The Making of the Twentieth Century

This series of specially commissioned titles focuses attention on significant and often controversial events and themes of world history in the present century. The authors, many of them already outstanding in their field, have tried to close the gap between the intelligent layman, whose interest is aroused by recent history, and the specialist student at university. Each book will therefore provide sufficient narrative and explanation for the newcomer, whilst offering the specialist student detailed source-references and bibliographies, together with interpretation and reassessment in the light of recent scholarship.

In the choice of subjects there will be a balance between breadth in some spheres and detail in others; between the essentially political and matters scientific, economic or social. The series cannot be a comprehensive account of everything that has happened in the twentieth century, but it will provide a guide to recent research and explain something of the times of extraordinary change and complexity in which we live.

The Making of the Twentieth Century

Series Editor: CHRISTOPHER THORNE

Other titles in the Series include

Already published

David Rees, *The Age of Containment: The Cold War 1945-1965*
Christopher Thorne, *The Approach of War, 1938-1939*

Coming shortly

Tony Nicholls, *Weimar and the Rise of Hitler*
B. N. Pandey, *The Break-up of British India*
Ann Williams, *Britain and France in the Middle East*

In preparation

Mark Abrams, *The Rise of Public Opinion*
Dennis Austin, *Africa: The Transfer of Power*
Peter Calvert, *Latin America: Internal Conflict and International Peace*
John Erickson, *The Revolution in Power: Strategy and Politics 1931-1947*
M. W. Flinn, *The Development of the Welfare State in Europe*
George Grün, *The Illusion of Peace: International Relations 1918-1933*
Anthony Hartley, *Gaullism: Its Roots and Development*
Anthony Hartley, *Germany: East/West*
C. P. Hill, *Government, Business and People: The U.S.A. in the Twentieth Century*
C. P. Hill, *Isolation and Involvement: The United States and the World in the Twentieth Century*
Alex Keller, *Science and Social Change*
Desmond King-Hele, *The End of the Twentieth Century?*
Hans Kohn, *The Racial Problem in the Twentieth Century*
Diana Lary, *Regionalism and Nationalism in Republican China*
John Madge, *The Human Consequences of Urbanisation*
J. Miller, *1917 in Russian and World History*
J. Miller, *The Impact and Development of Marxism in the Twentieth Century*
Roger Morgan, *Sovereignty, Nationalism and Supranationalism*
B. N. Pandey, *Problems of Independence in South and South-East Asia*
P. B. Reddaway, *Literature and Politics in the Soviet Union*
E. M. Robertson, *Mussolini, Abyssinia and the League*
E. M. Robertson, *The European Powers and the Spanish Civil War*
Richard Storry, *Japan and the Decline of the West in Asia*
Elizabeth Wiskemann, *Italian Fascism: Its Development and Influence*
R. C. Wofinden and A. W. Macara, *Population, Resources and Public Health*
John Wren-Lewis, *Doubt and Belief in the Twentieth Century*

The Framework of Economic Activity

**The International Economy and the Rise of the
State in the Twentieth Century**

Anthony Harrison

Macmillan

London · Melbourne · Toronto

St Martin's Press

New York

1 9 6 8

© Anthony Harrison 1967

Softcover reprint of the hardcover 1st edition 1967 978-0-333-09046-6

First published 1967

Reprinted 1968

Published by

MACMILLAN AND CO LTD

Little Essex Street London WC2

and also at Bombay Calcutta and Madras

Macmillan South Africa (Publishers) Pty Ltd Johannesburg

The Macmillan Company of Australia Pty Ltd Melbourne

The Macmillan Company of Canada Ltd Toronto

St Martin's Press Inc New York

Library of Congress catalog card no. 67-11419

ISBN 978-0-333-02765-3

ISBN 978-1-349-15230-8 (eBook)

DOI 10.1007/978-1-349-15230-8

Contents

<i>List of Plates and Figures</i>	<i>page</i> vii
<i>Acknowledgements</i>	ix
<i>List of Abbreviations</i>	x
<i>Glossary</i>	xi
<i>Introduction</i>	I
1 The International Gold Standard: its heyday and decline	7
2 The Decline of Economic Liberalism	30
3 Economic Nationalism and the Retreat from Interdependence	51
4 The Second World War: plans for a new order	73
5 The Restoration of the World Economy: the international economy since 1945	87
6 The Managed Economy: the economic role of the state since 1945	120
7 Current Problems in the International Economy	150
APPENDIX: Membership of the World Bank, IMF and GATT, 1965	166

vi CONTENTS

<i>Chronological Table</i>	168
<i>Bibliography</i>	171
<i>Index</i>	183

Plates and Figures

The cover picture shows Indian farmers at work near a high electric power pylon in the Damodar Valley.

PLATES

between pages 82 and 83

- 1a Unemployed in 1920s
- b The Treasury View
- 2a Reparations payments
- b The American Depression
- 3a Failure of traditional policy
- b Distrust of radical measures
- 4a United States Supreme Court and New Deal
- b War-time restrictions
- 5a The monetary reformers
- b Continuous inflation
- 6a The American Loan
- b Difficulties of economic management
- 7 Signing of Treaty of Rome
- 8a Europe's trade split
- b United Kingdom application to European Common Market (E.E.C.)

The author and publishers wish to thank the following for permission to reproduce the illustrations: cover picture, United Nations Organization. Plates 1a, 4b, The Radio Times Hulton Library; 1b, 2a, b, 3a, b, 4a, 5b, 6a, b, 8a, (cartoons by the late Sir David Low), *Evening Standard*; 5a, photo by PIX; 7, Community Information Bureau; 8b, (cartoon by Vicky, the late Victor Wiesz), *Evening Standard*.

FIGURES

1	Total U.K. government expenditure and gross national product, 1890-1955	42
2	IMF loans and credits	102
3	European trade groupings	113

The author and publishers wish to thank the following for permission to reproduce the figures:

Fig. 1: Princeton University Press, based on *The Growth of Public Expenditure in the United Kingdom* (1961), by A. T. Peacock and J. Wiseman.

Fig. 2: based on *International Monetary Fund Annual Report*, 1965.

Fig. 3: based on a map appearing in *European Community*, No. 10, October 1964. Published by European Community Information Service.

Acknowledgements

I should like to thank my mother, Mrs. Isobel Harrison, my former colleague, Mr. Robert Sutcliffe, and the editor of this series, Mr. Christopher Thorne, for their help in the preparation of this book. They are not, of course, responsible for its deficiencies.

Abbreviations

BIS	Bank for International Settlements
COMECON	Council for Mutual Economic Assistance
ECE	(United Nations) Economic Commission for Europe
ECSC	European Coal and Steel Community
EEC	European Economic Community — also known as the (European) Common Market
EFTA	European Free Trade Association
EMA	European Monetary Agreement
FAO	Food and Agricultural Organisation (of the United Nations)
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development — also known as the World Bank
IMF	International Monetary Fund
ITO	International Trade Organisation
NEP	New Economic Policy
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
UNCTAD (also UNTAD)	United Nations Conference on Trade and Development

Glossary

BILATERAL: *See* Multilateral.

CONVERTIBILITY: A currency is said to be convertible when it can be freely exchanged for other currencies or for gold. This is full convertibility. The term is also used when this facility is restricted to foreign holders — i.e. when the currency enjoys only external convertibility.

CUSTOMS UNION: An area within which tariffs and other trade restrictions have been removed and around which a common tariff is maintained against the rest of the world.

DEFLATION: A deflationary policy involves restrictions on spending — e.g. reductions in bank credit or increases in taxation. While such policies were once expected to result in a reduction of the price level, in modern economies they tend, if at all severe, to produce unemployment, reductions in output and at best only stable prices.

DEVALUATION: A currency is devalued when its value is reduced relative to that of other currencies. Up to 1949, for example, £1 could be exchanged for \$4; after the devaluation of the pound, it could command only \$2.8. The normal effect of a devaluation is to make foreign goods seem more expensive and home-produced goods more competitive. In most cases (in particular as long as other countries do not follow suit) this will produce an increase in exports relative to imports and so strengthen the devaluing country's balance of payments.

DISCOUNT RATE: The rate of interest that a central bank charges when it lends on the security of government stock or other acceptable assets. This rate tends to set the general level of interest rates in the country in which the central bank operates.

DISCRIMINATION: *See* Multilateral.

EXCHANGE CONTROL: A currency subject to exchange control is not convertible — i.e. the authorities control its exchange for foreign currencies or gold. By thus limiting the right to buy foreign currencies, they can restrict the demand for imports, for which the domestic currency is not normally acceptable as payment, and also prevent capital being transferred to other countries.

FREE TRADE AREA: An area within which tariffs and other trade restrictions have been removed, but which does not maintain a common external tariff — i.e. each member country chooses its own tariffs with respect to non-member countries.

INFANT INDUSTRY: An industry, in an early stage of development, which it is thought will eventually become internationally competitive, but which in the meantime requires protection to survive.

INFLATION: Inflation refers to a condition in which prices are rising throughout an economy — i.e. the value of money is falling.

LIQUIDITY: In the context of international economics, liquidity refers to such assets as gold or foreign exchange reserves that can be used at short notice to make international payments.

MULTILATERAL/BILATERAL/DISCRIMINATORY:

Multilateral trade takes place between a number of countries without distinction between them. Bilateral trade involves only a pair of countries and usually takes place on the basis of a specific trade agreement between them. Under bilateral arrangements, currency earned from exports to the second country can be used only for purchase of goods from that country. It cannot be used for purchases from third parties, which would be possible under multilateral arrangements.

Bilateral arrangements are discriminatory in the sense that the trade partner is treated differently from the rest of the world. Similarly the members of a customs union discriminate between other members and the rest of the world economy. An individual country not a party to a trade agreement may dis-

criminate by erecting import barriers at different levels according to the country of origin.

MULTIPLE CURRENCY PRACTICES: These may occur where the authorities are exercising exchange control. This allows different exchange rates to be quoted according to the nature of the transaction for which foreign exchange is wanted — e.g. for the purchase of goods or of securities — or according to the country with which the transaction is concluded.

QUOTAS: A method of limiting imports, which, unlike the tariff, specifies the amount that may be imported. In this way it fixes a definite limit to the volume of imports of the goods affected.

TERMS OF TRADE: The relationship between a country's export and import prices is known as its terms of trade; if export prices rise relative to import prices, then the terms of trade are said to improve, as more can be bought from abroad for a given volume of exports. If export prices fall relative to import prices, the reverse applies.