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Postwar International Regimes

Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past.

(Karl Marx [1852] 1963:15)

My objective in this chapter is to describe the significant changes which have characterized the international economy over the postwar period. Obviously, these changes are multifarious, and can include technological, economic and institutional factors.¹ To incorporate these diffuse factors, I have created a chronological map of particular ‘regimes’.² It is my argument that these regimes affect the possibilities and constraints which small OPEN states face when choosing their domestic policy instruments. In particular, I am interested in the way in which international economic regimes affect a nation’s current and capital account.

Small OPEN states feel the constraints of the international economy along three ‘fronts’, or points of tangency, to the world. These points of tangency represent the portals through which international ideas, institutions and power influence domestic policy-making. These points of tangency include: (i) the mobility of goods/services and the international agreements that support them; (ii) the mobility of capital, and the international agreements that support it; and (iii) the mobility of labor and the international agreements that support it. It is through these specific portals that international forces affect domestic economic policy.

Obviously, all three areas are not of equal importance at all times. The third point of tangency, labor mobility, has not been a significant point of tangency during the period under consideration, but was earlier (in the late 1800s, for example), and may become so again. That
does not mean that it is unimportant: governments have consciously and explicitly decided not to allow free labor mobility, and this decision allows states a degree of control over domestic labor and social policy that might otherwise be challenged. As states have decided against liberalizing this important channel of influence, it will not be addressed in this chapter. Instead, I will focus on the remaining two points of tangency. Conveniently, these points touch the current and capital accounts of nations.

International movements in all three areas are intricately intertwined with one another so it is only for reasons of analytical clarity that I have divided this chapter into two component parts, one for trade in goods, the other for financial exchanges. Obviously, the two are closely related, and the trade in tangible goods and services can be diverted and/or discouraged because of a lack of access to foreign financial exchange. Indeed, this was the main problem of the interwar period; a problem which haunted policy-makers in the immediate post-World War II era.

In contrast to developments before World War I, the international economy of the interwar period was very unstable. In response to political and economic uncertainties, states placed a growing number of constraints on the movement of goods, people and capital. After 1929, intra-European trade was increasingly inhibited by non-tariff barriers to trade, most commonly import quotas. Trade patterns came to be dominated by bilateral arrangements. Although there were various attempts to recreate a multilateral framework for international trade and payments (one similar to the prewar framework) none of them were successful.

There are probably several reasons for this failure. One was the new, democratic constraint on policy-makers. Another is the fact that the pre-World War I order depended on a multilateral system of trade and payments which was based on a rigidly fixed exchange rate system (where national currencies were readily convertible to one another on the basis of their gold value). After a brief, albeit painful, return to the gold standard in the mid-1920s, the major European currencies began to fluctuate against one another. These fluctuations undermined the foreign accounts of several countries, forcing a number of them to control and supervise their international transactions more carefully. In particular, a network of bilateral agreements were specifically designed and implemented to balance each country’s foreign account. These agreements were so prevalent that as much as a third of Europe’s foreign trade (about four-fifths of Germany’s!) was channeled through them (Milward, 1984, pp. 217–18).