Super Imperialism

The Origin and Fundamentals of U.S. World Dominance

Second Edition

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“ . . . *with fraternity on your lips, you declare war against mankind.*”

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in 1793, urging it to “Emancipate Your Colonies:
Showing the Uselessness and Mischievousness
of distant Dependencies to an European State.”

Preface to the Second Edition

As of summer 2002 the U.S. Treasury is pursuing the same strategy of "benign neglect" for its balance-of-payments deficit that it did thirty years ago. The deficit that caused a global crisis in 1971 when its $10 billion rate led to a 10 per cent dollar devaluation has now risen to hundreds of billions of dollars annually, and is still rising. Treasury Secretary O'Neill says he is not worried and that the situation does not call for any action, at least not on the part of the United States.

This confronts Europe and Asia with a dilemma. If they let the U.S. payments deficit drag the dollar down, this will give U.S. exporters a price advantage. To protect their own producers, central banks must support the dollar's exchange rate by recycling their surplus dollars back to the United States. This option obliges them to buy U.S. Government securities, as U.S. diplomats have made it clear that to buy control of U.S. companies or even to return to gold would be viewed as an unfriendly act.

As global investors move out of the sinking dollar, central banks hardly would want to buy American stocks in any event. Norway suffered such severe losses from recycling its North Sea oil earnings into the U.S. market that by October 2001 the government felt obliged to inform local municipalities that they would have to contribute extra sums to their pension funds. To make up for the U.S. market plunge, public support for Norwegian museums, orchestras and other cultural organizations was cut back.

Unfortunately for the world's central banks, buying U.S. Treasury IOUs also is a losing proposition. The falling dollar erodes their international value, causing Europe and Asia to lose over 10 per cent of the value of their U.S. dollar reserves in 2002. Japan and China each have lost over $35 billion on their dollar holdings. These losses are the equivalent of a negative interest rate.

The greatest loss, however, comes from the sterilized dollar balances themselves. What can central banks do with their dollar inflows except lend them back to the U.S. Treasury to help fund America's own domestic budget deficit? In fact, the larger the U.S. balance of payments grows, the more dollars mount up in the hands of foreign to be recycled to finance the U.S. budget deficit. These dollar holdings – in the form of Treasury bonds – have become a seignorage tax levied by America on the world's central banks.

The world has come to operate on a double standard as the U.S. payments deficit provides a free lunch in the form of compulsory foreign loans to finance U.S. Government policy. To make matters worse, the U.S. budget deficit is soaring as the Bush Administration slashes taxes on the wealthy and their inheritance legacies while increasing military spending.

Foreigners have no say over these policies. Americans fought a revolution over the principle of "no taxation without representation" two centuries ago, but Europe, Asia and Third World countries seem politically far from taking a similar step today. Their dollar claims do not give them the voting rights in U.S. policy formation, yet U.S. Government, IMF and World Bank officials use their dollar claims on debtor economies in Latin America, Africa and Asia to force them to follow the Washington Consensus.

Gold was the monetary medium that checked America's ability to run balance-of-payments deficits without limit. As the dollar ceased being "as good as gold" leading up to 1971, the U.S. Treasury put pressure on central banks to demonetize the metal and finally drove it out of the world monetary system – a geopolitical version of Gresham's Law that bad money drives out good. Removing gold convertibility of the dollar – or for that matter its convertibility into the purchase of U.S. companies or other hard assets – enabled the United States to pursue protectionist trade policies unilaterally. U.S. agricultural subsidies are now helping to drive foreign food production out of world markets, while illegal steel tariffs threaten to drive European and Asian steel out of U.S. and foreign markets alike.

It is significant that the most recent dollar decline started in late spring 2002, soon after President Bush announced steel tariffs that are illegal under international law while Alan Greenspan at the Federal Reserve Board lowered interest rates in an attempt to slow the U.S. stock market plunge. These acts recall the 1971–72 "Chicken War" between America and Europe, and the grain embargo that quadrupled wheat prices outside of the United States. It was this embargo that inspired OPEC to enact matching increases in oil prices to maintain terms-of-trade parity between oil and foodstuffs. The "oil shock" was simply a reverberation of the U.S. grain shock.

There always are two sides to every issue, of course. But as every lawyer and judge knows, rhetorical flourish and a massive ideological bombing in the press often sways public opinion. U.S. officials claim that their surplus dollars act as a "growth locomotive" for other countries by inflating their credit-creating powers, as if they needed dollars to do this. Another supposed silver lining to the dollar glut is that falling import prices for dollar-denominated commodities helps deter inflationary pressures in the industrialized European and Asian economies. The flip side of this coin, of course, is that the falling dollar once again is squeezing raw materials exporters who price their minerals, fuels and other commodities in dollars, throwing them into yet deeper financial dependency on the United States.

Credit creation for all countries is an inherently domestic affair. As long as national central banks rely on the dollar, their monetary backing must take the form of financing the U.S. budget deficit and balance-of-payments deficit simultaneously. This linkage promises to make the balance of payments as political an issue today as it was a generation ago in the days of General de Gaulle. But at least he was able to cash in France's surplus dollars for U.S. gold on a monthly basis. Today it would be necessary for Europe and Asia to design an artificial, politically created alternative to the dollar as an international store of value. This promises to become the crux of international political tensions for the next generation.

This book aims at providing the background for U.S.–European and U.S.–Asian financial relations by explaining how the U.S. Treasury bill standard came to provide America with a free lunch since gold was demonetized in 1971, and why the IMF and World Bank cannot be expected to help. Published thirty years ago, it was the first to criticize the World Bank and IMF for imposing destructive policies on the world's debtor economies, and to trace these policies to U.S. diplomatic pressure. It shows how Anglo-American maneuvering during the closing phases of World War II led the IMF to promote capital flight from debtor countries under the slogan of financial deregulation. Also documented is how the World Bank has aimed since the 1950s at promoting foreign trade dependency on U.S. farm exports, and accordingly has opposed land reform and agricultural self-sufficiency abroad. The seeds of the policies that created the disasters of Russian reform under the U.S.-sponsored kleptocrats after 1991 and the Asian-Russian crisis of 1997–98 may be traced back to the malstructuring of the World Bank and IMF at the insistence of U.S. economic diplomats at the inception of these two Bretton Woods institutions.

The new edition is an expanded version, as the dollar crisis was just breaking at the time I handed in the manuscript for this book to Holt, Rinehart and Winston early in 1972. By the time it was published in September, under the title *Super Imperialism: The Economic Strategy of American Empire*, the international financial system was being radically transformed by the currency upheavals that followed the closing of the London gold window in August 1971 and devaluation of the dollar by 10 per cent. America's balance-of-payments deficit continued to widen, but foreign central banks no longer were able to hold America to account by cashing in their surplus dollars for gold.

At the Smithsonian Conference in 1971 the world's major powers argued mightily over the U.S. demand that parity values should be changed in coordinated fashion with a view to permitting the U.S. to improve its external current account position by an annual amount of some $15–20 billion. Today that amount seems so small as to be merely marginal. A comparison of the 1971 dollar crisis with the situation that is now accepted as the norm shows the degree to which foreign nations have simply capitulated to the dollar's free lunch at their own expense.

The fact that running a balance-of-payments deficit forced foreign central banks to use their dollars to buy U.S. bonds to finance America's own domestic budget deficit came as somewhat of a surprise even to Washington officials. Politicians are notorious for lacking an economic perspective, preferring to confront worldly constraints with authoritarian commands. They simply overlooked the balance-of-payments constraint on U.S. overseas military spending.

In 1971 the Institute for Policy Studies obtained the Pentagon Papers, and invited me down to Washington for a series of meetings to review them. What struck me was that the absence of any discussion of the balance-of-payments costs of the war in Southeast Asia. Yet the war was single-handedly responsible for pushing the balance of payments into deficit, inspiring headlines each month when General de Gaulle cashed in his surplus dollars for gold. Rather than subordinate U.S. diplomacy to balance-of-payments constraints, the Pentagon mobilized a full-time desk to counter with the warnings about the war's balance-of-payments costs voiced by the "Columbia Group," composed of my mentor Terence McCarthy and Seymour Melman at Columbia University's School of Industrial Engineering, and myself.

No one anticipated that America's federal budget deficit during the 1990s would be financed by China, Japan and other East Asian countries rather than by American taxpayers and domestic investors. Yet this international exploitation was implicit in the U.S. Treasury bill standard. Since 1971 it has freed the U.S. economy from having to do what American diplomats insist that other debtor countries do when they run payments deficits: impose austerity to restore balance in its international payments. The United States alone has been free to pursue domestic expansion and foreign diplomacy with hardly a worry about the balance-of-payments consequences. Imposing austerity on debtor countries, America as the world's largest debtor economy acts uniquely without financial constraint. For that reason I originally wanted to entitle my book *Monetary Imperialism* so as to emphasize this new financial character of America's way of exploiting the world via the international monetary system itself.

I had published my analysis of the U.S. balance of payments (updated here in Chapter 8) in New York University's Institute of Finance *Bulletin* in March 1970. One of my students gave me an internal New York Federal Reserve review of my analysis that found it correct even while their economists publicly denounced my findings that the war alone was responsible for the crisis, not foreign aid or private investment. The balance of payments was becoming a highly political topic.

A few years ago I sought to update my breakdown of the balance of payments to update the impact of U.S. military spending and foreign aid. But the Commerce Department's Table 5 from its balance of payments data had been changed in such a way it no longer reveals the extent to which foreign aid generates a transfer of dollars from foreign countries *to* the United States, as it did in the 1960s and 1970s. I telephoned the statistical division responsible for collecting these statistics and in due course reached the technician responsible for the numbers. "We used to publish that data," he explained, "but some joker published a report showing that the United States actually made money off the countries we were aiding. It caused such a stir that we changed the accounting format so that nobody can embarrass us like that again." I realized that I was the joker who had been responsible for the present-day statistical concealment, and that it would take a Congressional request to get the Commerce and State Departments to replicate the analysis that still was being made public in the years in which I wrote *Super Imperialism*.

The book sold especially well in Washington. I was told that U.S. agencies were the main customers, using it in effect as a training manual on how to turn the payments deficit into an economically aggressive lever to exploit other countries via their central banks. It was translated into Spanish, Russian and Japanese almost immediately, but I was informed that U.S. diplomatic pressure on Japan led the publisher to withdraw the book (after having already paid for the translation rights) so as not to offend American sensibilities.

The book received a wider review in the business press than in academic journals. A few weeks after the U.S. publication I was invited to address the annual meeting of Drexel-Burnham to outline how the new Treasury bill standard of world finance had replaced the gold exchange standard. Herman Kahn was the meeting's other invited speaker. When I had finished, he got up and said, "You've shown how the United States has run rings around Britain and every other empire-building nation in history. We've pulled off the greatest rip-off ever achieved." He hired me on the spot to join him as the Hudson Institute's economist.

I was happy enough to leave my professorship in international economics at the New School for Social Research. My professional background had been on Wall Street as balance-of-payments economist for the Chase Manhattan Bank and Arthur Andersen. My research along these lines was too political to fit comfortably into the academic economics curriculum, but at the Hudson Institute I set to work tracing how America was turning its payments deficit into an unprecedented element of strength rather than weakness.

At the American Political Science Association's annual meeting in New Orleans in September 1972, the month the book was published, I gave a speech on "Intergovernmental Imperialism vs. Private-Sector Imperialism" outlining how the Treasury bill standard had turned the traditional rules of international finance on their head. This paper forms the new introduction to this book.

I also have expanded the first chapter into what now are three chapters in order put today's economic behavior in perspective to see the degree to which World War I was the watershed signaling the ascendancy of intergovernmental capital, that is, foreign official debt. This debt has a dynamic that overrides the usual political ideologies. Intergovernmental debts first were catalyzed in the 1920s by the breakdown of world payments and trade in the wake of Inter-Ally war debts and German reparations, a breakdown that resulted mainly from the absence of a responsible government policy on the part of the United States.

Had the U.S. Government been interested in dominating the world economy and its diplomacy at that time, as it sought to do after World War II, it could have done so while maintaining the semblance of business as usual. Instead, it pursued an essentially isolationist policy, looking within rather than involving itself directly in foreign affairs. America's major foreign policy was crudely to demand payment of its World War I arms loans to its allies, while erecting tariff barriers that prevented these debts from being paid in the form of higher exports to the United States. The parallel with today's Third World debts in the face of rising non-tariff barriers against Third World exports is clear enough.

U.S. private investment seemed prepared to pick up the slack, but could not bridge the payments gap imposed by the enormous weight of official debt service demanded by American nationalists. The U.S. Government refused to take the mantel of world financial leadership from Britain, and the result was a world economic breakdown whose fate was sealed in 1933 at the London Economic Conference. Modest attempts at internationalism gave way to renewed nationalist pressures which culminated in World War II.

In the years following the war the U.S. Government took a much more active role in directing the world economy. Espousing laissez-faire rhetoric, it moved deftly to shape the environment in which world market forces operated so as to promote international dependency on the United States.

I looked forward to adding these additional chapters to the paperback edition, but Holt Rinehart was not doing well enough to reprint much of anything as its owner, CBS, drastically cut its staff in an attempt to sell the company along with other CBS holdings. So I was given a reversion of the book's rights. In mid-1973 the Beacon Press in Boston offered to bring out a paperback version, but told me that their publication of *The Pentagon Papers* had brought down the wrathful power of government harassment, consuming their resources in heavy legal costs. They had no money to add any material to the book, as the additions that I had made to nearly every chapter would have entailed resetting the type. I chose to hold out until another offer was made that would include the expansions I had written.

In the meantime Harper & Row proposed that I write a sequel, *Global Fracture: The Economic Strategy of American Empire* (1977). That book's second chapter summarized the characteristics of the Treasury bill standard as an exploitative financial device enabling the United States to run cost-free payments deficits *ad infinitum*.

The rewritten manuscript of *Super Imperialism*'s second edition lay on my shelf for nearly thirty years. Periodically I discussed reprinting it, but the issue did not become pressing until 1999. Protest finally was arising against the failure of the World Bank and IMF, or more accurately – and what amounted to the same thing – their success at promoting an exploitative U.S.-centered diplomacy. It had begun to be acknowledged that the international financial system had been shunted onto a destructive path causing chronic balance-of-payments crises throughout the world. I found it appropriate to publish this revised edition of my book so as to relate present-day critiques to the fatal errors that were built into the World Bank and IMF at their inception. The new edition therefore is an augmented study of U.S. financial diplomacy, originally published when the character of America's response to its changing place in the world was just becoming apparent.

A number of trends that were merely implicit in 1972 have since become explicit. First has been the U.S. Treasury's ability to run up an international debt of over $600 billion, using the balance-of-payments deficit to finance not only its widening trade deficit but its federal budget deficit as well. To the extent that these Treasury IOUs are being built into the world's monetary base they will not have to be repaid, but are to be rolled over indefinitely. This feature is the essence of America's free financial ride, a tax imposed at the entire globe's expense.

U.S. economic interest lies supporting a world monetary order that permits it to run even more deeply into debt without foreign constraint. European and Asian attempts to create alternative regional currency clearing blocs accordingly are opposed. Foreign countries are to dollarize their economies, Argentina-style.

A second flowering of seeds planted in the early 1970s has been the use of the International Monetary Fund and World Bank to use Third World, Russian and East Asian debt as a lever to force debtor economies to pursue lines promoted by the Washington Consensus. To promote this objective U.S. diplomats oppose reform of these institutions and their replacement by new global institutions with an economic philosophy that would promote domestic or regional self-sufficiency rather than continued agricultural, financial and technological as well as political and military dependence on the United States.

A third dynamic has been an increasing domination of economic life by government, despite the recent wave of privatizations throughout the world. In fact, these privatizations reflect foreign government obedience to the Washington Consensus. The rhetoric is free enterprise, but the market is to be shaped and defined by bilateral diplomacy with U.S. planners. America would like to mobilize multilateral foreign aid through the IMF and World Bank to continue subsidizing client oligarchies and political parties whose policies serve U.S. interests rather than those of their own nationals. Landmarks in U.S. influence obliging foreign governments to warp their economies to serve U.S. designs include the Plaza Accord with Japan and Europe in 1985 and the ensuing Louvre Accord. These agreements triggered Japan's Bubble Economy and broke the "Japanese challenge." The most recent disaster has been the Russian reforms imposed by the U.S. client Yeltsin–Chubais families. They are the antithesis of weak government, acting as they do on behalf of the Washington Consensus. The government in question is simply that of the United States.

A fourth characteristic of U.S. diplomatic strong-arming has been the shift of world trade toward bilateral "orderly market-sharing agreements" in which foreign economies guarantee a fixed or rising market share to U.S. suppliers, regardless of growth in their own domestic production capacity. Dependency policies are to be pursued, not self-sufficiency in food, technology or other vital sectors.

Other tendencies that seemed likely to gain momentum in 1972 have passed their crest and are now being superseded. The New International

Economic Order aimed at resisting U.S. initiatives in the 1970s, but was successfully countered by American diplomats in the 1980s. Declining terms of trade for raw materials exporters were reversed temporarily following the 1973 Oil War, and negotiations to stabilize commodity prices favorable to Third World exporters began, but quickly collapsed. The fact that most commodities are now priced in dollars that are depreciating in value aggravates the terms of trade for Third World countries.

No serious alternative is now being proposed to the American-centered financial system and the debt deflation its monetarist policies are imposing on debtor economies outside of the United States. The euro has not been put forth as a political alternative to the dollar, nor has a Yen Area materialized in Asia.

Europe's tendency to buckle at each new U.S. diplomatic initiative was potentially stemmed by formation of the European Council and coordinated European Community foreign policy preparing for unification in the 1990s. But despite the euro's introduction there still is much opposition to a full-fledged United States of Europe. Britain is leading the opposition as usual, acting as America's Trojan horse as it did during and after World War II in reaching agreements with the U.S. Treasury that were adverse to its own interests. Lacking a common power to tax and create credit, the euro is no more on a par with the dollar than is the yen. The European Commission seems to be functioning virtually as an arm of U.S. diplomacy in curtailing the power of governments to take an independent monetary stance from the United States.

The upshot is that although the world seems to be consolidating into five major regions, each with its own north–south tensions, each region is heavily U.S.-centered: 1) a Western Hemisphere Dollar Bloc dominated by the United States, including Canada via NAFTA and Latin America; 2) a Japanese-dominated Yen Area, whose surplus are turned over to the U.S. as reserves kept in Treasury bills, while savings have been turned over to U.S. brokerage firms and money managers following Japan's Big Bang of 1998; 3) an emerging Mediterranean triangle including the European Community, the Near East and North Africa; 4) the former Soviet Union and associated COMECON economies, which have all but adopted the U.S. dollar as their currency as a result of adopting crippling U.S. economic recommendations; and 5) China, whose application to join the World Trade Organization does not yet indicate just what position it may end up taking.

I have analyzed the system that might have emerged out of these tendencies in *Global Fracture* (1977). The present book describes how the proposed New International Economic Order originated as a response to America's aggressive world economic diplomacy, and how U.S. strategy has provided other nations with a learning curve that they may follow in pressing their own national and regional interests.

Michael Hudson
2002

Introduction

It would be simplistic to view the United States' rise to world dominance as following the European model characterized by the drives of private finance capital. One must do more than merely read John Hobson and V. I. Lenin to perceive the dynamics of U.S. diplomacy over the past eight decades. The United States has achieved its global position through novel policies that were not anticipated by economists writing prior to World War I, or indeed prior to the 1970s.

One lesson of U.S. experience is that the national diplomacy, embodied in what now is called the Washington Consensus, is not simply an extension of business drives. It has been shaped by overriding concerns for world power (euphemized as national security) and economic advantage as perceived by American strategists quite apart from the profit motives of private investors. Although the roots of imperialism and its diplomatic rivalries always have been economic in character, these roots – and especially their tactics – are not the same for all nations in all periods.

To explain the principles and strategies at work, this book describes how the United States' ascent to world creditor status after World War I resulted from the unprecedented terms on which its government extended armaments and reconstruction loans to its wartime allies. In administering these Inter-Ally debts, U.S. Government aims and objectives were different from those of the private sector investment capital on which Hobson and Lenin had focused in their analysis of Europe's imperial conflicts. The United States had a unique perception of its place and role in the world, and hence of its self-interest.

The United States' isolationist and often messianic ethic can be traced back to the 1840s, although Republicans expressed it in a different way from Democrats. (I describe this social philosophy in my 1975 survey of *Economics and Technology in 19th-Century American Thought*.) Spokesmen for American industrialists prior to the Civil War – the American School of political economy led by Henry Carey, E. Peshine Smith and their followers – believed that their nation's rise to world power would be achieved by protecting their economy from that of Britain and other European nations. The objective was to create nothing less than a new civilization, one based on high wages as a precondition for achieving even higher productivity.

The result would be a society of abundance rather than one whose cultural and political principles were based on the phenomenon of scarcity.

The idea that America needed an ever-receding western frontier was voiced by Democrats motivated largely by the Slave Power's desire to expand cotton cultivation southward, while promoting westward territorial expansion to extend wheat-growing to provide food. The Democratic Party's agenda was to expand foreign trade by reducing tariffs and relying largely on food and raw materials exports to buy manufactures from abroad (mainly from Britain). By contrast, Republican protectionists sought to build up a domestic market for manufactures behind tariff walls. The party's industrial advocates focused on technological modernization in the eastern urban centers.

Whereas the Democratic Party was Anglophile, Republican strategists had a long history of Anglophobia, above all in their opposition to British free trade doctrines, which dominated the nation's religious colleges. It was largely to promote protectionist doctrines that state land-grant colleges and business schools were created after the Civil War. In contrast to the economic theories of David Ricardo and Thomas Malthus, these colleges described America as a new civilization, whose dynamics were those of increasing returns in agriculture as well as industry, and the perception that rising living standards would bring about a new social morality. The protectionist Simon Patten was typical in juxtaposing American civilization to European society wracked by class conflict, pauper labor and a struggle for foreign markets based on reducing wage levels. Teaching at the University of Pennsylvania from the 1890s through the 1910s, Patten's students included such future luminaries as Franklin Roosevelt's brainstruster Rex Tugwell and the socialist Scott Nearing.

Europe's imperial rivalries were viewed as stemming from its competing princely ambitions and an idle landed aristocracy, and from the fact that its home markets were too impoverished to purchase industrial manufactures of the type that were finding a ready market in the United States. To Republican nationalists the United States did not need colonies. Its tariff revenues would better be spent on internal improvements than on vainglorious foreign conquests.

This attitude helps explain America's belated commitment to World War I. The nation declared war in 1917 only when it became apparent that to stay out would entail at least an interim economic collapse as American bankers and exporters found themselves stuck with uncollectible loans to Britain and its allies. Reflecting the ideological and moral elements in America's entry, President Wilson viewed the nation's political and cultural heritage as stemming largely from England. He was a Democrat, and a southerner to boot, whereas most of the leading Republican intellectuals, including Patten, Thorstein Veblen and Charles Beard, felt a closer kinship to Germany. That nation was after all in much the same position as the United States in seeking to shape its social evolution by state policy to build a high-income, technologically innovative economy, marked by government leadership in social spending and the financing of heavy industry.

This social philosophy helps explain America's particular form of isolationism preceding and after World War I, and especially the government's demand to be repaid for its wartime loans to its allies. U.S. officials insisted that the nation was merely an associate in the war, not a full ally. Its $12 billion in armaments and reconstruction loans to Europe were more of a business character than a contribution to a common effort. America saw itself as economically and politically distinct.

The dilemma of U.S. economic diplomacy in the interwar years

The United States, and specifically its government, emerged from the war not only as the world's major creditor, but a creditor to foreign governments with which it felt little brotherhood. It did not see its dominant economic position as obliging it to take responsibility for stabilizing world finance and trade. If Europe wished to channel its labor and capital to produce armaments instead of paying its debts, and if it persisted in its historical antagonisms – as evidenced by the onerous Treaty of Versailles imposed on Germany – the United States need feel no obligation to accommodate it.

The government therefore did not seek to create a system capable of extending new loans to foreign countries to finance their payments to the United States, as it was to do after World War II. Nor did it lower its tariffs so as to open U.S. markets to foreign producers as a means of enabling them to pay their war debts to the U.S. Treasury. The United States rather wished to see Europe's empires dissolved, and did not mind seeing imperial governments stripped of their wealth, which tended to be used for military purposes with which few Americans sympathized. The resulting failure to take the lead in restructuring the world economy and to perceive the financial and commercial policy obligations inherent in the United States' new economic status rendered its war credits uncollectible.

Economically, the U.S. attitude was to urge European governments to reduce their military spending and/or living standards, to permit their money to flow out and their prices to fall. In this way, it was hoped, world payments equilibrium might be re-established even in the face of rising American protectionism and full payment of the Inter-Ally debts that were the legacy of the Great War.

This was not a clearly thought-out position or a realistic one, but many leading Europeans shared these attitudes. In trying to cope with the international financial breakdown of the 1920s, their governments were advised by anti-German writers such as Bertil Ohlin and Jacques Rueff, who insisted that Germany could repay its assessed reparations if only it would submit to sufficient austerity.

The parallel with monetarist Chicago School attitudes towards today's debtor economies is appallingly obvious. Its view of international payments adjustment was as self-defeating in the 1920s as are the IMF's austerity programs today. By insisting on repayment of its allies' war debts in full, and by simultaneously enacting increasingly protectionist tariffs at home, the U.S. Government made repayment of these debts impossible.

Private investors traditionally had been obliged to take losses when debtors defaulted, but it became apparent that the U.S. Government was not about to relinquish its creditor hold on the Allies. This intransigence obliged them to keep tightening the screws on Germany.

To review the 1920s from today's vantage point is to examine how nations were not acting in their enlightened self-interest but in an unquestioning reaction against obsolete economic attitudes. The orthodox ideology carried over from the prewar era was anachronistic in failing to recognize that the world economy emerged from World War I shackled with debts far beyond its ability to pay – or at least, beyond the ability to pay except on conditions in which debtor countries merely would borrow the funds from private lenders in the creditor nation to pay the creditor-nation government. U.S. bankers and investors lent money to German municipalities, which turned the dollars over to the central bank to pay reparations to the Allies, which in turn used the dollars to pay their war debts to the U.S. Treasury. The world financial system thus was kept afloat simply by intergovernmental debts being wound down by a proportional build-up in private sector and municipal debts.

The ensuing débâcle introduced a behavioral difference from the processes analyzed by Hobson, Lenin and other theorists of prewar world diplomacy. In the nineteenth century Britain took on the position of world banker in no small measure to provide its colonies and dependencies with the credit necessary to sustain the international specialization of production desired by British industry. After World War I, the U.S.

Government pursued no such policy. An enlightened imperialism would have sought to turn other countries into economic satellites of the United States. But the United States did not want European exports, nor were its investors particularly interested in Europe after its own stock market outperformed those of Europe.

The United States could have named the terms on which it would have supplied the world with dollars to enable foreign countries to repay their war debts. It could have specified what imports it wanted or was willing to take. But it did not ask, or even permit, debtor countries to pay their debts in the form of exports to the United States. Its investors could have named the foreign assets they wanted to buy, but private investors were overshadowed by intergovernmental financial agreements, or the lack of them, enforced by the U.S. Government. On both the trade and financial fronts the U.S. Government pursued policies that impelled European countries to withdraw from the world economy and turn within.

Even the United States' attempt to ameliorate matters backfired. To make it easier for the Bank of England to pay its war debts, the Federal Reserve held down interest rates so as not to draw money away from Britain. But low interest rates spurred a stock market boom, discouraging U.S. capital outflows to European financial markets.

America's failure to recycle the proceeds of its intergovernmental debt receipts into the purchase of European exports and assets was a failure to perceive the implicit strategy dictated by its unique position as world creditor. European diplomats spelled out the required strategy clearly enough in the 1920s, but the U.S. Government's economic isolationism precluded it from collecting its intergovernmental debts. Its status as world creditor proved ultimately worthless as the world economy broke into nationalist units, each striving to become independent of foreign trade and payments, and from the U.S. economy in particular. In this respect America forced its own inward-looking attitude on other nations.

The upshot was the breakdown of world payments, competitive devaluations, tariff wars and international autarchy that characterized the 1930s. This state of affairs was less an explicit attempt at imperialism than an inept result of narrowly legalistic and bureaucratic intransigence regarding the war debts, coupled with a parochial domestic tariff policy. It was just the opposite of a policy designed to establish the United States as the world's economic center based on a reciprocity of payments between creditor and periphery, a complementarity of imports and exports, production and payments. A viable U.S.-centered world economic system would have required some means of enabling Europe to repay its war debts.

What occurred instead was isolationism at home, prompting drives for national self-sufficiency abroad.

One can find cases throughout history in which seemingly logical paths of least resistance have not been followed. In most such cases the explanation is to be found in leadership looking backward rather than forward, or to narrow rather than broad economic and social interests. Although it certainly was logical in the 1920s for private U.S. investors to extend their power throughout the world, the financial policies pursued by the U.S. Government (and to a lesser extent by other governments) made this impossible. The Government narrowly construed America's national self-interest in terms of the Treasury's balance sheet, putting this above the cosmopolitan tendencies of private financial capital. This forced country after country to withdraw from the internationalism of the gold exchange standard and to abandon policies of currency stability and free trade.

The burden of Britain's war debts impelled it to convene the Ottawa Conference in 1932 to establish a system of Commonwealth tariff preferences. Germany turned its eyes inward to prepare for a war to seize by force the materials which it could not buy under existing world conditions. Japan, France and other countries were similarly stymied. Depression spread as the world financial crisis was internalized in one country after another. As world trade and payments broke down utterly, the national socialist governments of Italy and Germany became increasingly aggressive. Governments throughout the world responded to falling incomes and employment by vastly extending their role in economic affairs, prompting Keynes to proclaim the end of laissez-faire.

The Great Depression extinguished private capital throughout the world, just as intergovernmental capital had been extinguished by the short-sightedness of governments seeking to derive maximum economic benefit from their financial claims on other governments. This poses the question of why such debts were allowed to become so problematic in the first place.

Britain's agreement to begin paying its war debts to the United States no doubt was inspired largely by its world creditor ideology of maintaining the "sanctity of debt." Yet this policy no longer was appropriate in a situation where Britain, along with continental Europe, had become an international debtor rather than a creditor. There was little idea of adjusting the traditional ideology concerning the sanctity of debts to their realistic means of payment.

The Great Depression and World War II taught governments the folly of this attitude, although they were to lose it again with regard to Third World and Eastern Bloc debts within a few decades of the close of World War II.

American plans for a postwar "free trade imperialism"

Since 1945, U.S. foreign policy has sought to reverse foreign state control over economic policies generally, and attempts at economic self-reliance and independence from the United States in particular.

As U.S. diplomats and economists theorized during 1941–45 over the nation's imminent role as dominant power in the postwar world, they recognized that it would emerge from the war by far the strongest national economy, but would have to be a major exporter in order to maintain full employment during the transition back to peacetime life. This transition was expected to require about five years, 1946–50. Foreign markets would have to replace the War Department as a source of demand for the products of American industry and agriculture. This in turn required that foreign countries be able to earn or borrow dollars to pay the United States for these exports.

This time around it was clear that the United States could not impose war debts on its Allies similar to those that had followed World War I. For one thing, the Allies had been stripped of their marketable international assets. If they were obliged to pay war debts to the United States, they would have no remaining funds to buy American exports. The U.S. Government therefore would have to provide the world with dollars, by government loans, private investment or a combination of both. In exchange, it would be entitled to name the terms on which it would provide these dollars. The question was, what terms would U.S. economic diplomats stipulate?

In January 1944 the annual meeting of the American Economic Association was dominated by proposals for postwar U.S. economic policy. "For the first time in many decades," wrote J. B. Condliffe of the Carnegie Endowment for Peace, "– indeed for the first time since the very earliest years of the infant republic – attention is now being paid by soldiers and political scientists, but little as yet by economists, to the power position of the United States in the modern world. This attention is part of the re-examination of national policy made necessary by the fact that this war has shown the folly of complacent and self-centered isolationist theorist and attitudes."[1] Such an examination should not be thought of as Machiavellian or evil, Condliffe urged, but as a necessity if U.S. ideals were to carry real force behind them.

A central theme of the meeting was the relative roles that government and business would play in shaping the postwar world. In a symposium of former presidents of the American Economic Association on "What Should be the Relative Spheres of Private Business and Government in our Postwar American Economy?" most respondents held that the distinction between private business and government policy was becoming fuzzy, and that some degree of planning was needed to keep the economy working at relatively full employment.

This did not necessarily imply a nationalist economic policy, although that seemed to be an implicit long-term tendency. Speaking on "The Present Position of Economics," Arthur Salz observed that "government and economics have drawn close together and live in a real and, to a large extent, in a personal union. While formerly the economist made his reputation by constructive[ly] criticizing governments, he is now hand and glove with them and has become the friend and patron of the government machinery whose severest critic he once was."[2]

The problem of government/private sector relations was put in most rigorous form by Jacob Viner, the laissez-faire theoretician from the University of Chicago. His speech on "International Relations between State-Controlled National Economies" challenged the idea that private enterprise "is normally unpatriotic, while government is automatically patriotic." National economic planning was inherently belligerent, he warned, and the profit motive would be the best guarantee against the waste and destruction of international conflict. Corporations could not go to war, but governments found in war the ultimate expression of their drives for power and prestige. Viner concluded hopefully: "The pattern of international economic relations will be much less influenced by the operation of national power and national prestige considerations in a world of free-enterprise economies than in a world of state-operated national economies."[3]

This was just the opposite of socialist theory, which assumed that national governments were inherently peaceful, except when goaded by powerful business cartels. Hobson had insisted that "The apparent oppositions of interests between nations . . . are not oppositions between the people conceived as a whole; they are expositions of class interests within the nation. The interests of America and Great Britain and France and Germany are common,"[4] although those of their individual manufacturers and exporters were not.

The war debts and reparations after World War I had brought into question this generality. According to Viner's laissez-faire view, the tendency for conflict among nations – and hence the chances of war – would be greater rather than smaller in a world of state-controlled economies. Looking back on the experience of the 1930s in particular, he found that "The substitution of state control for private enterprise in the field of international economic relations would, with a certain degree of inevitability, have a series of undesirable consequences, to wit: the injection of a political element into all major international economic transactions; the conversion of international trade from a predominantly competitive to a predominantly monopolistic basis; a marked increase in the potentiality of business disputes to generate international friction," and so forth. From this perspective national rivalries as conceived and carried out by governments were inherently more belligerent than commercial rivalries among private exporters, bankers and investors.

Viner did not, however, cite the U.S. Government's own behavior in the 1920s. Inverting the Hobson–Lenin view of international commercial rivalries, his view had little room for such phenomena as IT&T's involvement in Chile in the early 1970s to oppose Allende's socialism, Lockheed's bribery scandals in Japan or other international bribery of foreign and domestic officials, or even presidential campaign promises to protectionist interests such as those made by Richard Nixon to America's dairy and textile industries in 1968 and again in 1972. Government planning was the problem as an autonomous force based on the inherently nationalistic ambitions of political leaders. No room was acknowledged for planning even of the kind that had led American industry to achieve world leadership from the end of the U.S. Civil War in 1865 to the end of World War I under a program of industrial protectionism and active internal improvements. "Insofar as, in the past, war has resulted from economic causes," Viner insisted,

> it has been to a very large extent the intervention of the national state into the economic process which has made the pattern of international economic relationships a pattern conducive to war . . . socialism on a national basis would not in any way be free from this ominous defect . . . economic factors can be prevented from breeding war if, and only if, private enterprise is freed from extensive state control other than state control intended to keep enterprise private and competitive . . . War, I believe, is essentially a political, not an economic phenomenon. It arises out of the organization of the world on the basis of sovereign nation-states . . . This will be true for a world of socialist states as for a world of capitalist states, and the more embracing the states are in their range of activities the more likely will be the serious friction between states. If states reduce to a minimum their involvement in economic matters, the role of economic factors in contributing to war will be likewise reduced.[5]

It seemed to many observers that U.S. officials were structuring the IMF and World Bank to enable countries to pursue laissez-faire policies by insuring adequate resources to finance the international payments imbalances that were anticipated to result from countries opening their markets to U.S. exporters after the return to peace. Special reconstruction lending would be made to war-torn Europe, followed by development loans to the colonies being freed, and balance-of-payments loans to countries in special straits so that they would not need to resort to currency depreciation and tariff barriers. It was believed that free trade and investment would settle into a state of balanced international trade and payments under the postwar conditions being created under U.S. leadership. Bilateral foreign aid would serve as a direct inducement to governments to acquiesce in the United States' postwar plans, while ensuring the balance-of-payments equilibrium that was a precondition for free trade and an Open Door to international investment.

When President Truman insisted, on March 23, 1946, that "World trade must be restored – and it must be restored to private enterprise," this was a way of saying that its regulation must be taken away from foreign governments that might be tempted to try to recover their prewar power at the expense of U.S. exporters and investors. America's laissez-faire stance promoted the United States as the center of a world system vastly more extensive and centralized, yet also more flexible, less costly and less bureaucratic than Europe's imperial systems had been.

Given the fact that only the United States possessed the foreign exchange necessary to undertake substantial overseas investment, and only the U.S. economy enjoyed the export potential to displace Britain and other European rivals, the ideal of laissez-faire was synonymous with the worldwide extension of U.S. national power. It was recognized that American commercial strength would achieve the government's underlying objective of turning foreign economies into satellites of the United States. The objectives of U.S. exporters and international investors thus were synonymous with those of the government in seeking to maximize U.S. world power, and this was best achieved by discouraging government planning and economic statism abroad.

The laissez-faire ideology that American industrialists had denounced in the nineteenth century, and that the U.S. Government would repudiate in practice in the 1970s and 1980s, served American ends after World War II. Europe's industrial nations would open their doors and permit U.S. investors to buy in to the extractive industries of their former colonies, especially into Near Eastern oil. These less developed regions would provide sample content of Super Imperialism: The Origin and Fundamentals of U.S. World Dominance

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