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James C. Van Hook
Excerpt
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Introduction

With the possible exception of Japan, no society has become more associated with its economic system than postwar Germany. The social market economy, introduced by Economics Minister Ludwig Erhard in 1948, ended Nazi-era economic controls, ushered in West Germany's "economic miracle," and offered a socially conscious model of market capitalism. In a society in which national identity had been discredited, the social market economy gradually assumed a political and cultural significance in West Germany that transcended its ostensible purpose as a set of economic policies. Along with serving as an explanation for West Germany's remarkable economic and social success in the decades following World War II, the social market economy became a metaphor for social justice itself.

During the last several years, united Germany's social market economy has come under attack. Now well-nigh synonymous with the western European welfare state, the social market model is blamed for sclerotic rates of economic growth, a regulatory regime that inhibits innovation, and frustratingly persistent high levels of unemployment. After acquiring a well-deserved reputation for fiscal stability over fifty years, Germany now struggles with chronic budget deficits. Indeed, it appears unlikely that the Germans will meet the terms of the "stability pact" (that is, no budget deficit over 3 percent of gross domestic product [GDP] and no overall public debt exceeding 60 percent of GDP) that it forced upon its neighbors as a condition for entry into the European Monetary Union. As Chancellor Gerhard Schröder attempts to implement a set of reforms grandly termed Agenda 2010, it remains to be seen whether the social market economy, as such, will survive. What is certain is that the period in which the social market economy represented an almost unambiguously celebrated model of modern capitalism is past.

Whatever the future may hold for the social market economy, it is clear that it represented a fundamental moment in postwar German history. As such, it has enjoyed a place in the historiographic, political science, and economics literature that point to its larger significance to German society than would ordinarily be the case with economic policy. This is because it has always been invested with a greater meaning and significance. The question has never simply been, was the social market economy an economic success? Rather, the question has always been, did the social market economy represent an adequate response to the overriding imperative of Germans to embark on an economic, social, political, and even cultural renewal in the wake of the moral disgrace of Nazism? This larger question thence served as background to a variety of secondary questions such as, did the social market economy owe its success to the presence after 1945 of the antisocialist Americans? Indeed, did postwar Germany undergo a process of "Americanization"? Or did the social market economy simply represent a return to the "corporatist" arrangements that had characterized traditional German capitalism? In short, how can one situate the phenomenon of the social market economy within the larger context of German history?

One of the great ironies of postwar economic history is how the definition of the social market economy changed over time. Today, it is associated with the European welfare state. In 1950, it represented the opposite. At the end of World War II, most Western societies entered a period in which the state played a greater role in the economy. With a landslide victory in the July 1945 parliamentary elections, for example, the Labour Party in Great Britain nationalized key industries, institutionalized the power of the trade union movement, and provided "cradle to grave" care in the form of the National Health Service.[1] Under the Monnet Plan, adopted by Charles De Gaulle in early 1946, France turned away from its traditional, small-capitalist industrial culture to embrace "indicative planning," guided by the state, which would transform France into a modern industrialized society able once again to assert power in global politics.[2] Even in America, the

1. For an excellent survey of Britain under the Labour government between 1945 and 1951, see Kenneth O. Morgan, *Labour in Power, 1945–1951* (Oxford: Oxford University Press 1984); see also Nigel Harris, *Competition and the Corporate Society. British Conservatives, the State and Industry, 1945–1964* (London: Methuen 1972).
2. On French economic policy during the twentieth century in general, see Richard Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century*, (New York: Cambridge University Press 1981). See also the important biography of Monnet by François Duchêne, *Jean Monnet, the First Statesman of Interdependence* (New York: Norton 1994), especially pp. 147–180. For an excellent analysis of the geopolitical significance of the Monnet Plan, see William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944–1954* (Chapel Hill: University of North Carolina Press 1998), pp. 29–98. See also Irwin Wall,

experiences of the New Deal and the war produced a consensus that accorded legitimacy to government intervention in the economy to ameliorate the excesses of capitalism, whether through social security, the GI bill, or a new respect for organized labor.[3] After the traumatic experiences of the interwar period, the growing role of the state in Western economies represented an attempt to address the "crisis of capitalism," seen in the Great Depression, by constructing what Andrew Shonfield would later call "modern capitalism."[4] But with the adoption of the social market economy in mid-1948, the West Germans chose another path. Reacting against a statist economic tradition that had reached grotesque forms during Nazism, the social market economy celebrated the market, competition, and free trade. Indeed, economists who supported the social market economy argued that creeping intervention by the state had produced an "organized capitalism" that had paved the way to Nazism. Thus, whereas the rest of Western Europe read Keynes, many West Germans read Friedrich von Hayek.

As West Germany experienced an unexpectedly rapid and prosperous recovery during the 1950s, advocates of the social market economy, such as Economics Minister Erhard, his supporters among neoliberal economists, and much of industry, constructed a founding myth about the social market economy that connected it directly to Germany's recovery and legitimated it as a fundamental bedrock of West Germany's postwar democracy. This founding myth, which like most myths contained important elements of the truth, consisted of four basic premises. First, the social market reforms of 1948 represented a radical break with Germany's authoritarian past. Second, the "economic miracle" was not a miracle at all, but rather the natural and scientific result of the free market, free international trade, competition, and monetary stability. Third, rising productivity, caused by the introduction of free-market relationships, had resulted in rising real wages and thus raised the living standards of average West Germans. Finally, from 1945 to 1948, the opposition Social Democrats had wished to preserve the hated *Zwangswirtschaft* against Erhard's and Chancellor Konrad Adenauer's wishes.[5]

The United States and the Making of Postwar France, 1945–1954 (New York: Cambridge University Press 1991).

3. See Thomas K. McCraw, *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, MA: Harvard University Press 1984). Jennifer Klein, *For All These Rights: Business, Labor, and the Shaping of America's Public–Private Welfare State* (Princeton: Princeton University Press 2003). See also Georg Schild, *Zwischen Freiheit des Einzelnen und Wohlfahrtstaat: Amerikanische Sozialpolitik im 20. Jahrhundert* (Paderborn: Ferdinand Schöningh 2003).
4. Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press 1965).
5. The clearest statement of this founding myth can be found in three books authored by Erhard himself. See his *Deutschlands Rückkehr zum Weltmarkt* (Düsseldorf: Econ Verlag 1953); *Wohlstand für Alle*,

Though such arguments naturally gained in importance during the elections of 1953 and 1957, they also formed an important component of West Germany's fragile self-image during the 1950s.

Because the social market economy became such an important source of legitimacy for West Germans from 1945 until about the mid-1960s, it is not surprising that it lost much of that legitimacy during the more tumultuous latter half of the 1960s. Like all Western democracies, West Germany experienced a student movement that called into question the received verities of the past. At its most basic level in West Germany, this took the form of rejecting the concept of a "zero hour" (*Stunde Null*) in 1945. The concept of a *Stunde Null* suggested that the collapse of 1945 offered a clean slate upon which to build a new society. To West Germans who had experienced the Nazi period and the occupation as adults, the *Stunde Null* allowed one to establish a clear demarcation between what had taken place in Germany before 1945 and what took place afterward. It therefore undergirded the taboos of the 1950s and discouraged open discussion of the National Socialist past. To younger West Germans entering university during the 1960s, breaking this taboo was urgent. Rather than accept 1945 as *Stunde Null*, these Germans emphasized the continuities transcending 1945. Rather than accept the myth that West Germany represented a break with the past, younger Germans were inclined to characterize West German society as a "restoration" of what ought to have been a discredited system. To be sure, many serious scholars, journalists, and politicians, like Theodor Adorno, Eugen Kogon, and Ralf Dahrendorf, had long been concerned with the extent to which West Germany had failed adequately to reform institutions

(Düsseldorf: Econ Verlag 1957); and *Deutsche Wirtschaftspolitik. Der Weg der sozialen Marktwirtschaft* (Düsseldorf: Econ Verlag 1962). Probably the most well-known academic defense of the social market economy during its early controversies was the work of Wilhelm Röpke commissioned by the West German government in 1950, entitled *Ist die deutsche Wirtschaftspolitik richtig? Analyse und Kritik* (Stuttgart: 1950). A founding myth about the social market economy was also reinforced through the medium of campaigning. Of particular importance in this regard was the WAAGE organization, sponsored by the Industrie- und Handelskammer of Cologne. Through posters, it sought to spread "productivism" to German workers, that is, that wages rise through increases in productivity rather than through radical income redistribution. See "Die Waage; Ein Bericht über die Tätigkeit in den Jahren 1952–54/55–56/57," Rheinisch-Westfälisches Wirtschaftsarchiv, WAAGE collection, 16/1/2. On the WAAGE in general, see the recent work of Dirk Schindelbeck and Volker Ilgen, *"Haste was, biste was!": Werbung für die Soziale Marktwirtschaft* (Darmstadt: Primus 1999). It should also be noted that the WAAGE organization in particular has attracted historians interested in the nexus of gender and consumer culture. See, in this regard, Mark E. Spicka, "Gender, Political Discourse, and the CDU/CSU Vision of the Economic Miracle, 1949–1957," *German Studies Review* 25, no. 2 (2002): 305–29. On the issue of gender and consumption in general, see Erica Carter, *How German Is She? Postwar West German Reconstruction and the Consuming Woman* (Ann Arbor: University of Michigan Press 1997).

and cultural practices implicated in Nazism.[6] By the late 1960s, however, such sociological and liberal analyses of the problem of restoration were supplemented by a more radical Marxist critique of the overall restoration of capitalism.

This "restoration paradigm," which came to dominate serious work on West Germany's economic history by the late 1960s, held that the restoration of capitalism undermined attempts to reform German social structure. With the destruction of Nazism in 1945, the hour of socialism appeared to have arrived. Indeed, both the Americans and especially the British had initially considered Kurt Schumacher's Social Democratic Party (SPD), as well as the left wing of the new Christian Democratic Union (CDU), the representatives of Germany's dormant democratic tradition. As Social Democrats enjoyed great influence among the occupying authorities, there existed much momentum for the introduction of the "economic democracy" the SPD had long espoused. Such an economic democracy would have encompassed a decentralized economic planning system, the institutionalization of equal labor influence over the governance of the economy, and, most important, the socialization (that is, the public ownership) of heavy industry. Yet, by 1947, the momentum for socialization had waned. The reason, many historians argued, lay in the American determination to impose ideological conformity as it grew concerned with the emerging cold war with the Soviet Union. This American obsession with cold war imperatives, then, facilitated the return to power of traditional elites who wished to restore traditional capitalism.[7] Though this restoration paradigm soon

6. See, for example, "Was bedeutet: Aufarbeitung der Vergangenheit," *Theodor Adorno: gesammelte Schriften*, vol. 10:2, Frankfurt, 1977, Eugen Kogon, "Die Aussichten der Restauration: Über die gesellschaftlichen Grundlagen der Zeit," *Frankfurter Hefte* 7 (1952): 166–177; Ralf Dahrendorf, *Society and Democracy in Germany* (New York: Anchor Books 1969).
7. The restorationist literature is extensive. It also owed much to East German critiques directed at West German capitalism. The most important monographs included Eberhard Schmidt, *Die verhinderte Neuordnung 1945–1952: Zur Auseinandersetzung um die Demokratisierung der Wirtschaft in den westlichen Besatzungszonen und in der Bundesrepublik Deutschland* (Frankfurt: Europäische Verlagsanstalt 1970); Ute Schmidt and Tilman Fichter, *Der erzwungene Kapitalismus: Klassenkämpfe in den Westzonen 1945–1948*; (Berlin: Wagnebach; 1971) and Rolf Badstübner and Siegfried Thomas, *Restauration und Spaltung: Enstehung und Entwicklung der BRD, 1945–1955* (Cologne: Paul-Rugenstein 1975). For monographs that discussed specifically how the doctrine of the social market economy fit into the restoration paradigm, see the classic work of Gerold Ambrosius, *Die Durchsetzung der Sozialen Marktwirtschaft in Westdeutschland, 1945–1949* (Stuttgart: Deutsche Verlagsanstalt 1977), and the earlier work by Reinhard Blum, *Soziale Marktwirtschaft, Wirtschaftspolitik zwischen Neoliberalismus und Ordoliberalismus* (Tübingen: Mohr 1969). Rudolf Uertz performed the pioneering work on Christian Socialism within the CDU and Adenauer's relationship with the Christian socialists in *Christentum und Sozialismus in der fruhen CDU: Grundlagen und Wirkungen der christlich–sozialen Ideen in der Union 1945–1949* (Stuttgart: Deutsche Verlagsanstalt 1981). For the principal work on how the SPD failed to realize its agenda of social reform in West Germany under the forces of the capitalist restoration engineered by the Americans, see Erich Ott, *Die Wirtschaftskonzeption der SPD*

lost its polemical edge, it continues to exercise great influence over historians today. This is because it gives concrete expression to the observation that, though the social market economy on the surface represented a break with the past, many economic, industrial, and social institutions survived the supposed caesura of 1945. Partly as a result of this, many of the case studies on economic policy and the history of economic institutions that proliferated during the 1970s and 1980s aimed not to overturn the restoration paradigm, but rather to pinpoint the crucial events and decisions that led to this restoration.[8]

While the restoration paradigm undermined the political legitimacy of the claim that the social market economy represented a radical departure from German economic tradition, the important historian Werner Abelshauser undermined the economic argument that it initiated West Germany's postwar recovery. Beginning with his groundbreaking 1975 monograph *Wirtschaft in Westdeutschland, 1945–1948*, Abelshauser argued that the "economic miracle" experienced during the 1950s did not follow intentionally from economic policy, but rather represented a reconstruction period in which an initially devastated German economy caught up to normal rates of growth. The abnormally high growth rates of the 1950s simply allowed the return to the level of development the economy would have enjoyed had it not been for the shocks of depression and war. When reconstruction ended in the early to mid-1960s, West Germany resumed "normal" rates of growth, of about 3% to 4% per annum, measured as the average growth rate since the middle to late nineteenth century. In other words, the relationship between the social market economy and the rapid growth of the economic miracle was incidental. Indeed, Abelshauser located the beginning of recovery in early 1947 anyway, at least one year before Erhard enjoyed any influence, and also demonstrated that upon the

nach 1945 (Marburg: Verlag Arbeiter-Bewegurg 1978); and Ernst-Ulrich Hüster, *Die Politik der SPD 1945–1950* (Frankfurt: Campus Verlag 1978). The influential thesis that the institutionalization of management–labor codetermination became a vehicle whereby the forces of capitalism integrated the labor movement into the restoration and persuaded the unions to abandon more thoroughgoing reforms of German industry was first articulated in Frank Deppe et al., *Kritik der Mitbestimmung: Partnerschaft oder Klassenkampf?* (Frankfurt: Suhr Kamp 1969).

8. The release of the relevant British documentation during the late 1970s inspired much of this literature. See, for example, the essays in Josef Foschepoth and Rolf Steininger, eds., *Britische Deutschland- und Besatzungspolitik 1945–1949* (Paderborn: Ferdinand Schöningh 1988); Dietmar Petzina and Walter Euchner, *Wirtschaftspolitik im britischen Besatzungsgebiet 1945–1949* (Düsseldorf: Schwann 1984); and Ian Turner, ed., *Reconstruction in Post-war Germany: British Occupation Policy and the Western Zones, 1945–1955* (Oxford: Oxford University Press 1989). See also some of the many important monographs, including Alexander Drexler, *Planwirtschaft in Westdeutschland, 1945–1948: eine Fallstudie über die Textilbewirtschaftung in der britischen und bizone* (Stuttgart: Fisterner 1985); and Rolf Steininger, *Ein neues Land an Rhein und Ruhr: die Ruhrfrage 1945/46 und die Entstehung Nordrhein-Westfalens* (Cologne: W. Kohlhammer 1990).

completion of catching up to Germany's natural long-term rate of growth, the social market economy could not deliver the growth rates enjoyed during the 1950s.[9]

Abelshauser's work has unleashed huge debates among economic historians. Aside from some disagreement over the use and interpretation of official statistics,[10] these debates have focused on the relationship between economic policies and economic conditions. Abelshauser has tended to stress the demand-side preconditions for German prosperity. Long before his work appeared, a number of American economists stressed supply-side conditions favorable to rapid growth in postwar Germany. In *Europe's Postwar Growth*, Charles Kindleberger argued that the plentiful supply of skilled labor in West Germany, originating in the influx of approximately 12 million expellees from the East, rendered the labor movement cooperative in keeping rising wage levels behind increases in productivity.[11] In two different though equally important works on German finance, Frederick G. Reuss and Karl W. Roskamp demonstrated how West Germany's peculiar methods of capital formation during the occupation encouraged productive investment. In the late 1940s, Germany had no functioning capital market. Even after the currency reform, virtually no long-term capital market existed. What's more, the Allies had imposed a steeply progressive tax code in 1946. But the tax code also included generous depreciation allowances that, with the high profits accruing to German firms as the boom took hold by 1949, encouraged a great amount of self-financing.[12] Implicit in this body of work was that the free-market policies of Ludwig Erhard did not necessarily spark the economic miracle, but they did allow the unusually favorable supply-side conditions of the West German economy of the time to be brought to bear. As a recent supply-side interpretation of the rise and decline of the social market economy has put it, "miracles emerge

9. Werner Abelshauser, *Wirtschaft in Westdeutschland 1945–1948: Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone* (Stuttgart: Deutsche Verlagsanstalt 1975). See also Abelshauser's other works, such as *Die Langen Fünfziger Jahre. Wirtschaft und Gesellschaft der Bundesrepublik Deutschand 1949–1966* (Düsseldorf: Schwann 1987).
10. Alfred Ritschl, "Die Währungsreform von 1948 und der Wiederaufstieg der westdeutschan Industrie: Zu den Thesen von Matthias Manz und Werner Abelshauser über die Produktionswirkungen der westdeutschen Industrie," *Vierteljahrhefte für Zeitgeschichte*, 33, no. 1 (1985):136–65. See also Christoph Buchheim, "Die Währungsreform 1948 in Westdeutschland," *Vierteljahrhefte für Zeitgeschichte*, 362 (1988): 189–231.
11. Charles Kindleberger, *Europe's Postwar Growth: The Role of Labor Supply* (Cambridge, MA: Harvard University Press 1967).
12. Frederick G. Reuss, *Fiscal Policy for Growth Without Inflation: The German Experiment* (Baltimore: Johns Hopkins University Press 1963); Karl W. Roskamp, *Capital Formation in West Germany* (Detroit: Wayne State University Press 1965).

when spontaneity prevails over regulation, and they fade when corporatist rigidities impair the flexibility for smooth adjustment."[13]

Yet, of all preconditions that historians have emphasized as contributing factors to the economic success of Erhard's social market economy, perhaps no other was quite as important as the fact that West Germany functioned within an international trading system that allowed it to export. After more than fifteen years of autarky, West Germany returned to the world market with a vengeance after 1948. By 1952, the Federal Republic began to run trade surpluses that shortly became burning international trade issues themselves. Ludwig Erhard, of course, championed free trade. But as historians like Christoph Buchheim and Gerd Hardach point out, the international trading regime of which the West Germans took advantage was largely a function of the Anglo-American commitment to a multilateral free-trade regime. With the Bretton Woods agreement of late 1944, the British and Americans in effect imposed their view that the severity and duration of the Great Depression had owed much to the adoption of nationalist economic strategies during the interwar period, with a concomitant collapse in international trade. In the postwar period, therefore, the Allies wished to encourage international trade and economic integration. The Marshall Plan originated primarily in the realization that the Western European economies lacked the hard currency (that is, the dollar; hence the term *dollar gap*) to enable them to reduce trade barriers without risking insolvency. By encouraging inter-European trade, through such mechanisms as the European Payments Union of 1950, the Americans, in effect, guaranteed a fragile free trading order that benefited the West German economy.[14] The role of exports in fueling West German prosperity during the 1950s underscores the Western European regional context within which West German reconstruction took place. Nevertheless, as most other studies of the Marshall Plan and Western European economic history have noted, West Germany was the engine of Western European economic growth.[15]

13. Herbert Giersch, Karl-Heinz Paqué, and Holgar Schmieding, *The fading miracle: Four decades of market economy in Germany* (New York: Cambridge University Press 1992), p. xi.
14. On the role of international trade in facilitating the economic miracle, see, above all, Christoph Buchheim, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft, 1945–1958* (Munich: R. Oldenbourg 1990). See also the early yet still valuable study by Henry C. Wallich, *Mainsprings of German Economic Revival* (New Haven: Yale University Press 1955); Volker Hentschel, *Ludwig Erhard, ein Politikerleben* (Munich: Ullstein 1996), pp. 120–140, 157–177, 213–223; Alan Milward, *The Reconstruction of Western Europe, 1945–1951* (London: Methuen 1984); Harold James, *International Monetary Cooperation since Bretton Woods* (New York: Oxford University Press 1996), pp. 95–108.
15. Hentschel, *Erhard*, pp. 307–329, 420–440, 492–510; Buchheim, *Wiedereingliederung*; Gerd Hardach, *Der Marshall-Plan: Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952* (Munich: Deutsche Taschenbuch Verlag 1994), pp. 277–283, 323–337; Alan S. Milward, *The European Rescue of the Nation-State* (Berkeley: University of California Press 1992), pp. 134–167; Reinhard Neebe,

What this all means is that historians have struggled to find the proper balance in establishing the relationship between preconditions for economic growth in West Germany (and Western Europe) and the economic policies pursued in West Germany for explaining the so-called economic miracle. In his recent monumental biography of Erhard, Volker Hentschel has given expression to an emergent consensus on how to view the relationship between the social market economy introduced by Erhard and West German prosperity. Hentschel argues that recovery would not have taken place if certain preconditions had not been met. The two most important preconditions included the level of physical reconstruction accomplished under the economic planning regime in western Germany from 1945 to 1948, particularly the transportation network, and the American-sponsored free-trading regime buttressed by Marshall Plan aid. Though highly critical of Erhard, Hentschel nevertheless suggests that, in 1948, Erhard offered the most effective policies with which to take advantage of these preconditions. Thus, the preconditions for growth, which Hentschel insists existed without Erhard's doing, were there, but "Erhard's fundamental policy coup de main . . . during the summer of 1948 cleared the way for the rapid and steep recovery."[16] At the end of the day, therefore, economic policy did matter.

Along with the attempt to establish a clear relationship between the significance of economic policy and economic preconditions in West Germany, one must also sort out the relationship between that West German economic policy and the Western free-trading international system of which it was a part. The most striking economic discontinuity of the twentieth century, for example, is the extent to which Western economies in the postwar period abandoned the increasingly nationalist economic policies of

"German Big Business and the Return to the World Market after World War II," in Volker Berghahn, ed., *Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century* (Providence: Berghahn Books 1996), pp. 95–121. See also John Gillingham, *Coal, Steel and the Rebirth of Europe, 1945–1955: The Germans and the French from Ruhr Conflict to Economic Community* (Cambridge: Cambridge University Press 1991). In a recent habilitation, the economic historian Ludgar Lindlar has argued that the Federal Republic's rapid recovery was a function of Western European economic growth. Seen in this light, he suggests, the common experience of Western Europe diminishes the significance of any specific economic policy, such as the social market economy. See his *Das mißverstandene Wirtschaftswunder: Westdeutschland und die westeuropäische Nachkriegsprosperität* (Tubingen: Mohrsiebeck 1997).

16. Hentschel, *Erhard*, p. 214. Christoph Buchheim offers a more strident defense of Erhard's reforms by contrasting them favorably against the sluggish economy that continued to exist even after the currency reform in the French zone of occupation in "Die Notwendigkeit einer durchgreifenden Wirtschaftsreform zur Ankurbelung des westdeutschen Wirtschaftswachstums in den 1940er Jahren," in Dietmar Petzina, ed., *Ordnungspolitische Weichenstellungen nach dem Zweiten Weltkrieg* (Berlin, Duncker & Humboldt 1991), pp. 55–65. A. J. Nicholls offers a vigorous defense of the social market economy in *Freedom with Responsibility: The Social Market Economy in Germany, 1918–1963* (Oxford, Oxford University Press 1994).

the interwar period. To be sure, not all economic historians would concur in Charles Kindleberger's judgment that the reason the Great Depression endured so long was because of the collapse of international trade aggravated by the adoption of increasingly hostile and mercantilistic nationalist economic policies, but the architects of the Bretton Woods regime clearly believed that the reconstruction and maintenance of a healthy international trading order was both an economic and political priority of overwhelming importance in the postwar world.[17] It is also clear that, in ascending order of enthusiasm, the British, French, Italians, and, especially, West Germans agreed that creating an international free trading regime was the sine qua non of a politically healthy international order.[18] In other words, Western approaches to the international political economy, on the whole, converged. A consensus across the West emerged concerning, in broad terms, the goals of economic policies, the proper relationship between national economic policies and the international order, and the relationship between prosperity and political culture. Whence this consensus?

Andrew Shonfield provided an explanation for this convergence nearly forty years ago in his influential book *Modern Capitalism*. According to Shonfield, modern capitalism developed to address the "crisis of capitalism"

17. For a recent excellent treatment of the thinking behind the Bretton Woods agreement, see Harold James, *International Monetary Cooperation Since Bretton Woods* (New York: Oxford University Press 1996), pp. 27–57. On Bretton Woods in general, see Alfred Eckes, *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971* (Austin: University of Texas Press 1975). See also Thomas Zeiler, *Free Trade, Free World: The Advent of GATT* (Chapel Hill: University of North Carolina Press 1999). For the classic study of the Great Depression itself that stresses the importance of the collapse of international trade and the inability of the great powers to revive it, see Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press 1986).
18. This is not to minimize, of course, the grave reservations of the British about allowing currency convertibility and thus permitting a dollar-dominated international system at the probable expense of the "Sterling Area," developed under British auspices since the Ottawa agreements of 1932. See, especially, James, *International Monetary Cooperation*, pp. 85–103; British reluctance to allow full currency convertibility is also a principal theme of Alan Milward's *The Reconstruction of Western Europe, 1945–51* (London: Methuen 1984), and Michael J. Hogan's *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947–52* (Cambridge: Cambridge University Press 1987). The French, as Milward also argues in *Reconstruction*, were wary of American-inspired free international trade and refused to allow the OEEC to develop into an instrument for European economic integration. But they also were interested in obtaining access to raw materials in the Ruhr, particularly coal, to fuel the growth of the French steel industry so critical to the success of the Monnet Plan. Therefore, they proved amenable to the pooling and payments arrangements centered on West Germany, such as the European Payments Union, the European Coal and Steel Community, and, finally, the European Economic Community (EEC). The French also saw in the EEC an outlet for agricultural surpluses. See, in particular, Hitchcock, *France Restored*; Gillingham, *Coal, Steel and the Rebirth of Europe*; and Milward, *European Rescue*, pp. 224–317. Despite these reservations, it is still fair to say that, on the whole, most respectable British and French politicians rejected the totally nationalist economic policies of the interwar period even if they intended to pursue national interests within a basically cooperative international trading system, which Bretton Woods offered.