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Chapter IV

POLICY SPACE AND THE ORIGINS OF THE MULTILATERAL ECONOMIC SYSTEM



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A. Introduction

The challenge of reconciling the requirements of national policy sovereignty with the imperatives of an interdependent world economy may seem today to be relatively new – an outcome of advances in information and communications technologies (ICTs) and the spread of global market forces. In fact, it is a long-standing challenge that has been discussed extensively, and from many different angles, for almost two centuries (Mazower, 2012). This chapter takes a historical look at some of the debates around this issue in the mid-twentieth century, when much of the current multilateral economic architecture was being constructed.

The architects of the post-Second World War multilateral system were principally concerned with the economic challenges facing the leading industrialized countries. But in a profound break with the actions of policymakers after the end of the First World War, they recognized that the modern State was “splendidly equipped” to undertake the challenges of attaining higher standards of living, full employment and economic and social security.¹ Moreover, in light of the changing contours of the global economy,

development challenges facing poorer countries were also part of the discussions of State-driven international cooperation. Indeed, not only did those issues have a more important place in negotiations over the future direction of international cooperation than is generally recognized, they also focused attention on the question of policy space in achieving the goals and objectives of the new multilateral order.

Controlling potentially destructive financial forces was central to the discussions of the architects of the post-Second World War multilateral system.

The outcomes of the negotiations, in terms of institutions, rules and disciplines, reflected both decisions taken by nation States and the lobbying efforts of various interest groups within the major economic powers. In particular, the shifting coalition of interests that underpinned the New Deal in the United States

had a very strong bearing on multilateral discussions that began even before the start of the Second World War. Those who supported efforts to internationalize the New Deal provided an initial opening for a more inclusive multilateralism that could accommodate the needs and concerns of developing countries. However, several promising initiatives in this direction were dropped from the Bretton Woods negotiations and their influence diminished further following

the death of United States President Roosevelt, giving way to a more technocratic multilateralism which proved less accommodating to those needs.

One central feature of the discussions of the time, which was relevant for both developed and developing countries, was the imperative of controlling potentially destructive financial forces. Politicians and policymakers from across the developed countries (and the political spectrum) recognized the importance of making finance a servant, rather than the master, of their economic destiny. At the end of the First World War, financial interests had been quick to reassert their influence over economic policy-making, calling for a restoration of market confidence as the only assured way to “return to normalcy” (James, 2001: 25). This effectively meant not just a rapid dismantling of wartime controls, but an unqualified commitment to the gold standard, the establishment of independent central banks and the adoption of austerity policies, all of which reduced the possibilities of moving towards a more managed economy that would support new social and political demands. Financial interests were in a strong position to define what was acceptable policy; and they were also the big winners from the resulting surge of short-term capital flows (and accompanying toxic financial instruments), which picked up rapidly from the mid-1920s, leading to an increasingly skewed pattern of income distribution in many countries (Kumhof et al., 2013; Piketty, 2014). These trends, in combination with highly fragile banking systems, culminated in the Great Depression and the international economic disintegration that followed. Against this backdrop, expanding policy space to meet the new post-war challenges and reducing the profit space of the “rentier” financial class was uppermost in the minds of negotiators at Bretton Woods.²

The rules and measures eventually adopted to limit the destructive tendencies of unregulated finance certainly helped open up policy space for developing countries to establish independent growth paths. However, the scale of financial resources made available to developing countries through new multilateral mechanisms never matched their aims of radically transforming the economic structures inherited

from their previous colonial or peripheral status. This meant that international trade assumed greater importance in the design of post-war development strategies, but at the same time technological gaps and structural asymmetries in production between developed and developing countries made the trading system a more contested terrain. Moreover, in contrast to the discussions around international finance, strong corporate interests linked to an export-led growth agenda, particularly in the United States, were better positioned to influence the outcomes of multilateral trade discussions in a more liberal direction. The resulting unwillingness of developed countries

UNCTAD played a pivotal role in promoting a development agenda in line with the needs of developing countries, and in pushing for sufficient policy space to pursue it.

to address the pervasive gaps and asymmetries in production eventually galvanized developing countries into promoting a development agenda more in line with their needs and demanding sufficient policy space to pursue that agenda. From the early 1960s, UNCTAD was at the centre of those efforts, often pursuing a mix of multilateral support measures and policy space initiatives that had previously been proposed by the international New Dealers. Despite major transformations in the global economy and in different developing regions since then, the arguments made during these decades still have powerful contemporary resonance, as will be evident in the subsequent chapters of this *Report*.

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This opening chapter is structured as follows. Section B examines the wider historical context that influenced the debates on international cooperation in the 1940s. It notes that these debates were heavily informed by the failure of the neo-liberal agenda that had dominated policy thinking in the 1920s. This agenda is contrasted with that of the Roosevelt Administration, which tried to internationalize the New Deal during the Bretton Woods negotiations. Section C examines the neglected role of development issues in subsequent accounts of the Bretton Woods discussions, recalling the importance of New Deal and Keynesian thinking in taming the role of international finance and its strong links to development policy debates in Latin America under Roosevelt’s “Good Neighbor Policy”. It then looks at the way in which discussions of a new international trade architecture were constrained by the political alliances that underpinned the New Deal, with very different outcomes for the direction of trade policy

in Europe and the developing world respectively. Section D describes subsequent efforts by developing countries to make multilateralism more inclusive, including their revival of elements of the New Deal's international agenda in support of State-led industrialization and their push for stronger recognition

of the interdependence of trade and financial issues, which was at the heart of UNCTAD's mandate. The final section concludes with a discussion on the re-emergence of international finance, the associated "softening" of multilateralism and the resulting impact on contemporary policy space.

B. Debates on the emerging international economic order in the mid-twentieth century

1. *The rise and fall of the inter-war liberal policy agenda*

The inter-war period was a time of sharp economic contrasts across countries, with prolonged economic stagnation in some contrasting with boom-bust cycles in others. However, in almost all cases, severe and highly contagious shocks and crises in the late 1920s and early 1930s ushered in a period of deep global economic distress and uncertainty which had a profound effect on politicians and policymakers. The economic problems of the inter-war period are often ascribed to the pervasive influence of isolationist and protectionist ideologies, particularly in the United States, which are deemed to have been responsible for blocking a return to the liberal internationalism that had supported growth and stability before 1914 (Wolf, 2003; Eichengreen and Kenen, 1994). Such an interpretation is misleading. In fact, tariffs had been steadily rising almost everywhere in the "high growth" decades prior to 1914, in some cases reaching very high levels (Bairoch, 1995). And while tariff barriers increased immediately after the war, this was followed by a mixture of protectionist and liberalizing measures, which included the use of surtaxes and anti-dumping legislation, but also the removal of quantitative trade controls, promotion of the most-favoured-nation (MFN) principle, the lifting of restrictions on capital exports and a return to the

gold standard. It is true that with the adoption of the Smoot Hawley Act in June 1930 United States tariffs rose to unprecedented levels, triggering reprisals from 25 countries over the subsequent 18 months, with damaging consequences for exports (Bairoch, 1995). However, in terms of both timing and scale, the collapse in output and employment during the early 1930s cannot be attributed to this policy shift. Besides, growth in many countries recovered rapidly under these same tariff structures, albeit under the stewardship of very different macroeconomic policy regimes.³

Contrary to a good deal of narrative on this period, liberalism was the dominant economic ideology of the 1920s. Therefore, examining its influence, in particular through its promotion of conservative macroeconomic policies, is key to understanding the decade that followed (Polanyi, 1944: 231–36; Boyce, 2009: 6–7). Following the sharp global downturn of 1920–1921, official support for independent central banks, flexible labour markets, lightly regulated capital markets and the gold standard was in full ascendancy in all the leading economies. As Eichengreen and Temin (1997: 38) have observed, the gold standard rhetoric not only "dominated discussions of public policy ... and sustained central bankers and political leaders as they imposed ever greater costs on ordinary people", it also provided a "one-size fits all" policy agenda, to which, those

same voices insisted, there was no alternative. From this perspective, adopting the gold standard was seen both as a commitment to “responsible” policymaking, by limiting the scope for independent government monetary and fiscal actions, and as a way of attracting foreign capital inflows by strengthening investor confidence. The result was not only a recovery of pre-war globalization trends, but a concomitant loss of policy autonomy and increased vulnerability to events elsewhere in the world.

Trade and capital flows picked up rapidly from the mid-1920s, reaching (and, in certain instances, surpassing) pre-war levels towards the end of the decade.⁴ Moreover, and again contrary to conventional opinion, discussions on international economic cooperation were widespread (but relatively unfruitful) during the 1920s (Boyce, 2009). Indeed, as James (2001: 25) notes, “Rarely had there been so much enthusiasm for internationalism and international institutions as in the 1920s”. The United States was actively engaged in debt renegotiations through the Dawes and Young Plans, which led to the creation of the Bank for International Settlements (BIS). The BIS was at least partly created to depoliticize those negotiations, but it was also seen as an instrument of central bank cooperation (James, 2001: 41). In addition, a series of international conferences were organized to promote trade liberalization and the protection of intellectual property, most notably the World Economic Conferences of 1927 and 1933 (Kindleberger, 1986). Towards the end of the 1920s, there was also a strong push for greater regional cooperation (Boyce, 2009).

With investor confidence serving as the policy lodestone, fiscal austerity was seen as the right approach for returning to normalcy in the early 1920s, and also for correcting the imbalances that had begun to emerge towards the end of the decade.⁵ In reality, the turn to austerity and the instability surrounding the flows of short-term capital (encouraged by disparities between national inflation and interest rates) gave rise to mutually inconsistent stabilization plans, misaligned exchange rates and persistent frictions in the trading system. The associated imbalances in real economies (including those in agriculture and

industry), combined with the debt overhang from the war and highly fragile banking systems, interacted with these trends, eventually culminating in the Great Depression.⁶ This in turn generated further pressure for governments to adopt measures to cope with severe balance-of-payments problems, which eventually led to beggar-thy-neighbour exchange rate policies and trade and payments restrictions on a quid pro quo basis. A crucial aggravating factor was the absence of adequate public policy at national, regional and international levels to correct internal and external imbalances in an orderly and equitable manner.

The lack of either a “benevolent” hegemon or viable international cooperation was certainly critical to the international transmission of adverse shocks and eventual global depression (Kindleberger, 1986).⁷ However, the absence of a hegemon that could defend the global public interest should not be considered independently of the policy choices taken at the time. The return to the gold standard was itself a de facto commitment to a certain type of international coordination that was in line with liberal principles as well as with the needs of finance. Indeed, the financial lobby was the most ambitious of the internationalist interest groups within the leading powers, and prevailed against other groups, including more dynamic segments of the manufacturing sectors (Boyce, 2009).

The links between economic instability, international disintegration and political polarization were certainly apparent to some observers at the time. Keynes, in his *Economic Consequences of the Peace*, had already warned that the onerous debt payments imposed by the Treaty of Versailles (as well as outstanding debts between the victorious allied powers), in a context of excessively volatile short-term capital flows, would make it impossible for each country to put its own house in order without damaging others. Moreover, and despite the narrowness and conservative nature of economic thinking, alternative policy approaches began to emerge towards the end of the decade, as the scale of the damage resulting from the liberal economic agenda became impossible to ignore (Kozul-Wright, 1999; Crotty, 1999).

The absence of adequate public policy to correct internal and external imbalances in an orderly and equitable manner was a strong aggravating factor in the Great Depression.

This context necessarily shaped economic perceptions at the international level as well. Bilstoft (2014) has noted that after the Great Depression, even the economists at the League of Nations, who essentially favoured the creation of a relatively liberal and open world order, began to question the monetary orthodoxy of adherence to the gold standard and recognized the need for selective trade interventions, such as for commodity price stabilization. Even as Ohlin and others developed theories to show how international gains from specialization could address the problem of global imbalances, other economists associated with the League, such as Mikhail Manoilescu and Ragnar Nurkse, highlighted potential problems of unequal exchange and the need to increase domestic savings and investment “to expand domestic markets and decouple them from foreign capital and tight and inequitable global market structures” (Bilstoft, 2014).

However, it was political changes in the United States, associated with Roosevelt’s New Deal, that signalled a dramatic break with the orthodox way of looking at economic policy choices and trade-offs.⁸ The New Deal involved a rejection of the ideas that the free market is intrinsically self-correcting and geared to generating the most economically and socially optimal outcomes, that fiscal austerity and budget cuts provide the only reliable way out of a crisis, and that government intervention distorts and damages future economic prospects. By adopting an expansionary economic agenda through targeted support for different regions and sectors of the economy (most notably through the creation of the Tennessee Valley Authority), redistribution measures, strengthened regulation of markets (particularly financial markets) and belated but expansive fiscal measures, the New Deal demonstrated a willingness to make job creation and social security the responsibility of government policy. It also set out to promote a public sphere that did not respond simply to market forces, but could also act as a countervailing power to private interests, particularly in the financial sector, whose behaviour and actions were seen as the real causes of the crisis.⁹ Similar moves in the direction of what subsequently became known as “welfare Keynesianism” were taking place in other countries, albeit drawing on their own intellectual and political traditions (Hall, 1989; Temin, 1991; Blyth, 2002).

Economic crises and
contagion could not be
managed in isolation.

2. Internationalizing the New Deal

Given the broad agreement amongst the democratic powers that economic crises and contagion could not be managed by countries in isolation, the search for a form of domestic economic governance “between the anarchy of irresponsible individualism and the tyranny of state socialism”¹⁰ was bound to have a profound impact on the discussions around a new international economic order which began soon after the outbreak of the Second World War.

The principle objective of the architects of Bretton Woods was to design a post-war international economic structure that would prevent the recurrence of the opportunistic actions and damaging contagion that had led to the breakdown of international trade and payments in the 1930s and its destructive aftermath.¹¹ This involved a radical break with the approach that had followed the First World War and the misguided and unsuccessful efforts to return to normalcy at that time. The two most well-known protagonists in the discussions were John Maynard

Keynes, representing the waning (but still imperial) power of the heavily-indebted United Kingdom, and Harry Dexter White, negotiating on behalf of the dominant industrial and creditor economy of the United States. They recognized that

establishing conditions both for global economic stability and security, and for sustained and broad-based growth in incomes and employment, required a number of measures. These included dismantling the ad hoc exchange controls and discriminatory trade barriers introduced after the Great Depression, “conferring autonomy on national policies” to the extent needed to pursue full employment, and building in additional supports and safeguards to ensure the efficient operation of the international economic system (Eichengreen and Kenen, 1994: 34).

Mindful that the inter-war economic disintegration was due to uncorrected market failures, excessive competition and unchecked contagion, the restoration of a stable global economic system was understood to require a shift from purely national policy formulations to a multilateral system based on the recognition of economic interdependence, enhanced cooperation and supportive multilateral institutions. Exchange

rate stability and sustained expansion of output and employment were seen as essential for avoiding tensions and disruptions in international trade. This, in turn, required global arrangements based on three ingredients: multilateral discipline over exchange rate policies, mechanisms for the provision of international liquidity, and restrictions on destabilizing capital flows. Controlling finance at home had its international analogue in restricting the ability of financial markets to make profits abroad through short-term speculative capital flows. Keynes (1944), in defending the final arrangements negotiated at Bretton Woods, was clear that taming finance was at the heart of any stable post-war multilateral order:

Whilst other schemes are not essential as prior proposals to the monetary scheme, it may well be argued, I think, that a monetary scheme gives a firm foundation on which the others can be built. It is very difficult while you have monetary chaos to have order of any kind in other directions... [I]f we are less successful than we hope for in other directions, monetary proposals instead of being less necessary will be all the more necessary. If there is going to be great difficulty in planning trade owing to tariff obstacles, that makes it all the more important that there should be an agreed orderly procedure for altering exchanges... [S]o far from monetary proposals depending on the rest of the programme, they should be the more necessary if that programme is less successful than we all hope it is going to be.

Thus, controls on finance were seen as the essential basis for enlarging policy space at home to meet the newly defined goals of full employment, economic and social security, and higher living standards for the majority of the population, as well as for building a form of “constructive internationalism” that could underpin a more stable economic environment in support of this shared policy agenda. However, from the outset, United States policymakers (more so than Keynes) made it very clear that the development implications of taming financial interests at home and abroad should also be addressed at the international level. According to Oliver (1975: 4),

White was convinced that private investors could not be relied upon to provide the capital that would be needed for postwar reconstruction. He also felt that even after the postwar transition period, the normal flow of capital from rich to poor could not be left solely to the

private investment markets of the world. The lessons of the twenties had been that long-term private capital movements tended to enforce, rather than mitigate, the spread of international business fluctuations and that the high interest rates and the relatively short-term maturities of private portfolio investments tended to make unproductive what might otherwise be productive international ventures.

Also from the very start, Roosevelt and his administration officials favoured the establishment of public international financial institutions whose membership would be open to all “the United and Associated Nations”.¹² The New York financial community opposed this idea, preferring a “key currency” plan that would re-establish international financial stability through a bilateral loan to the United Kingdom. In rejecting that plan, United States Treasury Secretary Morgenthau highlighted the need to avoid a “dictatorship of the world’s finances by two countries”, insisting instead that “the problems considered at Bretton Woods are international problems, common to all countries, that can be dealt with only through broad international cooperation” (Morgenthau, 1945: 192). Moreover, Morgenthau stressed that the Bretton Woods framework was designed not just to meet developed countries’ goals of full employment, but also to address less developed countries’ objectives of raising levels of industrialization and standards of living:

Unless some framework which will make the desires of both sets of countries mutually compatible is established, economic and monetary conflicts between the less and more developed countries will almost certainly ensue. Nothing would be more menacing to have than to have the less developed countries, comprising more than half the population of the world, ranged in economic battle against the less populous but industrially more advanced nations of the west. The Bretton Woods approach is based on the realization that it is to the economic and political advantage of countries such as India and China, and also of countries such as England and the United States, that the industrialization and betterment of living conditions in the former be achieved with the aid and encouragement of the latter (Morgenthau, 1945: 190).¹³

But even before this approach began to inform the Bretton Woods negotiations, it had helped to reshape United States engagement with developing

countries, in particular through Roosevelt's "Good Neighbor Policy" with Latin America. This policy aimed to promote development in poorer countries in a way that was not just consistent with United States geopolitical interests at the time, but also with the aims and values of the New Deal. As such, this implied a clear break with the conventional policy advice that had been promoted by United States academic advisers to Latin American governments in the 1920s (often informally backed in the United States by the State Department, the Federal Reserve Bank of New York and banking interests). Those earlier advisers had advocated adherence to the gold standard, the establishment of independent central banks, open markets for goods and capital, and a minimal role for the State (Helleiner, 2014).

By contrast, many New Deal economists saw Latin American countries as victims of the same financial elite that had pushed their own economy into crisis and depression. The region had been the recipient of very large capital inflows in the 1920s, resulting from aggressively marketed bonds issued mainly in New York, as well as short-term loans to both governments and corporations. With the sharp drop in commodity prices in the late 1920s, an already deteriorating debt-to-export ratio – reaching triple digits in some countries – was made considerably worse. As new inflows dried up, servicing the debt became a huge burden for many governments.

At the same time, deteriorating, and ultimately unsustainable, current account positions forced countries to abandon the gold standard, adding further to their debt burden (in terms of national currency). The combination of growing government deficits and a fragile banking system, which lacked a lender of last resort, meant that the risk of a financial panic increased

significantly. The first default occurred in Bolivia in January 1931, and with the United States Government refusing to lend support to the region, contagion quickly spread across Latin America. A combination of defaults and devaluations induced a strategy

of export-led recovery while also forcing countries to substitute imported goods with domestically produced goods (Fishlow, 1985). Argentina was the only major country in the region not to default, but it endured a very slow recovery (James, 2001).

There was broad agreement that private capital on its own could not be relied upon to achieve national or global goals...

In a series of economic policy missions to the region in the late 1930s and early 1940s, most notably to Cuba and Paraguay, New Deal economists from the United States supported the creation of publicly controlled central banks

that would have a much more active monetary policy agenda. They also recommended the creation of more specialized development banks, managed exchange rates and the use of exchange controls as part of a development agenda in support of structural transformation and catch-up growth (Helleiner, 2014).¹⁴ In addition, these same economists supported the extension of loans to various Latin American governments for development projects, as well as for currency stability, through the newly created Export-Import Bank. Furthermore, they explored possible financing mechanisms that could support commodity price stabilization, and engaged in lengthy discussions to promote an Inter-American Bank (IAB) as the world's first multilateral financial institution. The latter project did not take off at the time, but it had clearly innovative features, in marked contrast to the much less ambitious BIS established in 1930. These included a mandate to provide public international loans to achieve development objectives, provisions

to address capital flight from poorer countries, and control and ownership of the institution by the concerned governments (Helleiner, 2014). Together these initiatives defined a distinctly new and engaged form of international economic cooperation.

Even before the United States entered the Second World War, Roosevelt, in his famous

"four freedoms" speech of January 1941, made it clear that "freedom from want" was a goal for people "everywhere in the world". Just as his New Deal had promised greater economic security to Americans, Roosevelt now saw the improvement of standards

... and that there should be sufficient policy space for countries to achieve an appropriate level of economic security by aiming at full employment and extended social protection.

of living in poorer regions of the world as a crucial foundation for post-war international peace and political stability (Borgwardt, 2005). This was combined with recognition of the positive role such an approach could play in sustaining economic prosperity in developed countries as well. Treasury Secretary Henry Morgenthau provided an early statement of global Keynesianism when presenting a proposal for what eventually became the World Bank, arguing that “the investment of productive capital in undeveloped and capital-needy countries means not only that those countries will be able to supply at lower costs more of the goods the world needs but that they will at the same time become better markets for the world’s goods” (quoted in Helleiner, 2014: 117).

The emphasis by the Roosevelt Administration on a strong *public* dimension in the management of financial institutions was evident in the Bretton Woods agreement. The IMF was created to ensure an orderly system of international payments at stable, but multilaterally negotiated, adjustable exchange rates under conditions of strictly limited international capital flows. Its most important function was to provide international liquidity, not only to avoid deflationary adjustments and trade and exchange restrictions in deficit countries, but also to help maintain stable exchange rates during temporary payments disturbances.

Modalities of liquidity provisioning were one of the most controversial issues in the negotiations leading up to the Bretton Woods Conference in 1944. The plans independently prepared by White and Keynes both provided for international liquidity to enable countries to stabilize their currencies. Keynes’s plan for an international clearing union, based on

the “bancor” as international liquidity, effectively proposed that the reserves of surplus countries should be automatically available to deficit countries for meeting their current account needs (Mikesell, 1994; Dam, 1982; Oliver, 1975). However, it was White’s scheme that eventually prevailed, reflecting the greater economic and political power of the United States. This led to the establishment of a fund, with contributions from countries partly in gold and partly in their own currencies, which would be available for drawing by those in need of international reserves.

Despite the differences in institutional detail, there was broad agreement that private capital on its own could not be relied upon to achieve national or global goals, and that there should be sufficient policy space for countries to achieve an appropriate level of economic security through the pursuit of a full-employment agenda and extended social protection (Martin, 2013). Thus a key assumption behind the Bretton Woods Conference was that the leading countries, in particular the United States and the United Kingdom whose financial centres would continue to dominate once the war ended, would be willing to forego, or attenuate, the pursuit of immediate economic interests in favour of a larger concern for systemic stability. The original institutional contours of the IMF were very much in line with those goals and assumptions. In a particularly telling remark, White insisted that “To use international monetary arrangements as a cloak for the enforcement of unpopular policies, whose merits or demerits rest not on international monetary considerations as such but on the whole economic programme and philosophy of the country concerned, would poison the atmosphere of international financial stability” (cited in Felix, 1996: 64).

C. Development voices

1. Pursuing a development agenda

The Bretton Woods negotiations are generally described as an “Anglo-American” affair in which the leading officials – Keynes and White – showed little interest in international development issues and the concerns of poorer countries. Even the significance of their endorsement of the International Bank for Reconstruction and Development (IBRD) is downplayed. Yet well over half of the governments invited to Bretton Woods were from the poorer regions of the world.¹⁵ Moreover, whatever the strategic *realpolitik* that ultimately drove the agenda, the United States was committed to a form of procedural multilateralism which recognized a place for all the participating countries in the discussions.¹⁶

Particularly active in the conference discussions were officials from Latin America, China (which had the second largest delegation to the conference) and India (whose delegation was divided equally between British and Indian officials because of its colonial status at the time). Many of them expressed their view of the Bretton Woods negotiations as an opportunity to construct a development-friendly international financial regime that would be supportive of their State-led efforts to raise standards of living and begin to industrialize. The developing countries were also in agreement with the broad aims of the IMF to support managed currency regimes and provide short-term loans to manage balance-of-payments difficulties. However, they called for a more flexible use of its resources to deal with the special needs of primary

commodity exporters. Indeed, their support was key to including a “waiver clause” that would allow the Fund, under specified circumstances, to overrule its regular lending limits (Helleiner, 2014: 166–168).

The birth of the IBRD (now the World Bank) is generally thought to have been easier and less controversial than that of the IMF. But it too was contested along two important axes: whether long-term financing should be private or public, and the relative importance given to reconstruction versus development.¹⁷ The Europeans, who focused on the latter, saw a trade-off between financing for reconstruction and that for development, and emphasized the urgency of projects in war-torn areas. However, post-war

reconstruction was a transitory requirement, and given the necessary financing, it could be completed in a relatively short period of time, since the required complementary skills, know-how, infrastructure and institutions were largely in place. This was not the case in much of the developing world, which therefore had different but equally, if not more, pressing financing requirements. The compromise was that there “should be equitable

consideration to projects for development and projects for reconstruction alike” (Oliver 1975). In any case, after 1947, the dramatic increase in United States financing to Europe under the Marshall Plan effectively eliminated the trade-off.

It was recognized that the terms and conditions of private financing, notably market interest rates, would not be appropriate for the conditions prevailing in the borrowing countries. Consequently, even

Developing countries saw the Bretton Woods negotiations as an opportunity to construct a development-friendly international financial regime that would be supportive of their State-led efforts to raise standards of living and industrialize.

though such provisions were not explicitly included in the Articles of Agreement of the IBRD, the original intention was for the Bank to finance projects that, while not considered profitable by financial markets, would be beneficial to the world as a whole. The initial drafts of the Articles of Agreement prepared by White included an explicit mandate to promote “development”, and one of its core purposes was to “raise the productivity and hence the standard of living of the peoples of the United Nations”, as well as to encourage the movement of capital from “capital-rich to capital-poor countries” (Helleiner, 2014: 121, 102–105).

It was believed that this capital would aid structural transformation, just as public investment in the United States had done in its own poor regions. Domestically, the New Deal had experimented with government initiatives which combined long-term financing with structural transformation. One such initiative was the Tennessee Valley Authority (TVA), whose apparent success encouraged United States policymakers to consider “international TVA” initiatives to raise living standards abroad through a more active public sector, including through industrial support measures.¹⁸ This approach also reflected some of the lessons of the United States’ Good Neighbor policy, which had encouraged many Latin American governments to become increasingly committed to State-led development and industrialization strategies to raise living standards, address high levels of indebtedness and reduce dependence on commodity exports (Bertola and Ocampo, 2012).

The resulting multilateral development vision included the IBRD’s commitment to mobilize long-term development lending. This feature was highly novel: no international financial institution had ever been created with the purpose of supporting long-term development loans to poorer countries, although this idea built directly on the previously noted, but ultimately unsuccessful, initiative of 1939-1940 to create an Inter-American Bank (IAB). The IMF’s short-term lending for balance-of-payments purposes also effectively borrowed from the experience of United States bilateral loans to Latin American countries, whose dependence on commodity exports

– and unstable capital inflows – left them vulnerable to unexpected seasonal fluctuations and price swings and boom-bust financial cycles.¹⁹ Efforts to curtail capital flight from poorer countries were highlighted in early draft proposals and were supported by developing-country representatives. In the Fund’s proposed charter, White included a provision that all member countries would undertake commitments to help enforce each other’s controls by agreeing “(a) not to accept or permit deposits or investments from any member country except with the permission of that country, and (b) to make available to the government of any member country at its request all property in form of deposits, investments, securities, safety deposit vault contents, of the nationals of member countries” (cited in Helleiner, 2014: 111). In subsequent drafts, he also added the idea

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that countries receiving capital flows would commit to sharing information about those flows with the sending countries. White argued – as did Keynes at the time – that countries experiencing illegal outflows of capital would have a greater chance of making their controls effective with these kinds of international assistance. As White put it later, “Without the cooperation of

other countries such control is difficult, expensive and subject to considerable evasion” (cited in Helleiner, 1994: 38).

Two trade issues of significance for international development were also addressed in initial drafts. One was a proposal that the Bank “organize and finance an International Commodity Stabilization Corporation for the purpose of stabilizing the price of important commodities” (Helleiner, 2014: 112–113). The second was explicit support for poorer countries’ use of tariff protection for infant industries. White argued that the belief that trade liberalization would generate higher standards of living in poor countries made the mistake of assuming “that a country chiefly agricultural in its economy has as many economic, political and social advantages as a country whose economy is chiefly industrial, or a country which has a balanced economy”. He added, “It assumes that there are no gains to be achieved by diversification of output. It grossly underestimates the extent to which a country can virtually lift itself by its bootstraps in one generation if it is willing to pay the price. The

view further overlooks the very important fact that political relationships among countries being what they are vital considerations exist in the shaping of the economic structure of a country other than that of producing goods with the least labor” (cited in Helleiner, 2014: 113).

Taken together, these provisions outlined a highly innovative vision for international policy coordination that was supportive of development. Never before had this kind of multilateral framework been proposed with the explicit purpose of supporting the development of poorer countries.

2. *From an international New Deal to technocratic multilateralism*

Given this history, it is striking that so many scholars have overlooked the international development content of Bretton Woods. The neglect is, however, understandable considering that this content was dramatically watered down, and some of it even eliminated, during the negotiations and in subsequent discussions on other aspects of the international economic system soon after the war ended.

Within the United States, political support for the international development goals of Bretton Woods unravelled in the wake of Roosevelt’s death in April 1945. In the new, more conservative Truman Administration, many of the key architects of those goals were marginalized, including both Morgenthau (who resigned in July) and White (who left government service in March 1947 and died shortly afterwards), while figures close to the New York financial community assumed more prominent positions in United States foreign economic policy-making (Helleiner, 2014). Since members of this community had been sceptical of the Bretton Woods plans and institutions – and of the New Deal more generally – they now lobbied to reduce the powers and degree of ambition of those plans and institutions.²⁰ The leadership of the IBRD, with increasing links to Wall Street, became reluctant for the institution to extend large-scale development loans, particularly to countries that had not reached debt settlements with

foreign creditors. As Latin America’s strategic significance declined with the war’s end, United States policymakers also ended the Good Neighbor policy of bilateral public lending that had supported Latin American development since the late 1930s. Indeed, officials in the new administration were generally more critical of State-led development policies, arguing that private investment flows and free trade should serve as the main engines of development.

The internationalist spirit of the New Deal did enjoy a final flourish in the Marshall Plan launched in June 1947. The Plan was restricted in geographical coverage, but remarkably generous in terms of both money and policy space, providing Western Europe with some \$12.4 billion over a four-year period. Most of it was in the form of grants rather than loans, amounting to just over 1 per cent of the GDP of the United States and over 2 per cent of the GDP of the recipients. However, the Marshall Plan did much more than supply Europe with scarce dollars; in line with the Bretton Woods Consensus, it also introduced a framework of organizing principles intended to ensure that the aid was used to forge a new kind of “social contract” that would be radically different from the deflationary and divisive actions of

the inter-war period (Mazower, 1998). Marshall insisted that the required policies, together with estimates of the need for assistance, be drawn up by the West Europeans themselves, thereby acknowledging national sensibilities and recognizing that the recipient countries were better

informed about the facts of their situation than outsiders, and generally showing deference towards European traditions and preferences.

Crucially, the provision of financial assistance to deal with long-term imbalances was not seen as condoning weak commitment to reform or encouraging loss of discipline by postponing necessary adjustments. Rather, the architects of the Marshall Plan regarded such assistance as a long-term investment in structural transformation, and as being necessary for providing governments with the breathing space required to bring difficult and often painful policy objectives to fruition. Indeed, when such policies threatened to cause social upheaval on a scale that might upset the adjustment process, as was the case in post-war Italy at one point, Marshall Aid was

The architects of the Marshall Plan regarded it as a long-term investment in structural transformation.

available to support government budgets in order to cushion the social costs.

The scale of assistance mobilized under the Marshall Plan meant that there was little need for IBRD assistance in European reconstruction. However, and despite its clearly stated mandate to encourage “international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories”, the new leadership of the IBRD was reluctant to fund the kind of big investment push which New Deal economists had envisaged. Rather, because it was not a “bank”, in the sense that it could independently create finance, its attention turned to the challenges of safeguarding its own creditworthiness by securing triple-A status for its bonds and reviving international private finance. This included promoting a more market-friendly business climate in host countries (Toye and Toye, 2004: 76). In both respects, its fledgling leadership sought to win over the confidence of financial markets as a priority. Thus, Latin American policymakers’ proposal for a Marshall-type plan at the Bogota conference that created the Organization of American States in 1948 was rejected; instead, emphasis was given to the importance of a liberalized regime for foreign investments.

In many respects, however, the retreat from inclusive multilateralism was more visible in the evolution of the post-war international trade architecture. Trade issues were under discussion quite early in the allied wartime alliance. However, while both the Fund and the Bank recognized their role in supporting the trading system, trade policy issues were deemed too controversial for the Bretton Woods negotiations. Eventually, this role was handed over to the United Nations in the form of a proposal for an International Trade Organization (ITO).²¹

The negotiations on the shape of the post-war trading system got under way in the early 1940s, and were intended to create a third institution alongside the IMF and the World Bank, though this was not to emerge until more than half a century later. A United Nations Conference on Trade was first proposed in

1946 by the United States, in part to justify negotiations that were already under way among a select group of countries to reduce trade barriers. However, the United States delegation’s attribution of the “economic anarchy” of the inter-war years to protectionist measures, and the breakdown of the trading system to blind nationalism, provoked an immediate response from developing countries. The Colombian

delegate, picking up a theme he had previously raised during the Bretton Woods negotiations, immediately asserted that employment goals in developing countries would hinge on a State-led industrialization strategy that would require managed trade. He pointed out that this was precisely how the more advanced countries had built their own productive capacities over the previ-

ous decades. With support from other countries, the issue of State-led industrialization (which had been left out of Bretton Woods discussions) was tabled at the Conference (Toye and Toye, 2004).²²

The United States agreed to the addition of economic development and industrialization on the agenda, which already included infant industry protection. It also agreed that the proposed ITO should be responsible for judging the distinction between “wise” and “unwise” protection. With this, and as the United Kingdom’s representative (and future Prime Minister), Harold Wilson, acknowledged in his closing speech, policy space became a key element in the discussions on the ITO. The head of the United States delegation noted, “The most violent controversies at the conference and the most protracted ones were those evoked by issues raised in the name of economic development” (Wilcox, 1949: 46). However, it would be wrong to suggest that policy space in the context of the governance of international trade was only a developing-country concern. Anticipated balance-of-payments problems and issues of State trading were also on the minds of many European policymakers as the war was drawing to an end, and these were certainly familiar challenges to the British drafters of the ITO Charter (Toye and Toye, 2004). Indeed, as Gardner (1995) has noted, the initial reaction to the emerging multilateral order was particularly negative in the United Kingdom, not only because of lingering concerns about having to give up colonial preferences, but also because of a more

They also saw the Plan as providing governments with the necessary breathing space for achieving difficult and often painful policy objectives.

general worry that any commitment to rapid trade liberalization would undermine the competitiveness of its industries. As *The Times* of London put it at the time, “We must reconcile ourselves once and for all to the view that the days of *laissez-faire* and the unlimited division of labour are over; that every country – including Great Britain – plans and organizes its production in the light of social and military needs; and that the regulation of this production by such ‘trade barriers’ as tariffs, quotas, and subsidies is a necessary and integral part of this policy”.

In the end, the Havana Charter that was signed in 1948 represented a compromise between the demands of economic liberalism, especially with regard to free trade, and the requirements of domestic policy autonomy, including for industrialization and development. Article 2 of that charter, the first substantive article, explicitly states that “the avoidance of unemployment or underemployment, through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services, is not of domestic concern alone, but is also a necessary condition for the achievement of the general purpose and the objectives... including the expansion of international trade, and thus for the well-being of all other countries”.

The Havana Charter was a compromise between the demands of economic liberalism, especially in terms of free trade, and the requirements of domestic policy autonomy, including for industrialization and development.

While the Havana Charter did not meet the more ambitious requirements mooted by developing countries, it nevertheless did incorporate some crucial concerns. Thus, while import quotas were the subject of bitter controversy, they were eventually approved for a range of purposes, including the protection of industries established during the war, industries devoted to processing primary commodities and infant industries. Similarly, it included provisions to facilitate the establishing of commodity agreements to stabilize primary commodity prices. Significantly, the Charter implicitly recognized the right of expropriation of foreign investment by host countries, with due compensation, and entitled them to impose specific requirements on any foreign investment. Host countries would also be able to use “any appropriate safeguards” to prevent foreign direct investment

from interfering in their domestic policies, and could decide whether to approve or deny access to future investments (Graz, 2014).

In the event, the ITO project did not endure, as the Truman Administration lost interest in it in the face of aggressive opposition by United States business interests. Graz (2014) notes that the ITO “did not survive American trade politics because it faced up to the impossibility of reaching a broad international understanding on the proper balance between market rules and State intervention”. It was not ratified by the United States Congress, and other countries therefore abandoned the idea. One of the early chapters survived in the form of the General Agreement on Tariffs and Trade (GATT), a much more limited treaty.

The critical factor appears to have been the shifting New Deal alliance which accompanied the recovery of business confidence following the end of the war, and a shift towards growth as a policy priority and as a way to deflect attention from the earlier focus on redistribution. This was consistent with a greater emphasis on building overseas markets for a range of products in which United States firms had a significant advantage – an emphasis

that converged with the traditional free trade agenda of the Democratic Party, particularly as driven by representatives from the country’s southern States (Katznelson, 2013).²³

As the threat of a post-war depression receded, giving way to a period of unprecedented growth, the institutional framework established at Bretton Woods proved sufficiently adaptable to guarantee enough policy space for developed countries to pursue their post-war economic goals. A more expansionary policy orientation combined with a stable financial system to support the recovery of trade. A rapid pace of capital formation was key to this, along with the widespread adoption of industrial policies (Eichengreen and Kenen, 1994).

Global trade grew, on average, more quickly than global output, much of it in the form of intra-industry trade amongst rich countries, and particularly within Western Europe.²⁴ In the process, the procedural multilateralism that had helped shape the early

discussions about the international economy gave way to a more technocratic multilateralism in which routine problems and marginal changes were left to experts from the various international secretariats. This also applied to development issues. United States policymakers were still willing to pursue the Marshall Plan model (which provided aid in the context of locally formulated national development plans) for some development challenges, notably in East Asian countries where a combination of large aid flows and generous policy space allowed those

countries to undertake a more sustained transformation of their economic and social structures.²⁵ However, it remained uncertain whether the multilateral architecture was sufficiently adaptable to support the new aims and ambitions of developing countries. In particular, there were doubts whether it would support a development policy agenda that recognized the limits of purely market-based incentives for bringing about structural transformation, and which acknowledged the need for more activist States, albeit functioning in different ways according to varying national contexts.

D. The unsteady rise of inclusive multilateralism

The onset of the Cold War in the late 1940s renewed United States interest in international development, as evidenced by President Truman's well-publicized commitment in January 1949 to support "underdeveloped areas" as part of the struggle against communism. However, his "Point Four" programme was focused primarily on the provision of large-scale technical assistance, with a particular emphasis on scientific knowledge and expertise, in contrast to the broader vision of the Bretton Woods architects. Multilateral development assistance, as well as other bilateral programmes, moved in a similar direction, particularly as European countries progressed from recovery to more sustained economic growth. Together with the shift from the bigger issues of designing and negotiating rules and institutions to their more day-to-day operation, this marked the arrival of a more technocratic and market-friendly form of multilateralism.²⁶

The 1950s witnessed a series of further retreats from the inclusive multilateral development agenda. Truman's inaugural speech had stressed the central

role of private investment in development finance, which was at odds with the earlier idea of a "big investment push" with a prominent public component to galvanize more transformative changes in the economies of the emerging South. In particular, the World Bank's re-engagement with developing countries was made subordinate to its desire to fend off efforts by the United Nations to expand its

Closing the gaps between developed and underdeveloped regions was in the interests of the former, and would require dedicated international cooperation through large-scale international public investment.

reach into development finance (Mazower, 2012). This included strong opposition from developed countries to a proposal for a Special United Nations Fund on Economic Development (SUNFED) to offer long-term concessional loans to developing countries. Such a fund had been proposed by the Indian economist VKRV Rao in 1949, further developed by United Nations economists led by Hans Singer, and championed by India and other developing countries from 1951. A formal vote on the proposal only took place several years later, splitting along North-South lines, with the General Assembly voting by a 2 to 1 majority to establish it. However, it was effectively blocked, with a final compromise in the shape of the International Development Association (IDA), a soft

loan window of the World Bank. Meanwhile, the United Nations was left to fund much less ambitious “pre-investment activities” (Toye and Toye, 2004).

From the late 1950s, IMF lending conditions, notably in loans to Latin America, took a more orthodox turn; they prescribed tighter credit constraints, cuts in public expenditure, partial wage freezes and repeal of subsidies as a means to combat inflation (Felix, 1961). Finally, the GATT commissioned a group of eminent economists to examine the way the institution dealt with development issues. The resulting Haberler Report, published in 1958, criticized some of the tariff and non-tariff barriers erected by rich countries, but rejected the idea that structural differences between developed and developing countries required different rule-making (UNCTAD, 1964; Arndt, 1987). At the same time, while the GATT secretariat rebuffed Latin American efforts to advance regional trade ties, it adopted an accommodating stance on the European Economic Community (EEC).

As the 1950s drew to a close, the widening gap between the ambitions of the growing number of independent developing countries and the reluctance of technocratic multilateralism to embrace their demands became a growing source of tensions in a world already split along East-West lines. In a series of high-profile gatherings, developing countries began to highlight gaps and biases in the workings of the international economy which they saw as impeding their development efforts. And with United Nations membership approaching the 100 mark, the “Third World” was fast becoming a pivotal force for change at the multilateral level.

Concomitantly, a remarkable body of economic research emerged during the 1940s and 1950s in support of industrialization in “backward areas” (Rosenstein-Rodan, 1944). It provided analytical depth to what many policymakers saw as the obvious (and mutually reinforcing) connections between the rise of manufacturing, the spread of markets, technological progress and rapid capital formation. Rosenstein-Rodan’s theory of the “big push” had a profound influence on development thinking along with other important work, by Hirschman on

unbalanced growth and by Kalecki and Gerschenkron on financing for development. These economists also argued that closing the gaps between developed and underdeveloped regions was in the interests of the former, and would require dedicated international cooperation through large-scale international public investment programmes. The concepts of balanced and unbalanced growth, increasing returns, linkages, learning by doing, and complementarities in production and consumption, which helped frame the emergence of a new discipline of development economics, were based on the idea that industrial development was the most reliable engine of sustainable and inclusive growth. Moreover, this research made the very strong case that economic development could not be left to market forces alone, and that an activist State was crucial for escaping low-income traps.²⁷

Practical efforts to build industrial capacity were also beginning to provide useful lessons. As noted in section B above, the economic crisis of the 1930s had proved deeply damaging for primary commodity exporters due to the collapse of traditional markets and unfavourable terms-of-trade movements, leading to deteriorating balance-of-payments positions. Under these circumstances, and with protectionist policies spreading across the developed countries, some developing countries had little option but to raise tariffs and to switch expenditure towards domestic substitutes. The resulting pattern of economic transformation was as much a spontaneous response to external shocks as the product of well thought out policy efforts. However, by the late 1940s, this experience had begun to stimulate analysis by academics from within and outside developing regions, as well as by the fledgling multilateral development agencies.

Further research, some conducted within United Nations agencies, on the terms of trade of developing countries was one outcome of these developments (Toye and Toye, 2004). But the big idea that galvanized subsequent development policy debates was “import substitution industrialization”. While in some ways this was a response to the model of development that countries had felt forced to adopt following the shocks of the early 1930s and the exigencies of the wartime economies from the late 1930s, this idea also provided a more systematic framework for

Economic development could not be left to market forces alone; an activist State was considered crucial for escaping low-income traps.

promoting policies aimed at structural transformation and economic diversification.

The most prominent figure linking the debates of the 1930s with the emerging developing-country concerns of the late 1950s was the Argentine economist, Raul Prebisch. His work in the Central Bank of Argentina and in developing an economic recovery plan for his country had required engagement with new macroeconomic thinking as well as with the asymmetries of the global trading system.²⁸ This was reinforced by his experience in the Economic Commission for Latin America (ECLA), one of the fledgling regional bodies created by the United Nations system (along with other economic commissions for Europe and Asia) as global interest in development issues flagged with the decline of New Deal internationalism and the lingering death of the ITO. To some extent, these regional bodies adopted the development discourse that had failed to capture the multilateral imagination, especially the policy challenges raised by economic diversification and industrialization (Berthelot, 2004).

Import substitution industrialization (ISI) has often been rather simplistically portrayed as a failed strategy of self-reliance. In actual fact, industrial growth rates during the period from the end of the Second World War to the early 1970s, when ISI was in the ascendancy, have not been matched before or since (Bénétrix et al., 2012). Moreover, it enabled several developing countries to achieve significant degrees of economic diversification. In practice, ISI covered a broad range of strategies and policy measures, and the countries that implemented it most successfully were simultaneously actively engaged in export promotion. However, even by the late 1950s it was apparent to economists in the different developing regions that there were limits to these strategies, particularly to the extent that they produced unbalanced development patterns which continued to rely heavily on essential imports that could only be funded through increased exports. There were also concerns about the dangers of excessive or prolonged protectionism, as well as growing recognition that State-led industrialization was constrained by both weak demand and by insufficient levels of productive investment (Ocampo, 2014; Toye and Toye, 2004).

By the early 1960s, the rules of the trading system were seen as obstacles due to the reluctance of the rule makers to accommodate the ambitions of developing countries.

As a result, there was growing momentum for developing countries to re-engage actively at the multilateral level, with a growing emphasis on promoting exports of manufactures within regional trading arrangements as well as through the provision of favourable treatment for developing-country manufactured exports in the expanding markets of developed economies. However, much as in the 1940s, the rules of the trading system, which now included over a decade of experience with the GATT, were seen as an obstacle because of the reluctance of the rule makers to accommodate the ambitions of developing countries. This contrasted sharply with their continued willingness to make exceptions to allow adequate policy space for developed countries (Dosman, 2008).

In 1962, 36 developing countries from all regions of the world organized a conference in Cairo to discuss the economic challenges facing developing countries, including in international trade. The conference ended with a call to convene a United Nations conference on trade and development.²⁹ This was subsequently endorsed by the General Assembly. The first UNCTAD conference held in 1964, led by Raul Prebisch, provided some key elements of the demands that developing countries would see as important in subsequent decades. Some of the major issues included how to address terms-of-trade losses of primary exporters through commodity agreements or compensatory financing; how to ensure the necessary financing for development; and how to enable a sustainable export-oriented strategy for developing countries that included manufactured goods aimed at developed-country markets. Prebisch's report to the Conference addressed all these issues based on three essential premises: the necessity of industrialization, the need to counter external imbalances and the forces that generate them, and the need for different treatment for structurally different economies (UNCTAD, 1964).

Accordingly, Prebisch re-emphasized the limitations of the GATT principles for developing countries "based on the abstract notion of economic homogeneity which conceals the great structural differences between industrial centres and peripheral countries

with all their important implications” (UNCTAD, 1964: 6). But he also highlighted the close interdependence of trade and finance in rebalancing the agenda for international cooperation. His report to the conference highlighted the mutually reinforcing nature of savings and foreign exchange constraints on the desired growth target for many developing countries. Based on the then recently established growth target of 5 per cent per annum and a population growth rate of 2.5 per cent, UNCTAD economists argued that developing countries would need investment rates well above what most of them had reached and savings well above their current savings rates. Moreover, a 5 per cent growth rate could not be sustained unless imports by developing countries (principally capital goods) grew at 6 per cent. With projected exports from developing countries growing at 4 per cent per annum, the estimated trade gap would reach some \$20 billion by 1970. If the resources were not found to fill this gap, growth would have to be reduced. This meant that developing countries would need determined political efforts, domestically and internationally, to remove the obstacles to more sustained and inclusive growth.

The creation of UNCTAD as a permanent body following the end of the first conference set the stage for developing a more inclusive trade and development agenda. The purpose was to move beyond negative policies aimed simply at removing trade barriers to a more positive agenda. Such an agenda would include assisting the trade of developing countries through measures to stabilize and boost the revenues of primary exporters (including through compensatory financing for terms-of-trade losses), mobilizing more reliable resources for productive investment, and enhancing policy space to support exports of manufactures from developing countries aimed more broadly at their structural transformation. In the decade following the conference, UNCTAD advanced this agenda through its efforts to extend supplementary financing, improve the mechanisms of international liquidity, help create commodity agreements, and advocate tariff preferences, increased flows of official development assistance (ODA) and debt relief (Toye, 2014).

Despite these efforts and the fact that development issues were more vociferously raised at

international meetings and discussions, the institutional and other arrangements that determined the functioning of global markets did not fundamentally change. From the late 1960s, as economic tensions within and between the developed economies began

to grow and spread across the global economy, the calls for a new international economic order (a term reminiscent of the call by the Group of 77 (G77) for “a new and just world economic order” at UNCTAD I) became steadily louder. The growing strains on the Bretton Woods system, the oil price

shocks and their stagflationary impact on the developed countries, provided further opportunities for developing countries to push for a more inclusive multilateralism. Negotiations on a New International Economic Order (NIEO) were launched at a special session of the United Nations in 1974. The thrust of the initiative, to break the international constraints on growth in developing countries, had much in common with the earlier efforts of the international New Dealers and with reform proposals advanced by UNCTAD.³⁰ However, the political context of the time encouraged a broader agenda which included regulation and supervision of transnational corporations (TNCs) – and the possibility of nationalization when required (Helleiner, 2014) – the promotion of greater economic cooperation among developing countries, and, very explicitly, the protection of policy autonomy. Many of the measures that formed an integral part of the NIEO discussions had already been proposed in debates in the 1930s and 1940s, as noted in the previous section.

The NIEO negotiations were seen at the time as a further substantial challenge to the economic order created by the Bretton Woods system, which had already been weakened by the collapse of dollar convertibility and the fixed exchange rate system in 1971. However, the geopolitical and global economic situation was only briefly favourable to such demands. They quickly came up against more inward-looking policies and “aid weariness” in the developed countries. Indeed, as firms in the United States and Europe saw their profits squeezed at home, they sought greater support from their governments to find new profit opportunities abroad. Moreover, a recovery of growth in some developing countries generated tendencies to downplay their shared structural

The creation of UNCTAD as a permanent body set the stage for developing a more inclusive trade and development agenda.

asymmetries at the international level even as growing economic divergences in the South undermined their political solidarity built around a common agenda (Arndt, 1987).

In fact, beginning in the late 1970s, international economic relations took a very different turn from what had been envisaged in the NIEO, with a policy backlash in the industrialized countries against the post-war Keynesian policy consensus. The initial response of policymakers in these countries to the breakdown of the Bretton Woods system, two oil shocks, rising labour militancy, a loss of control over inflation and, to some extent, government budget deficits, had been a series of ad hoc adjustments that aimed to contain the threat of “stagflation” (Bruno

and Sachs, 1985). However, as governments and business groups increasingly viewed redistribution measures and monetary disorder as the root of a wider socio-political malaise, moves to cut welfare provision, control the money supply, liberalize financial flows and use unemployment as a tool of adjustment crystallized into an alternative policy paradigm. That paradigm sought to shift the distribution of income back towards profits through a withdrawal of the State from the economy and a dismantling of the post-war political and social compromise (Mazower, 1998). President Reagan’s refusal in 1981 to give any credence to the Report of the Brandt Commission at a meeting in Cancun effectively ended the North-South dialogue and, with it, any lingering hopes of negotiating an NIEO (Toye and Toye, 2004).

E. Profits and policies: The dangers of amnesic globalization

As noted in the previous section, the weaknesses of the post-war growth model that emerged in the late 1960s were reflected in distributional struggles, energy crises, inflationary pressures and balance-of-payments difficulties. This ultimately led to the collapse of the Bretton Woods system in the early 1970s and to a series of policy responses and adjustments in developed countries that eventually came to be associated with the emergence of finance-driven globalization (UNCTAD, 2011).

It also anticipated a very different approach to international economic relations from the one that had underpinned the post-war consensus. The international system that emerged after 1945 was, inevitably, a compromise dominantly among developed countries with shared histories and similar levels of economic development. It was based on a common view of what needed to be avoided, namely the incoherence and turmoil of the 1930s, and it was characterized by a broad tolerance of different national policy choices (and the requisite policy space) so long as they did not risk damaging the economies of the other members

of the system. Its subsequent evolution, to include countries at very different levels of development, was more punctuated and ad hoc.

The emerging multilateral arrangements were premised on a broad political consensus that considered growth and employment as priorities, for which a high rate of investment was seen as key, and a range of macroeconomic and structural policy measures were accepted as necessary. Those measures included the effective regulation of finance and proactive industrial policies, which were deemed essential to ensure that profits were channelled into productive activities. These premises were well accepted by both the North and the South. It was also accepted that the difficulties facing most developing countries seeking to integrate into the global economy could best be managed by allowing some derogation from the rules that essentially had been agreed upon by, and in the interests of, the richest countries. However, in contrast to the generosity of the Marshall Plan that had helped European economies make a swift post-war recovery, the resources needed for effectively

tackling the deep-seated structural problems facing most of the developing countries were never made available.

Initially, it was believed that the breakdown of the Bretton Woods system and the shift to floating exchange rates allowed a much looser form of monetary cooperation that gave policymakers in developed countries more room to take independent policy action. The British economist, Fred Hirsch, welcomed this, hoping that a “controlled disintegration of the world economy” would provide more policy space to address the varied challenges posed by a world of economic stagflation. But the more likely alternative, as noted by the United States central banker, Paul Volcker, was a different kind of market-led integration in a multi-polar world. Volcker’s solution was to build into the system of flexible exchange rates more informal coordination among central bankers, and to provide the IMF with the disciplines to ensure that the “right” kinds of policies could be pursued at home. An unspoken corollary of this was that “the guardians of the world’s money would in the future have a greater role to play internationally, and national legislatures and electorates a smaller one” (Mazower, 2012: 317).

The international trade and finance system that has evolved since the debt crisis of the early 1980s has broken with the working principles of the post-war system. Indeed, under present arrangements and policies, developing countries almost invariably have found themselves obliged to adjust to international imbalances through cuts in domestic spending. The IMF, having abandoned the objective of ensuring stable exchange rates in an orderly international financial system, has, instead, actively promoted the spread of “an open and liberal system of capital movements” (Camdessus, 1997: 4). International financial flows have been allowed to return to the kinds of levels that had caused instability during the inter-war period. The result has been exchange rate instability and misalignments leading to sudden disruptions in the pattern of international competitiveness. In contrast to its early history, the IMF has shifted its lending portfolio substantially to developing countries, blurring the distinction between the short-term liquidity requirements of a stable financial

system and the long-term financing requirements for the development of lower income countries.³¹ The World Bank has also shifted its emphasis away from longer term infrastructure projects, and now concentrates on “structural adjustment” lending and poverty reduction.

The governance of international trade has moved towards a single-tier system of rights and obligations, in which developing countries are expected, generally, to commit to a level of obligations much closer to those of developed countries. The former have managed to retain certain flexibilities (as discussed in later chapters) within the system and have benefited from the predictability of a rules-based system. However, the recognition that employment creation and struc-

Trade liberalization has been given priority over economic growth and full employment, thereby rekindling mercantilist agendas, not least in developed countries.

tural diversification should be key measures of the success of an increasingly free trade system has been weakened. Trade liberalization has been given priority over economic growth and full employment, thereby rekindling mercantilist agendas, not least in developed countries. A range of issues of interest to developing countries, including changes in

their terms of trade, technology transfer, non-tariff barriers and restrictive business practices, have fallen down the negotiating agenda at the international level or disappeared altogether (UNCTAD, 2011). Trade agreements, particularly at the regional and bilateral levels, have increasingly extended their reach into areas of policy earlier confined to national borders. Much of national and global economic policy has progressively been driven by an aggressive agenda of “deep” integration, including the elimination of barriers to trade and capital flows, and enlargement of the space in which corporations can make profits through privatization, deregulation and flexibilization of labour markets.

In effect, the collapse of the Bretton Woods system paved the way for the global dominance of financial markets. The earlier compromise between private profits and national policies that had determined the multilateralism of the first two post-war decades was deemed no longer valid from the 1980s. What emerged was a new international financial and economic order built on a strong ideological faith in the inherent efficiency and stability of markets, which opened up new profit-making opportunities for an

increasingly unregulated financial sector. The policy space for countries with different histories, contexts and institutional structures that was at the heart of the Bretton Woods arrangements was replaced with a one-size-fits-all policy agenda of so-called “sensible economic policies” which bore a close resemblance to the policy agenda of the 1920s (Temin, 2010, Blyth, 2013). Like then, this agenda was premised on the assumption of the inherent efficiency and stability of market forces, and was, above all, driven by the rapid deregulation of finance.

The extensive deregulation of the financial sector in developed countries, along with the dismantling of controls on cross-border financial activities, which led to a surge in capital flows, marked a radical break with the post-war international policy framework. The rapid ascent of financial interests eroded the checks and balances that had previously helped to channel market forces into the kind of creative and productive activities needed for long-term growth. Instead, it encouraged short-term, and at times destructive, behaviour by banks, businesses and households. Ideological support for all this came from the efficient market hypothesis, which makes the case for a hands-off policy agenda applicable to all economic circumstances and challenges.

In some cases that agenda was pushed by the policy conditionalities of IMF lending to developing countries, but its reach was much wider, extending to many countries that had no need for IMF support. Thus, the IMF’s original role as a guarantor of international financial stability became secondary to the promotion of financialization, defined as the increasing importance of financial markets, financial motives, financial institutions and financial elites in the operation of the economy and its governing institutions, both at the national and international levels (Epstein, 2006). This has been associated with the undermining of the countervailing power of the public sector, and has converted ever-increasing areas of public life into potential sources of profit (Sandel, 2010). It is worth noting that the one-size-fits-all message was in some ways a return to the policies that were dominant in developed countries in the 1920s, and resulted – just as it did then – in a steady erosion

of the abilities of States to take independent policy action (Temin, 2010).

As observed in Section B above, the “return to normalcy” in the 1920s led to global economic volatility, crisis and depression; and the post-war recovery required a reorientation of policies at both national and international levels. The financialization

Policy space for countries with different histories, contexts and institutional structures that was at the heart of the Bretton Woods arrangements was replaced with a one-size-fits-all policy agenda.

trends that had been building up after the collapse of the Bretton Woods system coincided with a period of growing imbalances, instability and inequality. As discussed extensively in previous *Trade and Development Reports*, developing countries were often the first to experience these problems. However, the most destructive impact of the financial arrangements linking uneven demand growth,

debt and unstable capital flows was felt in developed countries, as ongoing concerns over subprime lending in the United States, combined with the collapse of the investment bank, Lehman Brothers, led to a freezing of credit markets in September 2008 and to a slump in equity prices. With contagion and panic spreading through markets, leading financial institutions began to fail, while others turned to their governments for support.

The multilateral arrangements designed at Bretton Woods did not include a global regime for regulating capital movements, as capital mobility was assumed to be limited by the wider workings of the international system. Neither did such a regime emerge after the breakdown of these arrangements, despite the growing importance of private capital flows. And even the grave economic and political impacts of the latest financial crisis have failed to produce such a regulatory regime. This failure points to a larger deficit in global governance. The Doha Round is fast approaching its fifteenth anniversary, with few signs of imminent completion, despite the positive steps taken in the Bali Ministerial Conference in 2013. Progress on reducing greenhouse gas emissions has stalled following the failure to reach a comprehensive deal in Copenhagen. Finally, even before the latest crisis, keeping the Millennium Development Goals on track was a struggle: their achievement by 2015 now seems increasingly unlikely. It is telling that even a small proportion of the resources used to

save financial institutions deemed “too big to fail” could never be found in better economic times for social and economic development, infrastructure building and social welfare, or to address environmental challenges.

Pointing to the “trilemma” of policy choice under globalization, Dani Rodrik (2002: 2) has argued that “‘deep’ economic integration is unattainable in a context where nation states and democratic politics still exert considerable force”. Even if his contention were to be accepted, it can certainly be argued that there are ways to forge international arrangements that encourage more cross-border economic activity in general (including the movement of goods, services and people) without necessarily sacrificing the policy autonomy that enables a nation State to respond to the developmental and social needs of its own citizenry in a flexible manner. Indeed, the experience of rapidly

The growing financialization trends following the collapse of the Bretton Woods system coincided with a period of greater imbalances, instability and inequality.

growing and “globalizing” economies in East Asia, and the more varied and inclusive policies adopted by several countries in Latin America and some in Africa over the past decade, all demonstrate that successful external economic integration can take many different forms and need not always be associated with the standard policy package. A critical element of these more inclusive growth strategies has been the priority given to the needs and rights of States and citizens, rather than to strategies that privilege profitability.

It is therefore necessary to examine the extent to which various forces have reshaped policy space in the era of finance-driven globalization. Subsequent chapters of this *Report* explore different aspects of this in the areas of trade, capital flows and

macroeconomic policies. This in turn enables a consideration of elements of a new development strategy for reviving a more inclusive form of multilateralism that can tackle contemporary challenges. ■

Notes

- 1 See Mazower (2012: 202), quoting Gilbert Murray, an Oxford scholar, who, as an early supporter of the League of Nations, had helped to found it and had participated in the League as a delegate for South Africa.
- 2 Most famously Keynes, in his *General Theory of Employment, Interest and Money* (chap. 24), had called for the “euthanasia of the rentier”. In equally strident language, President Roosevelt variously compared Wall Street financiers to economic royalists and to a plague of locusts, and insisted that social values needed to be given priority over monetary profits. United States Secretary of the Treasury, Henry Morgenthau, was just as clear in his closing remarks at the Bretton Woods Conference, that “The institution proposed by the Bretton Woods Conference would indeed limit the control which certain private bankers have in the past exercised over international finance” (Morgenthau, 1945), and his insistence on locating the institution in Washington rather than in New York reflected his concern to bring it closer to democratic politics and further from the influence of Wall Street bankers.
- 3 Price rises during and immediately after the war did, of course, mean that specific duties had, by 1920, lost much of their effectiveness as measures of protection, and this was not reversed significantly by the worldwide price deflation in 1920-1921. On trade policy during the inter-war years, see Gordon, 1941; Bairoch, 1995, chap. 1; and James, 2001, chap. 3. On the links between trade policy and economic growth, see Bairoch, 1995.

- 4 The movement of people was the exception, with immigration sharply curtailed in comparison to the pre-1914 world (see James, 2001, chap. 4).
- 5 This restrictive monetary policy and fiscal austerity of the 1920s, resulting from what Keynes referred as the “Treasury View”, was accompanied by the political message that government policy could do nothing to alter the state of an economy for the better. On the debate between Keynes and the Treasury, see Clarke, 1988.
- 6 The cycle was dominated by short-term capital flows from and back to the United States. James (2001, 30–31) clearly describes the setting in of a vicious circle thus: “Fiscal and financial crises reinforced each other: fiscal difficulties led to capital flight, and the withdrawal of capital weakened banks and created a potential or actual fiscal burden. Banking problems thus led to fiscal problems, because the cost of taking over bad banks strained the budget. But budget imbalances were interpreted by investors, foreign and domestic, as meaning that there were limits to the government’s ability realistically to offer support for banks, and that it was therefore time to get out”.
- 7 Kindelberger (1986: 11) defines an economic hegemon as “a country that is prepared, consciously or unconsciously, under some system of rules that it has internalized, to set standards of conduct for other countries and to seek to get others to follow, and in particular to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital, and discounting its paper”. Kindelberger’s analysis of the inter-war years hinges on the idea that the United Kingdom was no longer able to play the role of economic hegemon after the First World War, while the United States was reluctant to do so until the mid-1930s.
- 8 In the United States, those policy choices and trade-offs were essentially based on “a commitment to free markets that limited the role of government to the protection and enforcement of contracts; antitrust laws that sought to maintain efficient market competition; and guidelines for what President Hoover had called ‘associationalism’, a policy that used the federal government to collect and disseminate information to firms and economic leaders in order to confront the worry that insufficient information could lead to market failure” (Katznelson, 2013: 234).
- 9 On the construction of the New Deal alliance, see Badger, 1989 and 2008; and Katznelson, 2013.
- 10 “Quoting” Donald Richberg, the general counsel of the National Recovery Administration in the United States (see Katznelson, 2013: 237). The Atlantic Charter issued in August 1941 was among the first attempts to set out some of the aims and principles of the Allied powers for a post-war world. It emerged out of discussions between the United States and the United Kingdom over funding for the latter’s war efforts. Three of its eight points dealt with the following economic issues: lowering trade barriers, the need for global economic cooperation to advance social welfare and a world free of fear and want, in the context of the Anglo-American discussions (see Mazower, 2012: 194–200). The discussions also revealed areas of likely contention, particularly international trade.
- 11 For a brief account of these problems, see Oliver, 1975, chap. I; and Dam, 1982, chap. III.
- 12 “Associated” nations referred to countries that had broken diplomatic relations with the Axis powers but had not joined the United Nations.
- 13 See also Helleiner, 2014: 117–132.
- 14 The first mission to Cuba, under Dexter White, took place in the latter half of 1939, although informal discussions with Cuban, Paraguayan and Brazilian officials had taken place earlier. A similar mission to Honduras took place in 1943 and to Paraguay in the same year (the latter under the Belgian economist, Robert Triffin, which also included Raul Prebisch – who had been constrained to leave his position at the Argentine central bank, following a military coup – in the follow-up mission in 1944). Subsequently, there were similar missions to Costa Rica, Bolivia, the Dominican Republic (again involving Prebisch), Guatemala and Ecuador (also led by Triffin who was by then working at the International Monetary Fund) (Helleiner, 2014). The aim of all these missions was to help domestic policymakers fashion monetary policy in line with the domestic needs of their countries.
- 15 All countries from Latin America, except Argentina, were invited and attended. Others included were representatives from four African countries (Egypt, Ethiopia, Liberia and South Africa) and five delegations from Asia (China, India, Iran, Iraq and the Philippines). Also represented were four countries from Eastern Europe (Czechoslovakia, Greece, Poland and Yugoslavia), a region that many (including its representatives) saw at the time as facing similar economic problems as those of other poor regions. Altogether, there were 32 delegations from these regions comprising 173 people, compared with the 140 from delegations of the other 12 countries (Australia, Belgium, Canada, France, Iceland, Luxembourg, the Netherlands, New Zealand, Norway the United Kingdom, the United States and the Union of Soviet Socialist Republics) (Schuler and Rosenberg, 2012, appendix A).
- 16 The numerical dominance of Latin American countries was a particular worry to the delegation from the United Kingdom at Bretton Woods. On Keynes’s and the wider British attitude towards development

- issues in the run-up to and during the Bretton Woods conference, see Helleiner, 2014, chap. 8.
- 17 An early dilemma was one of reconciling the means with the objectives of the Bank; that is, its capital base would need to be provided by the very same countries whose reconstruction and development it was designed to help. This was resolved by an agreement which provided that each member country would pay only 20 per cent of its subscription to the Bank's capital, with the rest being callable as the Bank ran out of resources (paid in capital plus reserves) to meet its obligations on funds borrowed from international markets. This guarantee provided by its shareholders greatly helped the Bank in subsequent decades to raise funds at highly favourable terms, thereby introducing an additional subsidy element to its loans and reducing the cost to its borrowers.
 - 18 See Helleiner 2014a, chaps. 1–3. Such thinking can be clearly detected in Morgenthau's closing speech at Bretton Woods. He argued that "Long-term funds must be made available also to promote sound industry and increase industrial and agricultural production in nations whose economic potentialities have not yet been developed. It is essential to us all that these nations play their full part in the exchange of goods throughout the world. They must be enabled to produce and to sell if they are to be able to purchase and consume. The Bank for International Reconstruction and Development is designed to meet this need". On the significance of the TVA to the New Deal agenda, see Badger, 2008, chap. 5; and Bateman et al., 2009.
 - 19 See: Black, 1991: 35; Gold, 1988; Bordo and Schwartz, 2001.
 - 20 Strong opposition from financial interests had already led White to drop the idea of mandatory international cooperation to enforce capital controls from the Bretton Woods discussions, and replace it with a provision simply permitting such cooperation among countries.
 - 21 The importance attached to favourable trading conditions for attaining rapid growth and full employment is reflected in the statement of the objectives of the IMF: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as the primary objectives of economic policy".
 - 22 At Bretton Woods, the same Colombian delegate, Carlos Restrepo, had insisted that the commercial agreements should allow "the necessary protection which must be given in the new countries to their infant industries during their first steps in industrial development" (cited in Helleiner, 2014: 170). The preparatory committee for the Conference first met in London in October 1946 to discuss the charter of an international trade organization previously proposed during loan negotiations between the United States and the United Kingdom. Following Bretton Woods, full employment and the stability of global demand were high on the committee's agenda, but the issue of industrialization was pushed by the Australian delegation, backed by Brazil, Chile, China, India and Lebanon.
 - 23 Tensions in the Roosevelt Administration over trade issues were already apparent at the World Economic Conference in London in 1933 (see Kindleberger, 1986). Advocates of free and non-discriminatory trade, under Cordell Hull, successfully pushed through legislation on "Reciprocal Trade Agreements" in 1934, which gave the President much greater authority for bilateral tariff bargaining. Some 21 agreements were struck between 1934 and 1940. However, its impact was quite limited in terms of overall tariff reductions, while other parts of the New Deal constituency and legislation were pushing in a different direction (see Irwin, 1997).
 - 24 In Western Europe, the share of intraregional trade in world trade rose from 18.3 per cent in 1953 to 31.2 per cent in 1973 (WTO, 2008: 15).
 - 25 On the links between the Marshall Plan, policy space and development challenges, see Kozul-Wright and Rayment, 2007: 283–294.
 - 26 See Arndt (1987) for a further discussion. One of the lasting consequences of this shift was a stronger focus on human capital and education as an integral part of the development agenda. As Mazower (2012) notes, Truman's inaugural address signalled that the United States would work with a range of United Nations agencies, such as the Food and Agriculture Organization (FAO), the World Health Organization (WHO) and the International Labour Organization (ILO), providing both resources and staff. Moreover, this more technocratic multilateralism harked back to the League of Nations whose technical services had been transferred from Geneva to the United States in 1940. Truman's 1949 proposal to make technical assistance the centre-piece of United States development assistance, and to encourage the use of the United Nations for this purpose, offered agencies such as the WHO and the FAO "a practical and modest alternative to more ambitious and more socialized approaches to aid that had run afoul of Congress" (Mazower, 2012: 277).
 - 27 For a history of these ideas, see Toner, 1999; Taft and Adelman, 1988; Kohli, 2004; and Jomo, 2005.
 - 28 Raul Prebisch's entry onto the policy stage began as head of research at the National Bank of Argentina, in which capacity he also participated in the London World Economic Conference of 1933. There, he became familiar with the new policy ideas of Keynes, and was also exposed to the asymmetries of the

trading system through negotiations on the bilateral trade agreement between Argentina and the United Kingdom. On his return to Argentina he helped design the government's Economic Recovery Plan which signalled a new and less orthodox shift in the country's policy direction. It combined public debt restructuring, currency devaluation, tariff measures and public work schemes in an effort to turn the economy round. Subsequently, he prepared the legislation to establish a central bank, with powers to manage the business cycle and oversee the stability of the entire financial system rather than merely fight inflationary pressures. As its first General Manager in 1935, Prebisch pursued a countercyclical monetary policy, reinforced exchange controls and adopted a supportive credit policy (Prebisch, 1972, vol. 2, chap. XIV). While Argentina's growth rates did not return to their levels of the 1920s, its GDP in 1930

was nevertheless 17 per cent higher than its 1929 level. Moreover, it was widely viewed as a stable international financial centre, and Prebisch's own professional standing, at home and abroad, rose significantly during this period (see Dosman, 2008, chap. 5).

- 29 For a more detailed history of the rising voices of developing countries on the international stage during the 1950s and 1960s, see Prashad, 2007.
- 30 Arndt (1987: 140) rather dramatically describes the NIEO as an internationalisation of the welfare state, an internationalisation of protection and an internationalisation of class conflict. For a more measured account of the links between UNCTAD and the NIEO discussions, see Toye and Toye, 2004, chap. 10.
- 31 This pattern changed following the 2008 crisis, when a number of developed countries once again turned to the IMF for funding.

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