1951, Phase 2 of the American design for Europe was commencing: Integration of its markets and of its heavy industry. That second phase came to be known as the *European Coal and Steel Community* (ECSC), the precursor to today's European Union. The new institution was soon to provide, as was intended by the *New Dealers*, the vital space that the resurgent German industry required in its immediate economic environment.

[7] Interestingly, Marjolin had spend his formative pre-war years as a Rockefeller Fellow at Harvard. In fact, while there, he participated in a reading group dedicated to understanding Keynes' *General Theory*. The other two participants were John Kenneth Galbraith (1908-2006) and Paul Samuelson (1915-2009). Galbraith was to spend the war as Roosevelt's 'price czar', determining the price of all major commodities. Samuelson won the Nobel Memorial Economics Prize and is credited for introducing Keynes (albeit in an oversimplified and, I would argue, toxic form) to Americans.

The European Union and the Japanese miracle

Students of European integration are taught that the European Union started life in the form of the *European Coal and Steel Community* (ECSC). What they are less likely to come across is the well kept secret that it was the United States that cajoled, pushed, threatened and sweet-talked the Europeans to put it together.

Technically speaking, the ECSC was a common market for coal and steel linking Germany, France, Italy, Belgium, Luxembourg and Holland. Not only did it involve the dismantling of all trade barriers between these countries concerning coal and steel products but, additionally, it featured supra-national institutional links whose purpose was to regulate production and price levels. In effect, and despite the propaganda to the contrary, the six nations formed a cartel over coal and steel.

European leaders, like Robert Schuman (a leading light in the ECSC's creation), stressed the importance of this coming-together from the (pertinent) perspective of averting another European war and forging a modicum of political union. Creating a shared heavy industry across, primarily, France and Germany would, Schuman believed (quite rightly), both remove the causes of conflict and deprive the two countries of the means by which to persecute it.

Thus, Germany was brought in from the cold and France gradually accepted its re-industrialisation; a development essential to the *New Dealers*' *Global Plan*. Indeed, it is indisputable that without the United States' guiding arm, the ECSC would not have materialised. Contrary to the Europeans' self-adulating narrative (according to which European unification was a European dream made real by means of European diplomacy and because of an iron will to put behind Europe its violent past), the reality is that European integration was a grand American idea implemented by American diplomacy of the highest order. That the Americans who effected it enlisted to their cause enlightened politicians, like Schuman, does not change this reality.

There was one politician who saw this clearly: General Charles De Gaulle, the future President of France who was to come to blows with the United States in the 1960s, so much so that he removed France from NATO's military wing. When the ECSC was formed, De Gaulle denounced it on the basis that it was creating a united Europe in the form of a restrictive cartel and, more importantly, that it was an American creation, under Washington's influence, and better suited to serve 'their' *Global Plan* than to provide a sound foundation for a New Europe. For these reasons, De Gaulle and his followers voted *against* the formation of the ECSC in the French parliament.

Turning now to the second pillar that was intended to support the dollar on the other side of the northern hemisphere, the restoration of Japan as an industrial power proved less problematic for the *New Dealers* than Germany had. The eastern version of the *Global Plan* was helped significantly by the onslaught of Chairman Mao's Chinese Communist Party against Chiang Kai-shek's nationalist government army.

The more Mao seemed to be evading attacks against his guerrillas, and to attract the support of the Chinese people in the context of his fabled *Long March*, the more General MacArthur edged toward a resolution to bolster Japanese industry, rather than succumbing to pressures to weaken it. However, there was a snag: While the Japanese industry and infrastructure emerged from the war almost intact (in sharp contrast to Europe's), Japanese industry was plagued by a dearth of demand. The *New Dealers*' original idea was that the Chinese mainland would provide the Yen zone with its much needed vital space, just like the rest of Europe were to provide Germany's factories with the requisite markets. Alas, Mao's *Long March* and his eventual victory threw a spanner in those works.

General MacArthur understood the problem and tried to convince Washington to embark upon a second *Marshall Plan*, within Japan itself. However, the *New Dealers* could not see how enough demand might ever be created within Japan alone, without significant trade links with its neighbours. In any case, at that time they had enough on their plate, preoccupied as they were with the struggle to convince Congress to keep pumping dollars into Europe. However, MacArthur's luck changed when on 20th June 1950 Korean and Chinese communists attacked South Korea, with a view to unifying the peninsula under their command.

Suddenly, the *Truman Doctrine* shifted focus from Europe to Asia and the great beneficiary was Japanese industry. Mindful of the difficulty Japan was having to develop its industry given when lack of consumer purchasing power, the *New Dealers* sought ways to boost demand within Japan well before Kim Il Sung's escapade in Korea. Indeed had Kim Il Sung ever imagined that by attacking the South he would be helping his worst enemy, Japan, turn into an industrial superpower, I am tempted to think that he might have stayed put!

The *Marshall Plan* was, initially, to last until 1953. But the war in Korea encouraged the *New Dealers* to alter course: They would wind the *Marshall Plan* down in Europe and shift funds to Japan, whose new role would be to produce the goods and services required by US forces in Korea. A fascinating case of indirect war-financing of an old foe!

As for looking after Europe, the idea was that the first three years of the *Marshall Plan* dollarised Europe sufficiently and that, from 1951 onwards, cartelisation centred around Germany's resurgent industry (in the context of the newly instituted ECSC) would generate enough surplus for Europe to move ahead under its own steam.[8]

The United States' transfers to Japan were quite handsome. From day one, they amounted to almost 30% of Japan's total trade. And, just as in Europe, the United States did not just pour money in. They also created institutions and used their global power to bend existing institutions to the *Global Plan*'s will. Within Japan, the United States wrote the country's new constitution and empowered MITI (the famed *Ministry for International Trade and Industry*) to create a powerful, centrally planned (but privately owned), multi-sectoral industrial sector. Overseas, the *New Dealers* clashed with, amongst others, Britain to have Japan admitted to the *General Agreement on Tariffs and Trade* (the ancestor of today's *World Trade Organisation*). The

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[8] In a radio interview some years ago, linguist and political activist Noam Chomsky pointed out an interesting fact about the *Marshall Plan*; one that links the United States, France, and Holland with European imperialism in Asia. A large part of France's share of *Marshall Plan* aid went to re-colonising Indochina, a prelude to the Vietnam War that was, eventually, to have such catastrophic effects on everyone involved but, also, for the *Global Plan* itself. Another example is Holland. It used its portion of *Marshall Plan* aid to re-conquer Indonesia, a Dutch colony that had managed to liberate itself from Japan toward the end of the war. Interestingly, the United States, quite furious with the Dutch, leaned on them heavily in 1950, pressurising them to send troops to Korea (so as to make amends for the misuse of *Marshall Plan*, for the purpose of its delusions of colonial grandeur).

importance of this manoeuvre cannot be underestimated, as it allowed Japanese manufactures to be exported with minimal restrictions wherever the United States deemed as a good destination for its new *protégé*'s goods.

In conclusion, the *New Dealers*' central organising principle was that American global hegemony meant 'looking after', nursing and nurturing, two ex enemy countries. This they did by ensuring that there was strong demand for German and Japanese industrial output from other capitalist countries. It also meant that Europe and US-controlled Asia were well stocked with US dollars, so as to buy selected, high value-added, American goods (e.g. airplanes, armaments, construction equipment). Stabilising global capitalism was essential for maintaining the Bretton Woods system and enhancing US prosperity and power.

With these intentions in mind, US administrators took audacious steps to create the Deutschmark and the Yen zones, to provide them with the initial liquidity necessary to restart their industrial engines, and to found the political institutions that would allow the green shoots to flourish and grow into the mighty pillars that the dollar zone required for long term support. Never before in history has a victor supported the societies that it had so recently defeated in order to enhance its own long term power, turning them, in the process, into economic giants.

The Global Plan's geo-political ideology

The United States had come out of the *World War II* with a healthy respect of the colonised and a short temper toward their European colonisers. Britain's stance in India, Cyprus, even its incitement of the Greek Civil war (as early as in 1944), was thoroughly criticised by the *New Dealers*. France too, Holland and Belgium, were chastised for their ludicrous ambition to remain the colonial masters in Africa, Indochina and Indonesia, despite the sorry state that the war had left them in.

Yet, the *Global Plan* put the United States' liberal attitude toward liberation movements under strain. To sustain it, the America was obliged to tend to its European and East Asian creations for at least two decades. Europe and Japan could only be 'stabilised' politically if the *New Dealers* co-opted some rather unsavoury characters[9]. Moreover, securing unhindered energy supplies to Europe and Japan, as well as sources of plentiful demand for their industrial output, put the United States on a collision course with various liberation movements that would otherwise appear to Washington quite benign (e.g. Vietnamese anti-colonialists).

The loss of China, the escalation of liberation movements in south east Asia that Mao's victory was inspiring, the stirrings in Africa which gave the Soviet Union an opening into that continent; all these developments enticed the United States into developing an aggressive stance against liberation movements in the Third World which Washington soon came to identify with the threat of rising input prices not so much for itself but mainly for its two important *protégés*: Japan and Germany.

[9] E.g. an alliance with Nazi collaborators in Greece, against the Left, the appeasement of the Franco and the Portuguese regimes on the Iberian peninsula and, lastly, the non-persecution of Japanese war criminals.

In short, the US took it upon itself to relegate the periphery, and the Third World in *toto*, into the role of supplier of raw materials to Japan and Western Europe. The result was a series of coups and wars which the *New Dealers* and their successors in government pursued as part of consolidating the *Global Plan*. In due course, distrusted elected governments were overthrown, military interventions were authorised, nasty dictatorships were either installed or supported, large scale wars were fought in Korea and Vietnam. Partly in the context of persecuting the *Cold War*, and partly in order to maintain the *Global Plan*, the geopolitical plot was thickening by the day. With every new twist the stakes got higher but the rewards seemed to be proliferating too.

In the process, American multi-nationals in energy and other mining activities counted themselves among the beneficiaries, as did many sectors of the US domestic economy. However, the *Global Plan*'s architects saw much further than the narrow interests of any American company. Their audacious policies to promote capital accumulation in distant lands, over which they had no personal or political interest (in the narrow sense), can only be explained if we take onboard the weight of history under which they laboured.

Indeed, to understand the scale of the *New Dealers'* ethical ambition we must again take pause and look briefly for clues of what they were on about in their own, not too distant, past: in the *Great Depression* that formed their mindset. The *Global Plan*, we must not forget for a moment, was the work of individuals belonging to a damaged generation; a generation that had experienced poverty, a deep sense of loss, the anxieties engendered by the near collapse of capitalism, and a consequent war of inhuman proportions.

In addition, they were educated men who understood in their bones how prone labour and money markets are to an instant melt down. Their experiences steeled their determination not to allow capitalism to slip and fall again under their watch. They would do anything it took to avert another Crisis, especially now that the Soviet bear was straining at the leash, ready to pounce the moment the *Global Plan* faltered.

Although most of the *New Dealers* had been influenced by the writings of John Maynard Keynes, and had taken note of his crucial advice not to trust markets to organise themselves in a manner that brings about prosperity and stability, the *Cold War*, which they had to prosecute in tandem with the management of the *Global Plan*, and their closeness with the military-industrial complex prevented them from seeing as clearly as Keynes had seen the imperative of creating a formal, cooperative system of recycling surpluses.

Many observers note the deep chasm separating the *New Deal* mindset from European, or British, Keynesianism. To begin with, whereas Keynes had become convinced that global capitalism required a cooperative, non-imperial *Global Surplus Recycling Mechanism*, the *New Dealers* both wanted and were obliged to tailor-make their *Global Plan* in the context of the *Cold War* imperatives and in clear pursuit of American hegemony.

It is also helpful to recall that the *New Dealers* had shed, very early in the piece, their willingness seriously to confront corporate power. Once the carnage had started, the war effort had brought officials closer together with both the financiers and the captains of industry. To come out of the war as victors, and to prevent another *Great Depression* while constructing a new post-war global order, they felt that it was important to keep the US government at the helm, both domestically and internationally, with American multinationals as effective agents of the state both at home and abroad. But this meant a hegemony that could not allow some *international* agency (like Keynes' proposed ICU) the right to curtail either America's surpluses or its government's capacity to mediate between conflicting interests.

What makes their story fascinating is the combination of their sophisticated, discursive Keynesianism, their audacious initiatives, and the interaction of their economic planning with the demands of the *Cold War*. In this sense, the *Global Plan* comprised:

(a) Not only the creation of the Deutschmark and Yen Zones, by means of economic injections and political interference for the benefit Germany and Japan, *but also*

(b) The careful management of overall demand within the United States, always with a clear view to its effects on these two zones, in Europe and the Far East.

American domestic policies during the Global Plan

The fear that the end of *World War II* would spell the beginning of a new slump energised the *New Dealers* to pursue two solutions. The first we have already seen in some detail: dollarising the world in order to create foreign demand for America's exports. The second set of policies concerned the domestic economy and comprised three major, government-led, sources of stimulus:

- The *Intercontinental Ballistic Missile* program (ICBM) program
- The *Korean* and *Vietnam Wars*
- President John Kennedy's *New Frontier* and, more importantly, President Lyndon Johnson’s *Great Society*

The first two spending programs substantially strengthened US corporations and kept them on side at a time when their own government was going out of its way to look after foreign capitalists. The greatest benefits, of course, accrued to companies somehow connected to what President Dwight Eisenhower disparagingly (even though a celebrated ex-army commander himself) labelled the *Military-Industrial Establishment* (MIE). The latter, and its special treatment by government, contributed heftily to the development of the *Aeronautic-Computer-Electronics* complex (ACE); an economic powerhouse largely divorced from the rest of the US economy, but central to its growing power.

Despite the positive impact of the *Global Plan* on the domestic American economy, it was an uneven impact. That it was uneven is evidenced from the fact that segments of the economy not linked to the MIE or the ACE, never recovered in step with either Germany and Japan or with the rest of the US economy. That it was *not* Washington's *main* aim to bolster American companies across the board (though it was certainly one of its aims) can be gleaned from the ruthlessness with which the United States government introduced, whenever it saw fit, harsh regulations which ultimately discriminated *against* American multinationals in pursuit of its *top* priority: the augmentation of the Deutschmark and the Yen zones *via* the reinforcement of German and Japanese industry.

The unevenness with which prosperity was distributed within the United States, at a time of rising aspirations (not all of them income related), caused significant social tensions. These tensions, and their gradual dissolution, were the target of the *Great Society* spending programs of the 1960s. At first President Kennedy and then his successor, Lyndon Johnson, pushed hard for a series of domestic spending programs that would address the fact that the *Global Plan*'s domestic benefits were so unfairly spread as to undermine social cohesion in important urban centres and regions. To prevent these centrifugal forces from damaging the *Global Plan*, social welfare programs acquired an inertia of their own.

To put the importance of the Kennedy-Johnson social programs in perspective, it helps to note that, from 1955 until Kennedy's election in 1960, economic growth tailed off in the United States; a petering out that affected mostly the poor and the marginal. After eight years of Republican rule (1952-1960), Kennedy was elected on a *New Deal*-alluding platform. His *New Frontier* manifesto promised to revive the spirit of the *New Deal* by spending on education, health, urban renewal, transportation, the arts, environmental protection, public broadcasting, research in the humanities etc.

After Kennedy's assassination, President Johnson, especially after his 1964 landslide victory, incorporated many of the, largely un-enacted, *New Frontier* policies into his much more ambitious *Great Society* proclamation. While Johnson pursued the *Vietnam War* abroad with increasingly reckless vigour, domestically he attempted to stamp his authority through the *Great Society*, a program that greatly inspired progressives when it put centre stage the goal of eliminating not only poverty for the white working class but also racism.

The *Great Society* will be remembered for its effective dismantling of American apartheid, especially in the southern states. Between 1964 and 1966 four pieces of legislation saw to this major transformation of American society. Moreover, the *Great Society* had a strong Keynesian element that came to the fore as Johnson's *unconditional war on poverty*. In its first three years, 1964 to 1966, $1 billion were spent annually on various programs to boost educational opportunities and to introduce health cover for the elderly and various vulnerable groups.

The social impact of the *Great Society*'s public expenditure was mostly felt in the form of poverty reduction. When it began, more than 22% of Americans lived below the official poverty line. By the end of the program, that percentage had fallen to just below 13%. Even more significantly, the respective percentages for Black Americans were 55% (in 1960) and 27% (in 1968). While such improvements cannot be explained solely as the effect of *Great Society* funding, the latter played a major role in relieving some of the social tensions during an era of generalised growth.

Conclusion: Capitalism's Golden Age

Gore Vidal once said that the trouble with golden ages is that, if you live in one, everything looks a little yellow. The countless Americans who took to the streets to protest against their government in the 1960s undoubtedly did not see their era as golden. Yet, in retrospect, at least through our current lens, it looks like a remarkable period. An era during which administrators truly believed that they could create a rational world order that promotes inter-continental stability, growth and relative equality. Compared to our current crop of poll-driven politicians, whose *raison d' être* is to stay on the right side of Wall Street, lobbyists and assorted business interests, it is easy to romanticise the first post-war phase - the *Global Plan* era.

The *Global Plan* lasted from around 1950 to 1971. It boiled down to a simple idea: A system of fixed exchange rates binding together the capitalist economies complete with a particular type of *Global Surplus Recycling Mechanism* (GSRM) which guarantees the system's immunity from centrifugal forces that would otherwise tear it apart. How did that particular GSRM? The idea was that the United States would retain its large post-war trade surplus but, in return, it would export its surplus capital (or profits) back to its *protégés* in the form of direct investment, aid or assistance, thus enabling them to continue to buy American products. At the same time, the United States would ensure that Japan and Germany could maintain a similar surplus position at a regional level, even at the expense of America's own bottom line.

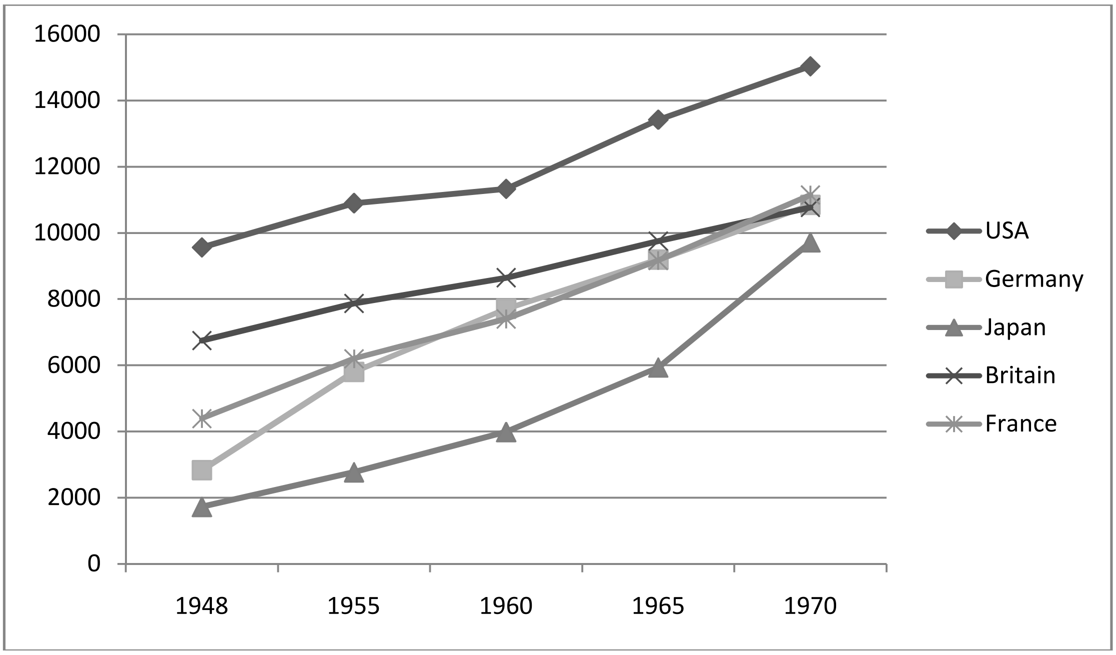
The *Global Plan*'s most impressive feature was its incredible adaptability; the way successive US administrations amended the *Plan* every time bits of it got unstuck. Their policies toward Japan are an excellent example: After Mao's unexpected victory, and the demise of the original plan to turn the Chinese mainland into a huge market for Japanese industrial output, US policy makers responded with a menu of inspired replies.

First, they utilised the Korean War, turning it into an excellent opportunity to inject demand into the Japanese industrial sector. *Secondly*, they used their influence over America's allies to allow Japanese imports freely into their markets. *Thirdly*, and most surprisingly, Washington decided to turn America's own market into Japan's vital space. Indeed, the penetration of Japanese imports (cars, electronic goods, even services) into the US market would have been impossible without a nod and a wink from Washington's policy makers. *Fourthly*, the successor of the Korean War, the war in Vietnam, was also enlisted as a further boost for Japanese industry. A useful by-product of that murderous escapade was the industrialisation of South East Asia, which further strengthened Japan by providing it, at long last, with the missing link: a commercial vital zone in close proximity.

My argument here is not that the Cold Warriors in the Pentagon and elsewhere were pursuing the *New Dealers*' *Global Plan*. While not innocent of the idea, as the heavy involvement of military leaders in the *Marshall Plan* reveals, they naturally had their own geo-political agenda. The point is that, while the generals, the Pentagon and the State Department were putting together their *Cold War* strategic plans, Washington's economic planners approached the wars in Korea and Vietnam from a quite distinct perspective.

At one level they saw these wars as crucial in maintaining a continual supply of cheap raw materials to Europe and Japan. At another level, however, they recognised a great chance to bring into being, through war financing, the vital economic space that Mao had robbed ‘their’ Japan of. It is indeed impossible to overstate the point raised earlier that the South East Asian ‘tiger economies’ (Korea, Thailand, Malaysia and Singapore, which were soon to become for Japan what France and Spain were to Germany) would never have emerged without these two US-financed wars, leaving the US as the only sizeable market for Japanese industrial output.

In retrospect, by the standards of large scale human design, the *Global Plan* was a grand success. Not only did the end of *World War II* not plunge the United States, and the rest of the West, into a fresh recession, as it was feared that the winding down of war spending would do, but instead the world experienced a period of legendary growth. The figure below offers a glimpse of these golden years. The developed nations, victors and losers of the preceding war alike, grew and grew and grew.



Real GDP per capita during period of the *Global Plan*

The Europeans and Japan, starting from a much lower level than the United States, grew faster and made up for lost ground while, at the same time, the United States continued along a path of healthy growth. However, this was not a simple case of a spontaneously growing world economy. There was a *Global Plan* behind it, one that involved a large scale, and impressively ambitious, effort to overcome and to supplant the multiple, conflicting imperialisms that had characterised the world political economy until *World War II*.

While the *Global Plan* was put together to establish and bolster American hegemony, the United States was happy to pay the price of intentionally bolstering foreign demand levels and capital accumulation, in Japan and Germany particularly. To maintain American prosperity and growth, Washington purposefully dished out part of the global 'pie' to its *protégés*: While the United States lost almost 20% of its share of world income during the era of the *Global Plan*, Germany saw its share rise by 18% and Japan by a stupendous 156.7%.

	USA	Germany	Japan	Britain	France
1950-1972	-19.3%	+18%	+156.7%	-35.4%	+4.9%

Percentage increase in a country's share of world GDP

Was this a form of internationalist altruism at work? Of course not. At the heart of the *New Dealers*' thinking, from 1945 onwards, was an intense anxiety regarding the inherent instability of a single-currency, single-zone global system. Indeed, nothing concentrated their minds like the memory of 1929 and the ensuing *Depression*. If a crisis of similar severity were to strike while global capitalism had a single leg to stand on (the dollar), and in view of the significant growth rates of the Soviet Union (an economy not susceptible to contagion from capitalist crises), the future seemed bleak. Thus, these same minds sought a safer future for capitalism in the formation of an interdependent network comprising three industrial-monetary zones, in which the dollar-zone would be predominant (reflecting the centrality of American finance, and its military *defence of the realm* in the sphere of securing inputs from the Third World). To them, this *Global Plan* was the optimal mechanism design for the rest of the 20th century and beyond.

In this context, the notion that European integration sprang out of a European urge to create some bulwark *against* American dominance appears to be nothing more than the European Union's 'creation myth'. Equally, the idea that the Japanese economy grew inexorably *against* the interests of the United States does not survive serious scrutiny. However strange this may seem now, behind the process of European integration and of Japanese export-oriented industrialisation lies a prolonged and sustained effort by Washington policy makers to plan and nurture it, despite the detrimental effects on America's balance of trade that the rise of Europe and Japan eventually entailed.

The simple lesson that the *Global Plan* can teach us today is that world capitalism's finest hour came when the policy makers of the strongest political union on the planet decided to play an hegemonic role; a role that involved not only the exercise of military and political might but also a massive redistribution of surpluses across the globe that the market mechanism is utterly incapable of effecting.