

International Financial History in the Twentieth Century: System and Anarchy. *Edited by Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James.* Cambridge, U.K.: Cambridge University Press, 2003. x + 278 pp. Index, notes, tables. Cloth, \$60.00. ISBN 0-521-81995-4.

Reviewed by Priscilla Roberts

Massive swings and fluctuations in exchange rates during the late twentieth and early twenty-first centuries, and the consequent financial and economic dislocations, have generated considerable nostalgia for both the supposedly automatic regulation provided by the pre-1914 classic gold standard and the twenty-five-year period following World War II, when a system of fixed exchange rates pegged to the dollar prevailed. The editors and most contributors to this volume take a predominantly skeptical approach toward such roseate views of an idealized past and, more broadly, toward the very possibility of imposing strong institutional control over international financial markets and currency fluctuations. Many contemporary expectations on the subject are, they suggest, unrealistically inflated. The editors draw three “lessons” from ten historical studies ranging back to the mid-nineteenth century: “(1) attempts at international coordination or control rarely work; (2) such attempts are most unstable when they are politicized as a result of unstable international politics; (3) the markets are themselves possible only on the basis of powerful institutional, political, and social forces” (p. 3).

Restoring the politics to international financial history is a major theme of this volume. In their introduction, Marc Flandreau and Harold James delineate the strong nationalistic underpinnings of the classic gold-standard system and the central role of political considerations in making it acceptable to participating nations. (Chance, in the form of major gold discoveries during the 1890s, also played a part.) Adherence to the gold standard required a national central bank, something semi-sovereign states seeking greater autonomy, Hungary and India, for example, found attractive. A subsequent chapter by Eric Helleiner takes up this idea, questioning the feasibility of Friedrich Hayek’s free-market proposal that currencies be denationalized and privatized. However compatible with the prevalent Western ideological outlook of the late twentieth century,

Helleiner contends, such schemes ignore the central significance of its own currency to a state's self-definition and the development of its national consciousness. (Helleiner might have argued, though he did not, that even the euro, all its indisputable financial advantages in eliminating the need for complicated exchange transactions across the European Union notwithstanding, has been presented primarily as one further step toward the building and reinforcement of a sense of European community.)

Two model studies highlight particular aspects of the pre-1914 gold standard regime. Flandreau focuses upon the development of the Service des Études Financières (SEF) of the Paris-based Crédit Lyonnais, a private commercial bank, to challenge the accepted view that only after 1914 did private financial institutions establish their own mechanisms to assess the creditworthiness of foreign governments. He argues that these organizations' ability to reach such judgments, and their creation of mechanisms for this purpose, was an essential precondition of pre-World War I globalization. Flandreau further suggests that economics, not politics, drove the Crédit Lyonnais' investment decisions, and that the excellence of its SEF perhaps led other French financial institutions to place too much faith in its advice, rather than developing similar services of their own. Mira Wilkins, probably the foremost contemporary scholar of American overseas investment, discusses the role of the "free-standing company," a business incorporated in one country but operating in another, generally utilizing significant local expertise and personnel but serving as a conduit for Western operational and management practices as well as a vehicle for investment capital. Such foreign direct investment, she argues, was more significant than the international financial markets in promoting global economic integration. Wilkins also sets forth an impressive agenda for further research on the relations among different kinds of overseas investments, financial markets, type of monetary system, and global technological change.

A typically iconoclastic and stimulating essay by Stephen A. Schuker takes a decidedly unsentimental view of the functioning of the pre-1914 gold standard, the interwar gold-exchange standard, and the post-1945 Bretton Woods system, in the process challenging the prevailing orthodoxy propounded by Barry Eichengreen in *Golden Fetters: The Gold Standard and the Great Depression* (1992) and Peter Temin in *Lessons from the Great Depression* (1989). Schuker points out that the pre-1914 gold-

standard regime shared many of the supposed defects of its successor, the gold-exchange standard, permitting gold-surplus countries to neutralize gold inflows rather than expand imports and gold-deficit countries to avoid “major downward wage adjustments,” as “huge international capital movements accommodated deficits or surpluses for decades at a time without compelling any correction on current account” (p. 82). Its success was primarily the product of cooperation among central bankers, facilitated by the City of London’s ability to provide credit and to finance commerce, a system that reflected the prevailing economic power structure. Schuker suggests that Britain’s often condemned decision to return to gold in 1925 was both economically and politically justified, and that sterling’s continuing weakness in the later 1920s represented “a contingent political outcome rather than a systemic flaw in the monetary regime” (p. 86). He argues that Britain’s interwar economic difficulties stemmed primarily from the decline of specific regional industries and the Baldwin government’s overly generous social welfare policies. Likewise, Schuker considers France’s decision to undervalue the franc against gold a far less significant contributory factor to the economic collapse that began in 1929 than German determination to reduce reparation payments, no matter what the cost. Ultimately, Schuker contends, the collapse of international monetary cooperation in the early 1930s owed less to “the principles of the gold-exchange standard regime” than to “the politicians who ran it into the ground” (p. 93).

Kenneth Mouré, the author of two distinguished book-length studies of interwar French monetary policy, likewise stresses the influence of political constraints upon France’s decision to return to gold. The level at which the initially undervalued “franc Poincaré” returned to gold in 1928 represented a default on French governmental pledges from 1914 onward to maintain the franc at its pre-1914 level. Further devaluations, though economically desirable once the Great Depression began, were consequently politically impossible, an outlook hardened by France’s postwar experience of budget deficits and unchecked currency inflation, evils French policymakers sought to avert through their continued adherence to gold at the 1928 level. France’s sense that Britain and the United States had neglected their postwar moral obligations to assist France economically by facilitating French currency stabilization and access to substantial

German reparation payments further stoked French reluctance to participate in joint international recovery efforts during the 1930s.

Schuker stresses the importance of international power relations, especially the economically predominant position of the United States, in setting the ground rules of the Bretton Woods system created in 1944. Robert Skidelsky's study of the evolution of John Maynard Keynes's monetary thinking, a distillation of one strand of his accomplished three-volume biography of the British economist, takes a similar approach. By the time of the Bretton Woods negotiations, he argues, Keynes's fundamental outlook reflected the fact that Great Britain was the world's largest debtor and the United States its greatest creditor nation. Whereas Keynes sought to impose strict constraints upon the policies of nations that piled up such surpluses, the United States therefore espoused creditor voluntarism, a position enshrined—over Keynes's protests—in the Bretton Woods agreements. More controversially, Skidelsky suggests that by 1945 the agreements had largely become a dead letter, and that, had ratification not been made a condition of the 1946 United States loan to Britain, the British government might never have endorsed them. Even when it did, the “key currency” approach advocated by New York bankers, of setting British–American exchange rates bilaterally, now dominated the making of U.S. monetary policy. Only the developing Cold War, according to Skidelsky, rescued the Bretton Woods institutions, the International Monetary Fund and the International Bank for Reconstruction and Development, from the desuetude into which they were rapidly dwindling. And even when these organizations had been resuscitated, in practice the United States followed the policies Keynes had advocated, of recycling its surpluses to Europe and elsewhere through the Marshall Plan, foreign aid, and military assistance programs.

Several other chapters describe particular aspects of the post-1945 world financial regime. Jakob Tanner demonstrates how neutral Western countries, even those that, like Switzerland, did not formally join the Bretton Woods institutions, nonetheless cooperated closely with the system thus established, a demonstration of the new regime's effective international predominance and acceptance. The significant impact of the cold war features again in the account by Charles P. Kindleberger and F. Taylor Ostrander, two Americans who served with the occupation authorities, of the implementation of the 1948

currency reform in occupied Germany, a measure largely devised and effected by American and British officials, albeit with some German input. The suggestion in this chapter that only outside pressure could have sufficed to carry out such a sweeping reform implicitly illuminates the nature of the domestic political constraints and considerations cited in other chapters as affecting the making of monetary policy in individual states. While the cold war facilitated the implementation of the Bretton Woods system and of major American transfers to Europe and Asia, it also had its costs for the United States, whose defense expenditures averaged 11.2 percent of the gross national product in the mid-1950s, close to 50 percent higher than those of either Britain or France, and three times the equivalent figure for West Germany. Werner Abelshauser argues that heavy American military expenditures in Western Europe were not motivated primarily by security fears, but instead represented the “burden of power” by serving as a concrete demonstration of United States hegemony, a thesis that probably underestimates the degree to which American policymakers perceived such spending as having a deterrent effect rather than simply meeting an immediate direct threat. Abelshauser demonstrates the degree to which heavy military spending in Europe and elsewhere strained the British and eventually the U.S. economies, a situation to which German officials responded by devising expedients that facilitated reverse payments to Britain and the United States through measures deftly designed, so their authors hoped, to bring about eventual German nuclear rearmament and restore their own country’s great-power status. More broadly, he might also have suggested that sustaining this burden of power ultimately undercut American ability to play the hegemonic monetary—or indeed military—role it implied, causing the United States to jettison the fixed exchange-rate system in the early 1970s.

The volume concludes with a controversial cautionary essay by Louis W. Pauly, comparing the admittedly rudimentary efforts of the interwar League of Nations Economic Section to force deregulation, decartelization, and free competition upon other countries with similar moves by the International Monetary Fund, the World Trade Organization, and other contemporary international lending agencies. Such ventures have, Pauly contends, greatly expanded the original mission of such organizations, imposing upon them responsibilities they are generally poorly qualified to fulfill.

Moreover, the apparent international consensus regarding the efficacy and desirability of free markets, unrestricted competition, the eradication of corruption, and the economic “level playing field” only thinly disguises substantial underlying dissent from such supposedly normative standards. Allied to this is strong resentment of Western attempts to disseminate such standards, widely perceived as self-serving efforts to lock in Western competitive advantages and economic dominance through the coercive imposition of practices not commonly adhered to even by those powers themselves in the past. Efforts by international organizations to spread such supposed norms have the potential to provoke and founder upon deep-rooted nationalist resentment of outside interference in the domestic affairs of independent states.

The central role of nationalist perspectives and political constraints in constructing international financial policy is the unifying theme of this book’s somewhat disparate but stimulating and wide-ranging chapters. Its underlying message is that those who remain oblivious to the shortcomings and failures of past efforts at international financial cooperation may well be doomed to repeat them. These carefully researched empirical studies provide a welcome antidote to much of today’s hubristic and overconfident rhetoric and predictions about the accomplishments and potential of the often poorly defined concept of globalization. Overall, this volume provides a salutary warning that, since the mid-nineteenth century, overly ambitious international institutions and schemes have often failed to accomplish their purported economic and financial objectives; and that only those mechanisms which have successfully met and reconciled the national interests of participating states have functioned effectively.

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