Hegemony, Internationalism, and America's Right Turn

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Abstract: This essay analyzes the failure of cooperative, economic internationalism in the 1970s and its effects on American politics. We argue that the shift in American economic and military policies after the conservative revolution, or "right turn", of the 1980s, cannot be understood simply in terms of class conflict or a power struggle between competing business groups in the United States. The design of the world economic and financial system after World War II locked the United States (US), Western Europe, and Japan into relationships that proved hard to undue in the late 1970s, and the nature of these relationships helped destroy the possibilities for international Keynesianism that briefly emerged in this period. Regarding the rise of a new American militarism, we argue that responsibility does not lie with the "military-industrial complex" alone, but that events in the Third World and the failure of "*deténte*" as a strategy to restore US economic power also played crucial roles.

Keywords: trilateral, Keynesianism, deténte

Resumo: Este trabalho analisa o fracasso do internacionalismo econômico dos anos 70 e os seus efeitos sobre a política americana. Defendemos que a guinada conservadora, ou "guinada à direita", dos anos 80 não pode ser entendida apenas em termos de conflitos internos de classes ou em termos de uma luta por poder de facções empresariais distintas nos EUA. O desenho do sistema econômico e mundial após a II Guerra Mundial criou padrões de desenvolvimento nos EUA, Europa Ocidental e Japão que se mostraram muito resistentes às tentativas americanas de alterá-los no final dos anos 70. Com relação à ascensão do militarismo americano desde 1980, argumentaremos que a explicação não reside apenas no poder do "complexo militar-industrial", e que eventos no Terceiro Mundo e o fracasso de *deténte* como estratégia econômica americana também tiveram papéis importantes.

Palavras-chave: trilateral, keynesianismo, deténte

Sessões Ordinárias
Área 4: **Estados e Nações face à nova configuração do capitalismo**
Sub-área 4.1: **Estado e economia capitalista**

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1. Introduction

As is well-known, the late 1970's marked the beginning of a new era in the advanced capitalist economies, characterized by a distinct neoliberal or "right turn" in the formulation of fiscal and monetary policies. In the United States (US), the right turn[*] was associated with an increasingly aggressive, militarist foreign policy.

Many authors explain this conservative revolution largely in terms of internal class conflict. According to this view, "profit squeeze" led business elites, and American politicians to replace New Deal thinking with anti-labor, anti-welfare state policies. Brenner (2004) argues that the current pattern of economic growth in the US "was inaugurated in 1979–80 with the international turn away from Keynesian expansion to monetarist contraction as a means to combat the reduced profitability that continued to grip the advanced capitalist economies, especially in manufacturing". Brenner (2007) affirms the early 1970s marked the beginning of "an extended epoch of stagnation and crisis of even greater length than the postwar boom. In response, employers unleashed an intensifying assault on labour organization and working-class living standards that has not abated to this day". Falling profit rates, Brenner explains, led capitalists to slash investments, forcing stagnation and unemployment on the working classes. In addition, business created right-wing think-tanks and policy organizations and funded conservative politicians as a means of weakening workers' bargaining power and convincing the public that unions and full-employment policies were harmful relics of the past[†].

Focusing on foreign policy, Hossein-Zadeh (2006) sees the transformation in American society, particularly the emergence of aggressive militarism, in terms of a power struggle between competing elite interest groups in the United States. Much of recent US history, argues Hossein-Zadeh, can be explained in terms of the struggle between the Trilateral Commission, a transnational business group founded in 1973 by David Rockefeller, chairman of Chase Manhattan Bank, and the Committee on the Present Danger (CPD), a rival pressure group

[*] This term is borrowed from Ferguson and Rogers' (1986) excellent analysis of American politics in the 1970s and 1980s.
[†] See Glyn (1992), and *The Golden Age of Capitalism: Reinterpreting the Postwar Experience* (1999, Marglin and Schor, eds.) for similar arguments.

founded in 1976 by Cold War ideologues, defense contractors and other representatives of the "military-industrial complex". The CPD, calling for import restrictions, massive increases in military spending and an aggressive anti-Soviet foreign policy, defeated the Trilateralists and were decisive in the electoral victory of Ronald Reagan, himself a member of the CPD. Reagan's victory in 1980 gave unprecedented power over foreign affairs to arms manufacturers and beneficiaries of military spending in general. "[T]he Trilateralists' honeymoon was cut short by powerful political rivals in the opposing faction of the U.S. ruling class. Powerful beneficiaries of war and militarism (the military-industrial complex), united with nationalist proponents of unilateralism and economic protection, moved swiftly to undermine the plans and projections of the multilateralists. Before long, they succeeded in putting an end to the plans and policies of the Trilateralists altogether" (Hossein-Zadeh, p. 66).

Though not questioning the importance of Brenner and Hossein-Zadeh's analyses, this paper takes a closer look at the contribution of international issues to America's right turn, and argues that the shift in US economic and military policy cannot be understood simply in terms of class conflict or a power struggle between competing business groups. As we will see, the design of the world economic and financial system after World War II (WWII) locked the United States (US), Western Europe (particularly West Germany), and Japan into relationships that proved hard to undue in the late 1970s, and it was the nature of these relationships that led to the rejection of international Keynesianism and to more unilateral economic policies. Regarding the rise of a new American militarism, we argue that in addition to CPD lobbying, turbulence in the Third World and the failure of *deténte* as a strategy to restore US economic competitiveness also played crucial roles, leading even the "Trilateralists" to adopt more aggressive foreign policy goals.

2. The Dollar Gap and Postwar Economic Growth in West Germany and Japan

As is well known, the years immediately following World War II (WWII) were marked by a dollar shortage caused by large US balance of payments surpluses. This "dollar gap" was a major obstacle to the creation of a US-led world capitalist system. The dollar's role as the primary international currency, formally established at the Bretton Woods negotiations in 1943, imposed on Western Europe, Japan and all peripheral countries outside the Soviet bloc the need to earn enough dollars through the sale of goods and services to the rest of the world to avoid balance of payments problems.

The Marshall Plan was a response to this challenge: its purpose was to provide Europe with the foreign exchange needed to recover while at the same time maintaining demand for American exports. These dollars would buy Western Europe the time it needed to reestablish industry and, crucially, recreate competitive export sectors. Once Europe's capacity to earn dollars on its own was restored, the region's integration into an American world economic order would be complete.

Though basically in agreement regarding the need to rebuild Western Europe and Japan as subordinate capitalist powers, elite thinking with regard to the world trade and financial system was divided. Top US State Department and Marshall Plan officials were Keynesians, while the American delegation at Bretton Woods was heavily influenced by New York bankers. This division complicated American efforts to relieve Europe's balance of payments problems.

Speculative capital flows to US financial markets after WWII were a major impediment to European recovery (Helleiner, 1994). Keynesian delegates at Bretton Woods had pointed out that capital controls would only be effective if regulation took place "on both ends", that is, if regulatory responsibility was shared both by countries suffering speculative outflows and countries receiving speculative inflows. The American negotiators killed this proposal[‡], and also refused to support Keynes's suggestion that member countries work cooperatively to solve balance of payments problems.

Influenced by Wall Street, US Treasury and IMF officials in the late 1940s recommended deflation and currency devaluation as a solution to Europe's dollar gap. Some, perhaps most, European officials were opposed to devaluation: more dependent on imports than the US, currency depreciation would increase inflation and have a negative short-term effect on the balance of payments. As an alternative, European planners advocated bilateral agreements and other special trading arrangements, such as barter exchanges, to preserve dollars and avoid balance of payments deficits.

[‡] See Gardner (1956) and De Cecco (1982)

The European proposal for recovery from the recession of the late 1940s was a high-growth strategy, but not necessarily, as US officials were proposing, an export-led growth strategy. The latter, however, was ultimately the one adopted, in part as a result of events in Britain in 1949. Intense speculative pressure against the pound forced the British to devalue by an immense 30% in September 1949, and the other European countries followed suit in order to avoid losing competitiveness. De Cecco (1979) argues that this devaluation, in a context of dollar shortage and intense US pressure, sealed the fate of the European countries as trade-oriented economies dominated by their export sectors. “The European economies were, by this drastic exchange-rate realignment, transformed into export economies. An ‘exporters’ lobby’ of increasing importance came into existence in all European countries…” (p. 60).

Though some disagree with De Cecco’s analysis (see Helleiner, 1994), it is clear that the solution found for the dollar shortage was the creation of an intra-European trade system in which exports would play a crucial role in stimulating economic growth. West Germany became the quintessential example of a high growth, export-led European economy. US officials had initially considered dismantling German industry after the war, but it became clear that a dynamic European trade system would not work with a permanently depressed German economy. “A depressed Germany would drag down the demand for the exports of other European countries. Eliminating the Continent’s principal supplier of capital goods would raise the cost of investment, worsen the dollar shortage, and force other countries to divert resources toward the production of capital goods” (Eichengreen and de Macedo, 2001).

With Marshall Plan dollars and then US military expenditures guaranteeing German access to hard currency, Germany was allowed to focus on a “politics of productivity” (Kreile, 1977), exporting capital equipment to the US and the rest of Western Europe. As the region’s largest economy, and with a sufficiently high import content of its production, West Germany became the heart of the European economy, with the other economies of the region expanding and contracting in line with the German business cycle.

West Germany’s export dependence, a situation caused in large part by the postwar dollar shortage in Europe, had profound domestic political implications. Reflecting on German politics after thirty years of postwar growth, Kreile (1977) noted: “By virtue of its size, the export sector has considerable clout in the process of foreign economic policy making. Its dominance is anchored in the amazing export dependence of key industries. This dependence is converted into political influence through a network of well-organized and articulate business associations" (p. 785).

The pillars of postwar West German monetary policy, low inflation and a competitive exchange rate, reflected the importance of industrial exports. Low inflation rates allow for internal price stability, which afford central banks greater control over real exchange rates. Competitive, stable real exchange rates, in turn, are crucial for export-oriented economies, especially capital-intensive ones such as Germany's where greater complexity and longer supply chains make export sectors sensitive to domestic price variations. "Monetary policy", observed Kreile, "played a crucial role in the strategy of export expansion. It did so because it kept inflation rates low and thus provided an essential condition for export competitiveness. This favorable export position was further enhanced by the undervaluation of the [West German mark]" (p. 792).

The bias toward conservative monetary policy was reinforced by the high level of integration between finance and industry. Banks, of course, independent of export concerns, have an interest in keeping inflation to a minimum, which translates into support for orthodox fiscal and monetary policies. West German banks, Kreile noted, held more than 25% of voting capital in 28 of Germany's largest corporations in the mid-1970s, and accounted for almost 30% of all board members of German joint-stock companies. Germany's postwar economic policy was thus the result of a confluence of interests among banks and exporters around a low-inflation policy that promoted exports and, after the late 1950s, current account surpluses, the latter facilitating the expansion of West German investment abroad.

Japan, like Germany, also became a major industrial exporter in the postwar era. There was no Marshall Plan for Japan, nor did East Asia have the same immediate potential as a dynamic trade area in which intra-regional trade could curtail outflows of dollars and serve as an engine of economic growth. Complicating things was Japan's extreme dependence on imports for food and key industrial inputs: virtually 100% import-dependent for aluminum, nickel, uranium ore and crude oil, and well over 60% for iron ores, copper and coal (Blumental, 1972). The solution for Japan's dollar gap was military spending. Perhaps to an even greater extent than Germany, Japan's balance of payments constraint in the early postwar period was alleviated by American spending during the Korean and Vietnam wars. Unlike Germany, Japan ran trade deficits throughout the 1950s and 1960s, compensated by economic aid and military orders for Japanese clothing, electronic equipment and transport vehicles. “American military orders…played a critical role in supplying the dollars, demand, technology, and market for the modernization of [Japan’s] industrial base” (Schaller, 1985, p. 296).

As they had responded to Europe’s dollar shortage in the late 1940s and early 1950s, US officials in the 1950s and 1960 recommended an export drive and economic austerity to eliminate the country’s trade deficits. Japan adopted this strategy successfully, becoming a chronic surplus trading nation by 1970. After the first oil shock of 1973, the importance of Japan’s export sector, not only as a source of foreign exchange but as an engine of economic growth, increased dramatically.

The sharp rise in world commodity prices in the 1970s forced Japanese planners to focus on exports as a driver of macroeconomic growth. “In the post-miracle period”, wrote Hollerman (1979), “the nature of both recession and recovery has changed”. “There has been argument about whether or not in the past Japan's historical growth was export-led…[t]here can be no argument…about the fact that recovery from the recent and still-prevailing recession in Japan depends upon exports.”

Both West Germany and Japan were integrated into the postwar system as high-growth economies politically and militarily subordinate to the US. Both economies also featured important and, especially in the West German case, politically-powerful export sectors, a reflection of their need to adjust to a dollar-dominated world trade and financial system. As we will see below, these characteristics contributed to the failure of America’s brief attempt to coordinate Keynesian macroeconomic policies in the late 1970s.

3. European “Neutrality” and the Postwar Capitalist System

To analyze the evolution of US economic and foreign policies between 1945 and 1970, we must go back to the early postwar period. As noted, the dollar gap was a major concern. Many US policymakers shared Dean Acheson’s (Secretary of State under Truman from 1949 to 1953) fears that American capitalism would not survive a permanent reduction in European demand for US products. With the Marshall Plan set to expire in 1952, Acheson warned Truman in 1950 that if the Marshall Plan was not replaced with some other grant or loan program, US exports and eventually output and employment would fall dramatically. “This is the problem of the ‘dollar gap’ in world trade”, said Acheson. “It is of such importance…that I believe the whole machinery of government must be brought into play if we are to achieve success.”

The Soviet Union posed serious problems for plans to integrate Western Europe into a US-dominated world system. Russia was, and remains, a natural trading partner for Germany and other European economies. Like the US, the USSR produced the raw materials and foodstuffs Europe needed desperately during the early years of its recovery. Unlike the US, the Soviets had a greater need for the technical capacity and manufactured goods the Europeans would soon be capable of supplying. Given the Soviet preference for barter arrangements, Europe would not have to depend on “artificial” schemes like the Marshall Plan to do business with the Russians. The Soviet official Molotov made this point after it had become clear that the Marshall Plan, which US officials originally considered extending to the Soviet Union itself, was going to be used to isolate the USSR from Western Europe: “Through bilateral agreements with the Soviet Union”, Molotov said, “any European country can obtain what it needs without recourse to American dollar loans…the U.S.S.R. clearly shows the way in which Europe can find a way out of its difficult economic situation.”

European planners were well aware of the “complementarities” between the Soviet and Western European economies, and insisted that the Americans allow them to trade to a limited extent with the USSR. US officials conceded, but their basic position remained that a strengthening of economic ties between Germany, Italy or France and the Soviet bloc would damage the US economy and undermine American hegemony.

The threat of Soviet-Western European integration explains why US planners were obsessed with blocking the rise of a “neutral” Europe, “neutrality” meaning economic and political cooperation with the Soviet Union. “Unlike the Soviet military threat”, Sanders (1983) explains, “the threat of an independent Europe was a very real possibility in 1950. Throughout Western Europe, neutralist sentiment influenced the parties of both the left and the right”.

The fear of “neutrality” was greatest with regard to Germany. An influential Brookings Institute report affirmed in 1945 that any power controlling the European and Eurasian land masses would eventually become stronger than the US. “In all the world only Soviet Russia and the ex-enemy powers are capable of forming nuclei around which an anti-American coalition could form…" (Leffler, 1992). Blocking economic and political integration between Germany and the Soviet Union, thus, was crucial to preserve US supremacy, and it was for this reason that US officials repeatedly rejected Soviet proposals in the early 1950s to unify Germany on the basis of free elections. Puzzled by America's dismissal of these Soviet initiatives as "bluffs", James Warburg, top New York bank executive and former financial advisor to President Roosevelt, suggested that "our Government is afraid to call the bluff for fear that it may not be a bluff at all. In other words, our Government appears to be afraid to achieve its own avowed aim of establishing a free, neutral, democratic, and demilitarized Germany…" (Warburg, 1953).

Political resistance to a continuation of aid programs to close the dollar gap, led by protectionist, non-exporting sectors of the US economy, was overcome in the early 1950s through a militarization of the Marshall Plan orchestrated by Acheson and other strategists and corporate executives such as W. Averell Harriman, Robert Lovett, Henry Stimson and Paul Nitze. Acheson and Nitze, both Eastern elites with Wall Street backgrounds, were instrumental in the formation of the original Committee on the Present Danger (CPD) in 1950, a think-tank and lobbying group responsible for introducing military Keynesianism and Cold War ideology into American policy circles. Sanders (1983) uses the terms "containment militarism" to describe the CPD's vision, based on what was then the relatively novel idea that the Soviet Union posed a grave threat to America requiring a massive increase in US military expenditure.

The CPD was not a right-wing fringe group, nor did it merely reflect the interests of America's "military-industrial complex". Men like Acheson and Nitze, as well as prominent officials and CPD members like Lovett and John McCloy, were East Coast elites and representatives of broad corporate interests, very much like the men who would later form the Trilateral Commission. Indeed, Acheson was a firm internationalist and liberal Democrat, and was even accused by Senator McCarthy of protecting communists in the State Department.

By 1952, the CPD program had become official US policy, mainly through Acheson and Nitze's work at the State Department and as a result of the outbreak of the Korean War. The Economic Cooperation Administration (ECA), the government agency in charge of distributing Marshall Plan funds, was replaced with an enhanced, militarized version called the Mutual Security

Agency (MSA). By 1953, the State Department had settled on the policy of permanently stationing troops in Europe, with West Germany functioning as a US military headquarters in the region.

Faith in the benefits of military Keynesianism became widespread in the American business community, even in the budget-conscious financial sector, as indicated by Lovett and McCloy's membership in the CPD and their active participation in White House administrations in the 1950s and 1960s. "Emissaries from the financial establishment such as Lovett and McCloy had since 1950 pledged corporate allegiance to military Keynesian formulas." (Sanders, p. 137).

4. US Economic Decline and the Fragmentation of the "Containment Militarist" Block

Growing inter-capitalist rivalry between the US, Western Europe and Japan, along with the difficulties encountered in imposing American hegemony in Vietnam, cracked the unity of the elite coalition in America organized around the concept of "containment militarism". By the late 1960s, the reduction in the US share of world manufacturing exports, combined with high levels of military expenditure and foreign investment, had created serious balance of payments concerns. In 1968, a balance of payments constraint was imposed on US fiscal and monetary policy, forcing officials to weigh the benefits of sending more troops to Vietnam against the effects of increased military spending on the value of the dollar.

A substantial part of the American elite came to the conclusion that the war was making America's economic problems worse. In 1968, Acheson, Harriman, Lovett, and McCloy, who had all played crucial roles in shaping the policy of "containment militarism" in the early 1950s, formed an advisory group known as the "Wise Men" to convince President Johnson that troop escalation in Vietnam "would not be acceptable to a large and influential segment of the American public" (cited in Sanders, 1983, p. 140). A group of American bankers reinforced this opinion in a secret meeting with Johnson in 1968, telling the President that troop escalation and increased military expenditures "could quickly lead to renewed speculation, the downfall of the dollar, and a vast international crisis" (Sanders, p. 139).

Heeding the advice, Johnson fired his Secretary of Defense and other members of his top staff and replaced them with men such as Clark Clifford (Secretary of Defense) and Paul Warnke (Assistant Secretary of Defense for International Security Affairs), both of whom, like the Wise

Men, recognized that “containment militarism” in Vietnam was no longer serving America’s economic and political objectives.

The Nixon Administration took office in 1969 and undertook a series of measures to restore American economic competitiveness relative to Western Europe and Japan. Some of these clearly reflected the changes in elite thinking mentioned above. Nixon substantially reduced military spending in every year up to his resignation in 1974. He also initiated “*deténte*”, designed to increase American exports and overseas investment opportunities by establishing friendlier relations with the Soviet Union. As Ferguson and Rogers[§] note, *deténte* reflected “the relative decline of the United States as a major profit center”, and corporate America’s desire to open up lower cost areas of the world to direct investment and secure export markets for agricultural goods and capital equipment. *Deténte* seemed to offer unique advantages: it would reduce military expenditures, thus reducing pressure on the balance of payments and speculation against the dollar. At the same time, it would allow IBM, Control Data, Pepsi-Cola, Caterpillar Tractor, Chase Manhattan Bank, and many other corporations to exploit opportunities in a large, politically stable economy.

With the exception of *deténte*, Nixon’s economic policies damaged West European and Japanese interests. Nixon destroyed the fixed exchange rate system in August 1971 by announcing that the Federal Reserve would no longer exchange dollars for gold. This led to sharp dollar devaluation, which was precisely Nixon’s intent, because the devaluation led to a sharp increase in US exports. Dollar devaluation eliminated the US current account deficit by 1973. By 1975, US manufacturing exports as a share of world exports had recovered to around 20%, only slight below its 1970 level.

Though unsettling multinational business leaders and destabilizing the Western European economies, Nixon’s removal of the “gold constraint” restored US monetary policy autonomy. Nixon cut interest rates dramatically in 1971 and 1972, raising GDP growth to 5.5 - 6% and reversing a two-decade old pattern in which the European economies had registered consistently higher growth rates than the US.

[§] “The Empire Strikes Back”, *The Nation*, November 1980

Dismantling Bretton Woods was a key part of Nixon's "New Economic Policy" (NEP), which included wage and price controls and a 10% temporary surcharge on all dutiable imports. As Ferguson and Rogers observe, Nixon's NEP satisfied no one: textile and steel interests were angry with Nixon for not making the surcharge permanent, while multinational businesses worried that the blatant attempt to force West Germany and Japan to revalue their currencies would lead to reprisals.

The Trilateral Commission was a direct response to Nixon's NEP, and was part of major multinational business campaign "to increase international coordination of economic policies and shore up domestic support for free trade and internationalism" (Ferguson and Rogers, p. 75). Sanders (1983) describes the Trilateral Commission's rise to preeminence in US politics in this manner: "With the interlocking transformations in East-West, North-South, and United States-Japanese-Western European relations threatening collapse of Pax Americana…Chase Manhattan Bank chairman David Rockefeller brought together Wall Street investment bankers, multinational corporate directors, and members of the foreign policy establishment…to develop a blueprint for a new world order" (p. 175). Corporate America backed Carter because they were afraid a unilateral approach, such as the one adopted by Nixon in 1971, would lead to a "balkanization of the capitalist alliance", seriously damaging America's transnational interests (p. 174).

The American Trilateralists had much in common with the Wise Men and, interestingly, the men who had formed the CPD in 1950, particularly in terms of their ties to multinational finance and industry. The Commission's founder, David Rockefeller, like McCloy before him, was chairman of both Chase Manhattan Bank and the Council on Foreign Relations. The crucial difference was that the international scenario had changed, and men like Rockefeller now believed military Keynesianism and Cold War ideology were no longer serving their interests.

Responding to this pressure, Nixon held multilateral negotiations on exchange rates culminating in the Smithsonian Agreement of December 1971, in which the other advanced economies agreed to revalue their currencies relative to the dollar. Nixon also eliminated the import surcharge, resisted protectionist legislation in Congress and promoted the Tokyo Round of trade liberalization talks.

Higher interest rates at the beginning of Nixon's second term, combined with the oil price hikes, induced recession in 1974 and 1975. Though lasting only two years, the recession, together with the trade deficits and the persistent worries concerning the dollar's role in the international financial system, created a climate of crisis in the US. Multinational business, labor unions and most of liberal America rallied around the Carter Administration to provide a solution.

5. The Brief Reign of Trilateralism

Carter was elected President in late 1976, and his policy staff was dominated by Trilateral Commission members generally supportive of *deténte*. Carter was in fact a founding member of the Commission, having been personally invited to join in 1973 by Rockefeller. As Hossein-Zadeh (2006) notes, however, not everyone supported *deténte* or the Commission's proposals, and other business leaders formed their own pressure groups and think-tanks. Democrats and Republicans in favor of increased military expenditures and against *deténte* relaunched the Committee on the Present Danger in 1976. Sanders notes that prominent Democrats, such as Eugene Rostow and John P. Roche, played a major role in founding "CPD-2". David Packard, former Deputy Secretary of Defense and board chairman of Hewlett-Packard, provided the key start-up cash for the organization.

There are interesting parallels between the CPD-2 and the elite coalition opposing European "neutrality" in the 1950s. CPD-2 members brought words like "non-alignment" and "neutrality" back into discourse, pointing to the risks of "losing" Europe and Asia if the Cold War ended. A report issued by Democratic CPD-2 members warned that, because of the foolish *deténte* policy, Europeans no longer feared Soviet "aggression": "There is considerable feeling particularly in Europe, that the risks are not great [of Soviet aggression against Europe]". CPD-2 director James Schlesinger argued in 1975 that if "other nations" lose faith in the US capacity to "modernize" its military and deter Soviet aggression, they will be forced to accommodate the Soviets, resulting in a change in "political frontiers".

CPD-2 intellectuals, however, were somewhat marginalized by Carter's election. Though he steadily increased military expenditures, Carter's foreign economic policy reflected a policy of inter-capitalist "managerialism", a term Falk (1976) used to distinguish the Trilateralists from two other elite foreign policy groups in the US at the time: the "Imperialists" and the

“Isolationists”. The Isolationists were not interested in foreign policy, and favored the unilateralist economic policies of Nixon’s NEP. The “Imperialists” were represented by the CPD.

Carter cut interest rates in 1977 and presided over rapid output growth of around 5 – 5.5% in his first two years in office, over twice Western Europe’s growth rate. The discrepancy between US and Western European macroeconomic policy led to sharp growth in the trade deficit, which dollar devaluation had previously kept under control. Speculative pressures against the dollar mounted and inflation rose to roughly 8% in 1978.

Elite opinion offered two basic solutions to these problems: one was a combination of the “Imperialist” and “Isolationist” approaches. According to this view, America should increase military spending dramatically, limit imports through protectionist measures, and ignore whatever problems Western Europe and Japan might be having as a result of the oil spike and dollar devaluation. This logic was simply that, as Nixon Treasury Secretary and future Texas governor John Connaly put it, America “had a problem and we’re sharing it with the world, just like we shared our prosperity” before.

The other option, which Carter adopted in its essentials, was the Trilateral approach. As Helleiner (1994) noted, “Carter’s advisers favored a cooperative, managerial approach to the handling of the world’s economic problems, in contrast to [Nixon’s] more aggressive foreign economic policy…of the early 1970s” (p. 131). Inflation and the future of the dollar as the international reserve currency were the American banks’ biggest concerns. Accordingly, Carter increased interest rates in 1978, announced wage-price controls, and passed a regressive capital-gains tax cut to compensate for prior real wage increases.

In July 1978, at the G7 Summit in Bonn, Germany, Carter proposed the famous “locomotives” strategy, the cornerstone of the Trilateral Commission’s foreign economic policy. The idea behind the approach was to convince West Germany, Japan and, to a lesser extent, Britain, to implement expansionary fiscal and monetary policies, which would increase American exports, reduce the trade deficit (alleviating pressure on the dollar) and allow the US economy to avoid the deflationary consequences of the interest rate hike. It was, in essence, a plan for getting Germany and Japan to relieve the US of its balance of payments constraint.

It also reflected a logic very similar to what Keynes had proposed at Bretton Woods 35 years earlier: that surplus countries share responsibility for correcting trade imbalances so as not to impose the burden of adjustment on deficit countries alone. At the time the US was the world's largest surplus nation, and had no interest in the proposal; now, a debtor nation, it was trying to revive it.

As a reward for helping restore US policy autonomy, Carter offered greater roles for the yen and mark in world affairs. In November 1978, the US Treasury issued $6 billion in bonds denominated in West German marks, yen and swiss francs. The bond issue was needed because, when the US demonetized gold in the mid-1970s, the Federal Reserve was left with almost no foreign reserves with which to defend the dollar in currency markets. After the collapse of Bretton Woods in 1971, the US had implemented a policy of "benign neglect" with regard to the dollar; that is, it ignored the destabilizing effects of floating exchange rates on the European and Japanese economies because it wanted the dollar to devalue. This unilateral approach had reached its limit in 1978, leading Carter and the Trilateralists to conclude that the world financial system could not operate on the basis of the dollar alone.

The Carter proposal of "shared hegemony", attempting to outsource the role of engine of world growth and distribute more broadly the benefits of issuing a reserve currency, did not appeal to the Europeans and the Japanese. Britain, knowing from the sterling's collapse in 1972 the consequences of expanding in a context of commodity prices spikes and reduced world economic growth, refused to go along with the plan. West Germany and Japan accepted the idea in principle but did not come close to implementing it to the extent the US needed to eliminate pressure on the dollar. West Germany and Japan added roughly a percentage point to their GDP growth rates in 1978 and 1979 relative to 1977, but basically ignored the locomotive strategy. West Germany "paid lip service to American pressures", preferring to "stick to its established deflationary management" in order to eliminate inflation and generate a current account surplus. Japan and the smaller surplus countries simply "waited and watched" (Parboni, 1988).

Glyn (1990) claims the extent to which West Germany and Japan implemented the locomotive plan is "controversial". This suggests international Keynesianism in the late 1970s was attempted and did not work, and leads to the logical conclusion that the demise of postwar "Keynesianism" was inevitable. This is misleading: as the fiscal policies of the Roosevelt Administration in the early-to-mid-1930s proved, Keynesian policies will not work if they are implemented halfway, or adopted halfheartedly for several months or a year and then abandoned. West Germany and Japan's hesitant, "lip service" acceptance of the locomotive plan was equivalent to rejection of the plan.

In retrospect, the German and Japanese reaction was unsurprising. The manner in which these economies were rebuilt after WWII, combined with the extremely destabilizing effects of dollar devaluation and oil shocks in the 1970s, guaranteed that these countries would not respond favorably to the locomotive strategy. West Germany's postwar industrial growth, and to some extent that of Western Europe as a whole, was based on the strength of its export sector, closely allied with its banks. This created a situation in which the most powerful sectors of the German economy were not simply unaccustomed but hostile to the idea of West Germany as protagonist of an international Keynesian growth regime.

These tendencies did not weaken, as one might expect, with the appreciation of the German mark. Mark appreciation, and the oil price increases, reinforced business demands for tight monetary and budget policies. West German industry had reacted to the end of the fixed exchange rate system by focusing on maintaining German export competitiveness in high-technology sectors, using its financial strength to open up markets in high-growth peripheral countries such as Brazil and transfer less advanced industries to other countries through foreign investment.

Minimizing inflation was key to this strategy. As Parboni (1981) observed, "the entire strategy of the technological advance of German production and trade requires absolute control over price dynamics" (p. 136). A process of "reflation", which the American Trilateralists were proposing, would put the German strategy at risk, and, Parboni adds, lead to further demands for wage increases, which German industrialists and banks were unwilling to concede. This could trigger "an inflation of costs similar to that which as occurred in other countries", notably Italy, where distributive conflict in the 1970s had forced officials to devaluate repeatedly to avoid real exchange rate appreciation (Parboni, p. 137).

Japan's reasons for rejecting "locomotive" theory were aggravated by its extreme dependence on imported food and raw materials, which accounted for 80% of total imports in the late 1970s.

Given that Japan does not issue an international reserve currency, and amidst a sharply appreciating yen and skyrocketing commodity prices, it is not difficult to see why the locomotive plan appeared risky to the Japanese.

Hollerman (1979) defended Japan against claims in the US that it was being "stubborn" by not adopting the Trilateral Commission's proposals. The US, he noted, has a "vastly more stable and self-sufficient" economy, which allows it to rely on short-term policies such as fiscal stimulus or monetary policy to maintain profits, output and employment at reasonable levels. "This is a luxury Japan cannot afford", noted Hollerman, a remark that in fact applied to all countries except the US, which was in the unique position, afforded by its greater resource supply and the dollar's role as a reserve currency, of believing it could, with a little help from its friends, ignore the effect of its economic policies on the balance of payments.

Thus, it would be wrong to conclude that the chances for an international Keynesian solution to the economic crisis of the late 1970s fell victim to German or Japanese orthodoxy or timidity. As powerful as the West German and Japanese economies had become, their economic and political systems were, to some extent, creations of US postwar planning, and American officials had not created, or even supported the creation of, mechanisms that would allow these countries to act as engines of world capitalist growth. US officials ensured at Bretton Woods that international Keynesianism, as envisioned by the "locomotive" plan, would not be a part of the structure of the postwar economy. International Keynesianism, it is worth emphasizing, was what Keynes had proposed, and this proposal, based on the creation of a truly international currency (bancor) and on "shared responsibility" for controlling capital flows and correcting current account imbalances, was rejected by the American delegates. In hindsight, it becomes clear that US officials adopted the approach only when they realized in the late 1970s it was in their own interest to do so; but the window of opportunity had long since passed.

The situation the US faced in the late 1970s was the situation it had created in the 1940s and 1950s with the Marshall Plan and, more generally, with its effort to lure Western Europe and Japan into a dollar-dominated capitalist world order. If thirty years of postwar economic development made it unlikely that West Germany and Japan would suddenly adjust to new roles as "locomotives", dollar devaluation and the oil shocks made the transition impossible. These two factors undoubtedly contributed to fears in these two countries of a fate similar to that of

Britain in 1972, or that which France met in 1983 after attempting to implement a major demand stimulus program on its own. Expansionary French fiscal policy after 1981, in a context of global recession, led to a rapid decline in foreign reserves. French Treasury secretary Michel Camdessus warned in 1983 that these reserves would last “several days, not weeks” if speculation against the franc intensified. France was forced to terminate the stimulus plan and impose austerity in exchange for a European Community loan. As Helleiner (1994) notes, this “marked the final collapse of the French government’s effort to pursue ‘Keynesianism in one country’” (p. 142).

The failure of the “locomotive” strategy led to intense speculation against the dollar in late 1978. Carter responded with a distinct “rightward shift”[**]. Carter accelerated monetary tightening and announced a reduction in the budget deficit for fiscal year 1979. While he cut social spending, he increased military spending by a substantial 5% in real terms. Nixon, recall, had consistently reduced military spending not only in real but nominal terms as well; Ford put a stop to this trend and Carter reversed it.

To restore speculators’ confidence in the dollar, Carter offered David Rockefeller the position of Federal Reserve Chairman in early 1979. Rockefeller declined, and so Carter appointed Paul Volcker, also a Trilateral Commission member and former vice-president of Chase Manhattan. Volcker oversaw a massive increase in interest rates, which destabilized the European economies once again (mainly by increasing inflation) and created debt crises for the countries who had borrowed recycled petrodollars from American banks throughout the 1970s. It also marked the beginning of a new era in American politics and, as Parboni (1981) observed, the end of America’s experiment with cooperative, non-military Keynesian solutions to its economic problems: “Looking back, the Carter years stand out as the only period when the US tried seriously to solve the problems of the American economy in a cooperative fashion.” If the locomotive plan had worked, “Fordism would have had another span of life”.

The militarist component of Carter’s right turn intensified dramatically after the Iranian Revolution in January 1979, which forced major losses on US banks, oil companies and weapons

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[**] This term comes from Brenner (2007).

suppliers. Chase Manhattan Bank, Morgan Stanley and other US banks had extensive dealings with the Shah. Rockefeller, in fact, played a crucial role in finding refuge for the Shah in the US after the Revolution, which then caused the hostage crisis at the US Embassy in Tehran. The banks were not the only ones to lose with the Shah's overthrow: in 1975, the US had signed an agreement to supply Iran with $26 billion worth of military equipment and nuclear power plants.

"Stunned by its real and prospective losses, the business community's demands for increased military spending were reaching a crescendo" in 1979, note Ferguson and Rogers (p. 110). The call for increased military spending and a more militarist foreign policy was not limited to representatives of the military-industrial complex, but became common among leading Trilateralists such as Rockefeller. The latter complained in 1980 that the US under Carter had been "too didactic with its friends and too weak and vacillating with its enemies" (Cumings, p. 218). Ferguson and Rogers described the American electoral climate in 1980 in the following manner: "Engulfed by a tidal wave of nationalist, militarist and anti-Soviet propaganda, an otherwise confused electorate can be sure of one thing in this campaign year. Whatever the outcome in November, a sweeping militarization of American life has already begun."

The anti-Soviet climate of the late 1970s had much to do with the economic failure of *deténte*. As noted, Nixon officials conceived of *deténte* largely as a way to open up markets in the USSR for US firms[††]. But protectionist interests in Congress in 1974 had refused to give the Soviet Union Most Favored Nation status, and as a result, French, Italian and then German firms, closer geographically and better at dealing with the peculiarities of the Soviet market, capitalized much more effectively on profit opportunities in Eastern Europe. The Soviet market for American bank loans, furthermore, proved much smaller than the American banks had imagined, and the Soviets preference for barter deals benefitted the Europeans.

Dissatisfaction with these results, combined with criticism from groups such as CPD-2 concerning Europe's drift toward "neutralism", buried *deténte*'s chances of success. By late 1978, the policy had basically been discarded. Nixon's negotiations with China had also done little to open markets for US companies in the 1970s, with Japan benefitting much more from the

[††] This is not to discount the importance of the US and world peace movement and general desire for relaxed tensions in the formulation of *deténte* policy.

US-led initiative than American corporations themselves. *Deténte* failed, thus, not because it was sabotaged by defense companies and Cold War hardliners, but because its perceived economic advantages turned out to be a mirage. As Ferguson and Rogers (1986) write: "Formidable as it was, domestic opposition to *deténte* would not have reversed the policy had some of its economic assumptions not been proven false."

The greater success of the Western Europeans in breaking into the Soviet market reveal that the CPD-2's critique of *deténte*'s effect on European "neutrality" was, though wildly exaggerated, not groundless: *deténte*, as Cumings (1981) notes, had a "corrosive effect" on US power, as the absence of the "Soviet threat" amidst greater inter-capitalist rivalry afforded "the Allies" more freedom "to maneuver and strike their own deals". Western Europe's "freedom to maneuver" was exactly what US postwar planners had worked to avoid in the early 1950s, and *deténte* was weakening this long-established policy.

Though this is not the place for an extended discussion, it is crucial to recall that it was Carter, and not Reagan, who definitively terminated *deténte* by escalating military expenditures and financing, via Pakistan, anti-Soviet Islamists in Afghanistan in 1979. The architect of American policy in Afghanistan, in fact, was Carter's National Security Adviser and Trilateral Commission director from 1973 to 1976, Zbigniew Brzezinski. Brzezinski admitted in 1998 that Carter "signed the first directive for secret aid to the opponents of the pro-Soviet regime in Kabul" in July 1979, six months before the Soviet invasion. On the day of the signing, Brzezinski bragged, "I wrote a note to the president in which I explained to him that in my opinion this aid was going to induce a Soviet military intervention"[‡‡].

As suggested above, one of the most interesting elements of the start of this new era was the mass defection of Trilateralists and other multinational business people from the policy of "global managerialism" to that of unilateral "imperialism". Reagan's initial supporters were CPD militarists and protectionist businesses, but by toning down his rhetoric against free trade, he attracted key Trilateralists to his campaign. Democratic candidates such as Edward Kennedy and above all Carter himself understood the shift in elite opinion and tried to maintain big business

[‡‡] *Le Nouvel Observateur*, Paris, January 15-21, 1998. Translation of the original French by William Blum (www.globalresearch.ca/).

support, but the Democrats' greater dependence on labor unions and liberal groups gave the Republicans, who courted both protectionist industries and transnational corporations, a decisive advantage.

Ferguson and Rogers (1981) note how dramatic the reversal of elite opinion towards Reagan was: "[O]ver the course of the campaign Reagan moved gradually to the center of American politics. At length he won support from many individuals whom his original core supporters excoriated, notably David Rockefeller and Henry Kissinger, traditional *bete noires* of the Far Right" (p. 41). In the last few months of 1980, Rockefeller was even visiting foreign countries to promote Reagan's foreign policy goals. Cumings (1981) observes that Rockefeller eventually became an advisor to the Reagan presidency: Reagan "was so charmed" by Rockefeller's support "that he welcomed [him] into his circle of advisors…or was it David who welcomed him?"

George Bush was another Trilateralist turned militarist, and, after dropping out of the presidential race, became Reagan's vice-president. As noted, Henry Kissinger, a member of the Trilateral Commission's executive committee and long associated with *deténte*, also turned to supporting Reagan. Other Trilateralists supporting Reagan were Walter Wriston of Citibank and Caspar Weinberger and George Shultz, both top executives at Bechtel Corporation. Shultz became Reagan's Secretary of State. "In the general election, Reagan continued his dramatic tilt toward the multinational wing of the [Republican] party, drawing many former Carter and Anderson [an Independent candidate] supporters into his campaign" (p. 51). Ferguson and Rogers add that, among the banks, support for Carter remained strong in 1980 only among those who did not have major business interests in the Middle East (p. 52).

Perhaps no figure illustrates with more clarity the corporate elite's widespread rejection of Trilateralism than the vast discrepancy between independent financial contributions to Reagan and Carter's campaign in 1980. While Reagan received $10.6 million in "independent" contributions (those not subject to legal contribution or spending limits), Carter received $27,773, or 382 times less than the Republican candidate[§§].

[§§] Information published in New York Times, Nov. 29, 1981. See Ferguson and Rogers (1986).

6. Conclusion

Though crucial to understanding the “rightward shift” in American politics, internal class conflict alone cannot explain the rejection of world demand-management policies in the late 1970s and early 1980s. Rigidities in the postwar capitalist system, particularly the role of exports in West German and Japanese economic growth, the lack of a truly international currency and, more generally, the lack of institutional mechanisms to assure the viability of coordinated, international Keynesianism, helped bury American capitalism’s brief experiment with a cooperative, international approach to economic policy.

International political and economic factors also played an important role in America’s increasingly aggressive militarism. Unlike the Trilateralist locomotive strategy, *deténte* was actually put to the test during the 1970s and failed, and it was largely for the reason that Carter and the Trilateralists abandoned the policy, escalating military expenditure and initiating the proxy war against the Soviets in Afghanistan.

These remarks allow for conclusions of a more general nature. While capitalism is a domestic system of capital versus labor, it is also an international system marked by competing business groups who use national states to promote their interests. Notwithstanding the efforts of Rockefeller and the Trilateral Commission, capitalists do not act as a class internationally, and the fate of both *deténte* and macroeconomic coordination reveal a fundamental problem with cooperative internationalism in a world economy marked by inter-capitalist rivalry. Big business in America supported *deténte* until they realized that the beneficiaries of this policy were the Europeans. International rivalry guaranteed that once French and German firms broke in more successfully into Soviet markets, the issue of European “neutrality” would again surface. “Neutrality”, as noted above, was not simply a myth invented by ideologues in the 1970s to revive Cold War hostilities (though, as Hossein-Zadeh shows, we should not underestimate the influence of this myth or the power of the military-industrial complex in reviving it), but reflected concrete geopolitical concerns dating back to the early postwar era. This concern was shared by liberal Democrats and conservative Republicans alike in the 1950s, and it influenced the thinking of important Trilateralists like Brzezinski and Kissinger later on.

Almost every aspect of US foreign eeconomic policy in the 1970s—*deténte*, dollar devaluation, its implicit support for the oil price hikes, its refusal to support the creation of international facilities to transfer petrodollars to oil-importing countries—reflected the state's attempt to benefit American capitalism and restore US competitiveness and hegemony relative to Western Europe and Japan. It would be misleading, however, to depict this "state" as representative of a monolithic capitalist bloc. As Hossein-Zadeh (2006) demonstrates, throughout the 1970s competing elite factions were pushing different agendas on the federal government. The end result of this struggle was not so much the victory of one of these groups over another, but a convergence of interests among these factions around several key issues: militarism, unilateral monetary policies, regressive tax policies, the weakening of labor rights laws, among others. We have argued in this essay that a central aspect of this convergence was the failure of international capitalist coordination, which convinced the multinational faction of the American business elite that the "trilateral" approach would not achieve their goal of restoring profit rates and maintaining its dominant position in the world economy. The unilateral course emerged as the next best option.

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