Keynesian Economics and The Welfare State

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From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the fourth in the series "The Neo-Capitalist Assault" –a collection in development about Neoliberalism.

The author explains in detail the emergence of the new Keynesian economic paradigm as a consequence of the experience of the Great War and the Great Depression and the results obtained through government intervention during the New Deal. The goal here is to show how the post-war era, with the government in the driver's seat of the economy, provided the greatest period of progress in the welfare of both rich and poor nations, in spite of the very powerful interests that continuously moved in the opposite direction. The essay opens by stating that the war economy pulled the capitalist world out of depression.

Summary

The immediate development of World War II on the economies of the belligerent nations was the effective end of the years of depression. Because of the need to maintain the supply of the military resources required to sustain their war fronts, all the warring nations put their production infrastructure to use. They switched to an economy of war. All their idle production capacity went into full use, with labour going into full employment. There were some differences, though, between the various nations, in the degree in which the resources were devoted to the war effort and were limited for regular non-war consumption.

War Economics

In the U.S., in contrast to the situation in Europe, production of goods and services almost doubled between 1939 and 1944. There were limitations in the availability of products, such as textiles, tires and automobiles, made by companies by then almost totally devoted to the production of military equipment, but, aside from that, civilian consumption increased 16% during the period. As previously mentioned, in the U.S. there was much slack capacity not used before the war, and, thus, the capacity devoted to civilian consumption was not as affected as in other countries, when production was geared to supply the war's implements. Inflation was kept at bay through a strict price control policy. Monetary policy, by fixing the discount rate at a nominal 1%, was used to expand production and keep the entire cost of the war low; in fact, much lower than during the Great War. Thus, the cost of the war was primarily financed by taxation and government bonds, which, in line with monetary policy, paid a low rate, reflecting the discount rate.[1]

Since the formerly unemployed were now at work, the increase in aggregate demand concentrated on that segment, but, since there were price controls and there was no, or limited availability of many products –there was a comprehensive system of rationing– savings increased dramatically from 4.1% to 16.7% during 1939-1945. Such economic management, having learned from the experience of the Great War not to commit the same mistakes by effectively intervening at both macro and microeconomic levels, put the country, sometimes unintentionally in a starkly different situation after the war, from the previous post-war period. This time no *laissez faire* vision was considered. Government intervention was needed to sustain the nation during the period, with the sight put on its aftermath.[2]

In Great Britain, in contrast, things were significantly different. First, the scene of the war. Apart from the war in the Pacific, war was being waged, predominantly, in both continental Europe and England. Thus, for the most part, consumption was severely rationed, taxes were substantially raised and price controls were put in place. And, as in the U.S., the economy also entered into a state of full employment and full production capacity. Britain had entered the war with substantial slack capacity as well, an advantage, which became decisive in the outcome of the war.

Germany, instead, had ended its depression period in 1936, when Hitler put all resources and infrastructure to work in public works, public industry and armament. Thus, as noted earlier, Germany entered the war already at full capacity, with no production or manpower reserves to endure the conflict, should it prolong itself for several years, as it did.

In France, the story was different. Prior to the war, the Leon Blum's socialist coalition government (1936-1938) was very unstable due to the attacks of the right and the constant infighting of the factions that formed the coalition. However, although the government implemented a wide range of social and economic reforms, providing substantial concessions to labour, sometimes more popular than effective, it collapsed. As a result of such instability, France was ill prepared for the war and entered it disorganized and in much confusion.[3] Then, the Nazi blitzkrieg occupied the country in 1940 and imposed the collaborationist Vichy government of Marshall Petain, whilst the resistance government tried to maintain the former in check. The economy, therefore, remained sequestered in partial idleness until the defeat of Germany, with the country spending almost the entire war under Nazi command and *La Resistance* awaiting the opportunity for victory.

Of all the European countries involved in the War that belong today to the G7 group of most advanced nations, Italy was the least developed at the brink of World War II. Part of this situation was due to the scarcity of resources, such as coal, which, in Britain, France and Germany, fuelled the Industrial Revolution, but the other factor was the very unstable political situation and the infighting between the regions. Except for the northwestern region, much of Italy was still, predominantly, an agrarian society of big landowners and peasants and a rising socialist movement. Then, Mussolini's disastrous career as a dictator forced him to retreat to the north under German protection. Subsequently, after Italy surrendered to the allied forces in 1943, it spent the rest of the war resisting the Nazis and Mussolini until their defeat. So, Italy, too, as in the case of France, had no war economy to manage; at least not the sort of wartime economies of Britain and the U.S.

Since the end of the XIX century, Japan embarked on a militaristic era. It came out victorious in the Sino-Japanese war of 1894-1895, securing control of Korea. It defeated Russia in the 1904-1905 war, securing more territory. Then it participated in the Great War on the side of the allies, taking some of the German possessions in East Asia. During the world depression, Japan had also suffered greatly up to 1932. Then it embarked, again dominated by the military, on another aggression against China, effectively controlling Manchuria in 1932. Another clash against China in 1937 led to the control of East China by 1940, up to the brink of World War II. In reality, in great part because of its militaristic spree, Japan had not suffered much since the Great War, except for the period of 1930-1932, as a result of the Great Depression. Throughout the century, extreme right military leaders had dominated it. Thus, with the invasion of Manchuria in 1932, which enhanced its continuous conflict with China, Japan was able to end the recession by 1936, but here, too, the government was instrumental in the recovery of the economy. The government intervened directly supporting the economy with unorthodox policies. It spent heavily on military production; devalued the Yen, making its exports very competitive; and, with the traditional cosy association between government and the big business' conglomerates, –the *Zaibatsu*– it embarked on heavy industrial investment in a wide variety of areas. All these measures, and the need to maintain the war apparatus after 1941, maintained a full-blown economy in full force until Japan's defeat. Then, the reconstruction would take more time to complete. For, according to Galbraith, who went officially to inspect the aftermath, the damage inflicted by the air attacks –not including the atomic bombs– was crueller and more devastating than anything suffered by Germany.[4]

Keynesian Economics. Thirty Years of Reconstruction and Development. The United States and its World Hegemony

With the end of the war, the United States emerged as the unrivalled leader of Capitalism. It had become the biggest economy, and it was in an enviable position to increase its economic and military power. In contrast with its allies, and, of course, with Germany and Japan, it suffered no destruction in its territory, and, also in much contrast with the Great War, the state of the economy was poised for a powerful growth. Roosevelt had learned from the experience of the previous war. Now, with the nation under full employment and full production, a swift shift of resources to the normal use given during peacetime conditions would leave the economy poised to explode. During the war, the level of savings reached an all time high. Thus, now that normal domestic consumption could be resumed, the economy began to grow at a very fast pace. The country was living a time of prosperity where tens of millions of people were joining in the wave of a new affluent middle class life style; they were joining into the so-called "American way of life."

In the international arena, the U.S. emerged as one of the two super-powers that would dominate the world's affairs for the rest of the century, and, consistent with its manifest destiny, it emerged as the new and now sole imperialist state of the capitalist world. It would be a new kind of colonialism, where the U.S. would seek to impose its polity, its culture and its economic ethos in its ever-expanding sphere of influence. It would seek to impose a hegemonic view of democracy and economics, which would selectively manipulate as it saw fit, in order to fulfil its geopolitical and economic interests.

Learning from the previous war as well, the U.S. sought this time to support and, actually, lead the reconstruction of the belligerent nations in a much more proactive fashion than previously undertaken. It began to act, even before the end of the war, to create the conditions for a prosperous post-war world economy. In 1943, it created the United Nations Recovery and Rehabilitation Administration to distribute food, clothing, seeds, cattle, machinery and medicines in the most devastated areas.[5] In spite of the difficulties of reaching an agreement with the U.S.S.R. over the borders of its area of influence in Eastern Europe and Germany, it promoted successfully the foundation of the U. N. in 1945; an organization in which the position of the U.S., half a century later, has radically changed. Moreover, even before that, in 1944, the Bretton Woods Institutions were given form.

The Keynesian Paradigm

With the Great Depression and, then, World War II, the classical paradigm was completely abandoned. It was now the belief that governments needed to play a role in regulating their economies and that the *laissez faire* paradigm could not operate with only an "invisible hand". A real hand needed to serve as a countervailing element to control its cycles and any speculative abuses.

However, not only the new nascent philosophy focused on the need for each nation to regulate its economy individually. It also saw the need to implement a structure that would establish an international financial regulatory framework and a bank that would support the reconstruction and development of the belligerent nations, as well as of the nations of the underdeveloped world. As a result, one year before the end of the war, forty-four nations got together in the resort town of Bretton Woods to set the international financial institutions that gave form to the new international financial structure on which I will expand later. The new paradigm known as the Keynesian Paradigm was taking form.

At this point in time, classical and neoclassical economics were considered a dead theory, when it became obvious, after thirty years of chaos, that the assumption that powerful market forces tend to ensure that the economy would stay close to full employment of its labour and capital resources, with none involuntarily idle, was completely unreal. The other directly related assumptions, Say's law, that production –supply– generates its own demand and the assumption that the economy would have a market under conditions of perfect competition were complete fallacies. They had never occurred and had been also rebuffed.

It was John Maynard Keynes who, through a critique of his mentor Alfred Marshall, whose work, a synthesis of classical and modern economic theory, was then dominant, put neoclassical economics under fire. After the Great War and the Great Depression, increasing criticism of neoclassical theory emerged from economists like Veblen and Galbraith among others. However, Keynes was the economist that took a complete theoretical and practical departure from the classic paradigm and succeeded in influencing the economic policies of many nations. He challenged the assumption of full employment of resources. He argued that the adequate level of wages and interests would not produce an allocation of all workers into employment and all capital into investment. He asserted that discretionary behaviours from the investors define their disposition to invest in productive ventures; and that these behaviours could be rooted in their perception of the market opportunities or simply rooted on personal reasons that had nothing to do with the economy. Capitalists, for whatever reason, may prefer to leave their money idle for an indefinite period of time, not in investment and not in consumption, but in savings, or, worse, they could use it for speculative investment. Therefore, a new equilibrium may occur at low levels of use of labour and capital: that is, at recessionary levels, representing not a temporary situation but, rather, a normal state. This reality makes the economy inherently unstable. Thus, Keynes, as Mariner Eccles had also expressed, the Chairman of the Federal Reserve under Roosevelt, proposed that the government must intervene through fiscal policy and public spending to generate the aggregate demand necessary to reverse the recessionary state, until private investment would resume and reach levels near full employment and production capacity. This way the economy would maintain a fair amount of stability. The government would act in compensation, as necessary, including direct support of the unemployed in order to maintain stability at a high level of supply and demand equilibrium.

To present his economic paradigm, Keynes had published in 1936 his most famous work: "The General Theory of Employment, Interest and Money". This paradigm encompassed both economic theory and policy, and, for more than thirty years, it would dominate the economic policies of most capitalist nations. In the United States, Keynesian economics was dominant even before the war, and continued with Roosevelt until the end of the Carter administration. Then, Milton Friedman, with his monetarist ethos, brought back neoclassical economics, which became the preferred view of the Reagan administration and thereafter.

Keynes break with the classical paradigm encompassed a rebuff of all previous assumptions. Summarizing his theoretical logic, it goes like this:

Supply cannot generate its own demand[6] because prices and wages are inflexible moving downward; this is because monopolies and unions tend to protect their positions. Moreover, workers are in illusion with money wages –nominal pay– instead of thinking in terms of real wages –purchasing power–; thus, since the wage-price function is inflexible, the economy could not self-adjust to the right price and cost of labour, and, therefore, full employment and full capacity could not be reinstated.[7] For this reason, an equilibrium level of income as a function of supply and demand may be reached at less than full employment, even much less, such as in the Great Depression. Then, relative to monetary policy, interest rates are not a reliable tool to manage flows of investment since many factors –some capricious psychological issues– affect the decision to invest, where to invest or leave the funds to idle in money balances. In here, there is the income-motive, the business-motive, the precautionary-motive and, the most important: the speculative-motive liquidity-preference function,[8] which considers that rather than spend in consumption or save as opposed to invest, there is the other possibility of the speculative demand of money to speculate in the bond market. Thus, monetary policy working through the interest rate cannot alone solve a state of unemployment or depression. Fiscal policy must then take a central role.

It is under this rationale that Keynes proposed that public investing, through taxation or public debt in the form of bonds, would need to be used as the central element in an entire program of discretionary policy. In fact Keynes proposed that governments must act as compensatory agents at all times to insure full employment by way of a broad program of discretionary fiscal policy, which checks and balances every aspect of the capitalist economy.

As to what to do in good times, Keynes proposed that, as tax revenues increased, public deficit should be reduced. In practice, this was more difficult to do and tended to generate inflation, as public spending, many times because of political interests, would increase the money stock, as I shall later discuss. In any case, in a democracy, governments are obliged, in principle, to provide conditions for full employment, and in Keynes economic philosophy, to this endeavour, direct support of the unemployed is necessary to maintain aggregate demand and establish a minimal platform for a Welfare State. This, of course, was something dreaded by the conservative forces because the government must intervene through taxation and other forms to control and regulate the excesses and contradictions of Capitalism.

The Birth of the Bretton Woods Institutions

By 1945, the vision that aggregate demand through public spending must be used to maintain full employment was well entrenched. According to Galbraith, it was in the United States where the staunchest supporters of Keynes paradigm were concentrated, in both academic circles and government. However, with the rise of U.S. supremacy, the path towards international financial cooperation would have to be, alas, the path that would secure U.S. imperial interests.

Nevertheless, because of the prevalence of his economical thought, Keynes played the most prominent role in the Bretton Woods, New Hampshire, conference in the summer of 1944. For that conference, he prepared an entire plan to establish an international financial framework that would protect the economies from falling again into the major imbalances of the twenty years of recession and great depression between the two wars. To this endeavour, Keynes prepared a plan in conjunction with William Henry Beveridge, another British economist who had developed a model of a Welfare State for capitalist economies. Unfortunately, as it could be expected, the outcome of the conference was substantially different from that envisioned by Keynes. The United States presided over the conference, and the original concept met substantial opposition from the U.S. representatives led by Samuel Morgenthau, Secretary of the Treasury at the time. Keynes was heading the British delegation and was in a difficult position to negotiate. On the one hand, he had his vision, which aimed to provide a stable international economic and financial system and a fair trade framework. However, Keynes had instructions to secure an agreement to cover British war expenses under the Lend-Lease scheme instead of the actual acquisition of war materials through debt, as happened during the Great War. Thus, he was forced to be acquiescent to the demands of the U.S. delegation. Notwithstanding these events, the outcome of the conference still contained a good portion of Keynes' plan, which many attribute to Keynes superb negotiating skills.

It is important to mention that, at the time of the conference in 1944, the creation of the United Nations system was in progress; and the financial institutions, now known as the Bretton Woods Institutions, where supposed to be under the umbrella of the UN system, functioning, of course, as specialized agencies.

As part of the growing world's social movement, which is trying to modify the present international financial architecture, a conference called "Rethinking Bretton Woods" was held in 1994 in

Washington, D.C., to explore proposals to revise the scope of the BW institutions –fifty years later– and achieve a more equitable, sustainable and democratic development. Twenty-seven countries and the BWIs attended the conference; and position papers from academicians and non-governmental organizations (NGOs) were discussed. In these documents, it is exposed that there were three scenarios of the BWIs: the scenario envisioned by Keynes, the actual outcome of the conference and the real praxis of the BWIs, away from the formal agreements of the 1944 conference.[9]

The first scenario was obviously the most ambitious and radical in scope, largely prepared by Keynes and Beveridge, but also with contributions from U.S. economists. The goal of this plan was to protect the capitalist world from the depressive conditions of the 1920s and 1930s, characterized by:[10]

- Mass unemployment
- The collapse of commodity prices
- Large competitive currency devaluations with protectionist beggar-thy-neighbour policies[11]
- Deflation
- Stock exchange crises due to abusive and unlawful speculation

The radical vision to avoid the above conditions was:[12]

- An economic paradigm for full employment, as previously explained
- A commodity price stabilization agreement
- A fixed but adjustable exchange rate system
- A world trade agreement
- A world currency based on thirty primary commodities including gold and oil, which would automatically stabilize itself
- A World Central Bank with the power to provide liquidity to balance-of-payment deficit countries and to tax 1% a month on balance-of-payment surpluses. The objective being to promote full employment, internationally, by seeking to approach foreign trade balanced accounts. Namely, that countries with surplus balances are not helping in promoting full employment abroad, while those that have trade balance deficits are. Thus, the tax revenue would stabilize the balance of payments of the deficit countries by providing automatic liquidity, while the surplus countries would pay a tax, as a deterrent to maintain surpluses, or an incentive to import more. The tax revenue, of course, would be the source for liquidity stabilization.

The agreement was pre-eminently an Anglo-Saxon vision. It was the synthesis of two years of bilateral negotiations between Britain and the U.S. However, as earlier noted, it came out to be significantly different from that envisioned by Keynes. There were significant improvements from the existing conditions, but, still, the United States rejected key elements of Keynes' plan. At the root of all was U.S. supremacy. There was a clear vested interest in the U.S., as could be expected, to come out with a dominant position which would bring significant economic and commercial advantages and would establish the "Pax Americana". There are, also, arguments that the position of the U.S. was also influenced by the fact that they had not physically suffered the ravages of war. They were not in the shoes of the Europeans and, thus, they did not feel the same urgency to reconstruct and recover. As to the specifics of the agreement, there is some speculation of why Morgenthau, the U.S. Treasury Secretary, and Harry Dexter White, the Treasury Under-Secretary, who had worked with Keynes in the preparation of the plan for the Conference, rejected the Keynes Plan. For the conference, the U.S. agenda was the White Plan; for which, one week after Pearl Harbor, Morgenthau had put White to work on an inter-allied currency stabilization fund. Nonetheless, the truth of the matter is that U.S. supremacy was at the centre of the disagreement. There was a clear struggle between the U.S. interest in controlling the international financial system and the interest of Keynes in having a world central bank that would serve as an independent countervailing vehicle to U.S. economic power. As James Boughton, the IMF's historian, reports, Keynes and Dexter White agreed in most issues, except as to the degree of power and of independence that the IMF would have. To Keynes the capitalist system required a central bank regulating the flow of aggregate credit and its distribution. To White the goal was to have an adjunct to U.S. economic power, through institutions that could promote a balanced growth of trade with the U.S. dollar used as the standard currency of use in the financial system.[13]

On top of the hegemonic interest of the U.S., there was its reluctance to carry the bulk of the weight in the quotas to capitalize the BWIs. Being the least hurt by the War and with the largest and healthiest economy, growing and completely recovered from depression, the U.S. was supposed to bear the largest quota for the funding of the Bretton Woods. At least this was the allies' view. The European allies were in dire straits, with their economies and their production infrastructure in shambles. By 1948, Western European reserves were depleted, with only $6.7 billion and a balance of payments deficit of $7.6 billion in 1947, whilst, by 1948, U.S. reserves were of $25.8 billion and growing, and a balance surplus of $10.1 billion in 1947.[14]

It is argued that the U.S. Congress and the public would not approve the portion of the U.S. proposed quota to finance the Bretton Woods Institutions.[15] In support of this argument, there is clear evidence of the limitations imposed by U.S. domestic politics in the case of a trade organization, as part of the UN system, as I will soon discuss. What is certain, however, is that, notwithstanding its reluctance to agree to the propose quotas, the Executive Branch wanted to consolidate its "Pax Americana" by establishing a complete framework of financial, commercial and political international structures, under U.S. hegemony, which, indeed, it accomplished. In consequence, the historical events show that, because of much wrangling about the conditions for the constitution and capitalization of the BWIs, between the U.S. and its allies, during the conference and thereafter, it took over a decade to make them completely operational. Indeed, the Bretton Woods institutions remained largely dormant and undercapitalized until Europe and Japan recovered and were in a position to have a substantial participation in their capitalization. This came about between 1956 and 1959 when the IMF was re-capitalized through increases in the fund quotas. In fact, by 1959 European and Japanese reserves equalled those of the United States.[16]

The Actual Agreement of the Bretton Woods Conference

The agreement reached during the conference was to establish an international political, economic and commercial framework sustained on four main pillars: The United Nations, as the umbrella organization, the World Bank, the International Monetary Fund (IMF), and the International Trade Organization (ITO). The UN system would encompass, through its specialized agencies, both international economic and financial management as well as development and emergency assistance of Third World countries. The Bretton Woods institutions, as specialized UN agencies, would support the development and monetary needs of member countries.

I will examine first the BWIs' pillars. The World Bank, officially, the International Bank for Reconstruction and Development (IBRD), was originally in charge of the assistance required for the recovery of the war-ravaged countries. However, the Marshall Plan was soon implemented for that purpose, and the World Bank, relieved of that task could concentrate on development, since it was in no position to fund Europe's recovery. Thus, its official mission statement is the pompous: *To fight poverty with passion and professionalism for lasting results*.[17] At the time of its foundation, the Bank's operations were restricted to specific projects –many times as intermediaries– to source private capital and not to lend from its own funds, which, at the time, were very limited. There was only $570 million available that came from the U.S. allotment.[18] Limited funds remained the situation until Robert McNamara, former U.S. Secretary of Defence, became President of the Bank, in 1968, and redefined its scope and goals and substantially increased its resources for lending.

At this time, the Bank moved from project lending to program lending, and, a feature that the Bank had since inception, the "Conditionality Clause," moved from project conditionality to program conditionality.[19] This meant direct intervention in the sovereignty of the borrowing nation-states. For, whilst the project conditions were limited to the efficient and rational use of the funds and to the operational components of the project, usually, for an infrastructure project, the program conditionality clause meant the direct interference of national policy in many areas of government. Therefore, the World Bank's condition of lending upon compliance with economic and social policy prescriptions of its own making, effectively meant a direct violation of the principle of sovereignty. It is true that, during the McNamara years, there was a redirection of funding into programs focused on the reduction of poverty and there was less emphasis on the funding of infrastructure. However, the "Conditionality Clause" in program lending would have a direct responsibility on the imposition of economic policy on borrowing countries and, obviously, on the subjection of these countries to U.S. imperialist interests. This is done through the Structural Adjustment Programs (SAPs) introduced in the 1980s. I cannot emphasize enough the importance of this element at this point. It has represented, along with the IMF, –to be a bank member, countries must also be IMF members– the main instrument of U.S. imperialist hegemonic control of borrowing countries. This has become a conscious redirection of development and economic growth policies into neoliberal economic policy dogmas, that have only benefited the U.S. and the local oligarchies by moving the world into what is known as the "Washington Consensus"; today's new global economic order, anchored on the neoclassical paradigm, as its pundits wish to interpret it. Therefore, there is a clear contradiction between the World Bank's mission statement: –"to fight poverty with passion and professionalism"– and its neoliberal prescriptions that, in conjunction with the IMF's, widen the gap between rich and poor, and especially devastate the poorest of all. There is much more to say on this later.

The other BWIs' pillar, as noted earlier, is the International Monetary Fund. The main purpose of the IMF, as set forth in the conference, was to attain the stability of currencies among member countries, avoiding competitive currency devaluations, as had been occurring since the 1920s; and to promote world trade and to maintain equilibrium in the countries' balance of payments. When countries fell into balance-of-payment deficits, they could borrow from the IMF in order to stabilize their currency under the condition that they would not fluctuate their exchange rates beyond 1% without prior IMF approval. In order to maintain currency exchange stability, the IMF has the surveillance of monetary policy in member nations as a key responsibility.

All of this makes perfect sense from a world trade promotion perspective. Currency stability and balance of payment equilibrium are desirable conditions for a healthy trade growth. Thus, apparently, the ultimate goal, therefore, is to secure the optimum conditions for an expansive world trade. Without currency stability, world trade is trammelled. If a country falls into balance of payment deficits, its capacity to import what its market demands is also trammelled. Thus, the above conditions are elements *sine qua non* world trade cannot grow.

It is quite interesting, however, to note how well intentioned the stated goals appear to be and, as we shall see later, how divergent they are from the IMF's actual praxis. The first article of agreement, as adopted at the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, on July 22, 1944, contains the purpose for which the IMF was created. The objectives previously mentioned appear in this first article. Nonetheless, also in this article, there are key stated goals that, concurrent with the previously stated goals, must also be achieved. These are the goals of attaining full employment and real income and of avoiding measures, which would negatively affect the domestic prosperity of member countries, in line with the Keynesian paradigm. The specific stated goals are:

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute, thereby, to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.[20]

It is evident in the above goals that the ultimate aim is not world trade. Observing carefully, world trade is the vehicle to the intended result: High levels of employment and real income, and the development of productive resources of all members. This is, therefore, the ultimate goal; and, consistent with it, there is the goal of requiring, in any adjustments to be made, the protection of the domestic economy. However, the IMF's interaction with its borrowing members does not comply at all with its intended goals. As we all know, the malady at the threshold of the third millennia, of the IMF's borrowing members, is, precisely, the IMF's prescriptions that require the reduction of the employment base and the destruction of the domestic economies in favour of the global economy in line with the neo-capitalist neoclassical paradigm, from now on referred to as the "Washington Consensus".

One element of major importance that Keynes wanted in the articles of agreement of the IMF was the mechanism for member countries to draw funds when in need of additional liquidity. Keynes wanted to have an international currency issued by the world's central bank. Keynes also wanted to use this mechanism as leverage to balance the power exerted by the U.S., as previously noted. However, the U.S. rejected the idea for several reasons: the original funding of the IMF was envisaged to be sufficiently large so that the IMF would have no need for a special drawing mechanism; the U.S. considered that it would remain a creditor in the system for a long time, as it did; and, of course, the U.S. wanted to control the system by having the dollar as the international currency. In practice, the formula to determine the amount of funds provided by member countries to the IMF was much less than what Keynes had envisaged. He proposed 50% of the member's total imports but, during the conference, it was reduced to 18%. Then, the proportion became even smaller when the amounts were not increased as world trade increased. It stands now at about 2% of the world's imports.[21] In any case, in 1969, after five years of much wrangling, the IMF Articles of Agreement were amended to include the Special Drawing Rights (SDR), but these merely serve as a unit of account to settle international trade balances and debts. They were pegged to the price of gold, to which the dollar was previously pegged –the dollar was pegged back to the price of gold in 1947 at the rate of 1/35. Currently, the value of the SDR is defined by using a basket of the currencies of the five largest exporting nations, but it is far from the original idea of being an international currency unit. For having the SDR as a real international currency unit would eliminate the asymmetry that arises from the dollar's permanent position as the currency of international finance.

Let's now briefly discuss the issue of surveillance from its origins. At the time of the conference, inflation was not a problem, and Third World indebtedness was non-existent. On the contrary, because of the war ravages, the danger laid in Europe's deflationary prices. As for the Developing World, in the immediate years after the conference, the prices of commodities remained high and, thus, it was in no danger of balance-of-payment deficits. In fact, many nations remained as creditors of First World countries for many years. Thus, at the time of the conference, inflation and indebtedness were not prevalent problems, a situation that later radically changed.

Indeed, since the late 1950s, the price of commodities has consistently declined, negatively affecting the Third World's terms-of-trade. Because of this deterioration, and because of macroeconomic mismanagement and other exogenous and endogenous reasons, which I will later discuss, the Third World has become entangled in an unending spiral of borrowing and indebtedness to stabilize its monetary systems. These monetary stabilization measures required surveillance, which has been performed, of course, by the IMF. However, while there have been numerous imbalances in developing countries, this, by no means, implied that they are their only generators. Many imbalances are generated by the exogenous influence of the much larger developed economies. There are also many monetary imbalances inherently domestic to these economies. The responsibilities of monetary surveillance by the IMF were supposed to include, from its inception, all members. Unfortunately, in practice, the IMF has leverage to influence only the borrower, despite the fact that the most damaging imbalances usually come from the First World, normally a lender. Thus, since the First World does not regularly borrow from the IMF, it has shown no regard for its recommendations to coordinate economic policy to prevent a crisis. It seems that it has a tendency to cooperate only in times of crises while it refuses to include, in its domestic economic policies, international monetary prevention considerations. For instance, between 1977 and 1978, the U.S. was asked to act to stabilize the declining dollar, in the face of rising inflation, by resorting to anti-inflationary measures or exchange rate intervention. Instead, the U.S. pressured Germany and Japan to depreciate their currencies by inflating their economies. Obviously, Germany and Japan refused to follow. The result was a stalemate.[22] The unwillingness to play by the same rules imposed on borrowing countries provides clear evidence that the IMF has been used as an instrument of control of the Third World from its creation. Thus, at the Bretton Woods conference, Keynes' proposal for a 1% tax on surplus balances, in order to cooperate with currencies' stabilization measures, was obviously sent into oblivion. In fact, this measure was in direct opposition to untrammelled world trade, which at the time was providing the U.S. enormous balance surpluses, so much for the surveillance of the First World.

The third pillar referred to trade. The U.S. was advocating free trade since the early Roosevelt years. It was considered an important vehicle of general prosperity and a deterrent of war conflict. Originally, the design of an organization, empowered to regulate world trade on an equitable basis, was supposed to be discussed at the BW conference. However, participants decided that it was too important a part of the world's post-war economic structure and, thus, they agreed that it deserved a specific conference. The conference, however, was not held until three years later in Havana, from November 1947 to March 1948, to create the International Trade Organization (ITO), also under the umbrella of the UN. Keynes certainly considered the issue of trade to be of utmost importance, and he agreed to some postponement believing that the ITO would be created. However, Keynes died in 1946, and the ITO was never created.

The answer of why the ITO did not come to fruition lies at the core of U.S. capitalism. It so happens that the ITO charter, already signed by fifty countries, contained a proposal for the establishment of anti-trust laws. This proposal included regulations against restrictive business practices and employee and labour rights. As could be expected, the ITO charter was attacked by big business in the U.S. and, thus, the U.S. Congress, already immersed in a new isolationist mood, refused to ratify it.[23] Trade policy in the U.S. is intimately linked to domestic politics and requires the Executive Branch to attain prior congressional approval for any trade agreement. Thus, the ITO was never ratified and, by the late 1950s, it was considered a dead issue. There is speculation as to whether or not Keynes would have accepted the agreements of the conference had he known that the ITO would not be established. In my opinion, the other pillars were as critical on his vision of a World government and would have not changed his acceptance. However, he would have certainly been very upset by the U.S. non-compliance and would have manoeuvred to try to implement the ITO.

Because it took more than three years for the Bretton Woods participants to reconvene and negotiate the ITO in Havana, twenty three countries met in Geneva in 1947 and adopted a single agreement on trade, which was supposed to serve as an interim accord until the implementation of the ITO. This was the General Agreement on Tariffs and Trade (GATT). During the war, all recipients of Lend-Lease contracts had been required to commit themselves to lower tariffs. These commitments were internationally formalized in 1947 with the GATT. The agreement was a very limited treaty, since it was originally considered to be temporary. It lacked authority and only included provisions for manufactured goods. It did not cover any trade provisions for price stabilization of commodities, an issue of critical importance to developing countries. The absence of these provisions has generated dire consequences for world trade for all trading parties. However, at the time, the U.S. and other industrial nations were satisfied with the GATT's limited charter and chose not to complete a treaty that would encompass all issues and the interest of both developed and developing countries alike. The key principle of the GATT was reciprocity. The commitment was to establish reciprocal and mutually beneficial accords aimed at drastically cutting trade barriers and ending trade discrimination,[24] but, obviously, this reciprocity was valid only for manufactured products where the U.S. and the recovering warring parties of Europe had the overwhelming advantage.

There was a later attempt to provide protection for commodity prices through the United Nations Conference on Trade and Tariffs (UNCTAD) in 1964, but the First World chose to reject it because it provided more benefits to the developing nations –actually it provided a more balanced concept– and because, under the UN, each country had equal voting rights. I will cover later in more detail this last issue, due to its North-South transcendence.

Fifty years later, the world is enjoying, at last, the World Trade Organization (WTO). Nonetheless, alas, it lacks again any provisions for the stabilization of commodity prices. It is clear that no act of contrition has been experienced by the First World, and the lack of fair game arenas remains evident.

The United Nations Umbrella

The United Nations was supposed to be the governing body of the relations between the world's nations, encompassing in its realm all the areas of interaction between its members. It is not a world government in the sense that it does not issue laws, but its purpose is to secure peace and harmonize the entire realm of nation-state relations and of the interaction of their societies. The United Nations was established in 1945, committed to preserving peace through international cooperation and collective security. According to its charter, the UN has four purposes:[25]

- To maintain international peace and security
- To develop friendly relations among nations
- To cooperate in solving international problems and in promoting respect for human rights
- To be a centre for harmonizing the actions of nations

The United Nations is composed, in the first level, of six main organs: the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council, the Secretariat and the International Court of Justice. In the economic realm, the United Nation's Economic and Social Council (ECOSOC) is the principle organ to promote higher standards of living, full employment, and conditions of economic and social progress and development.[26] Then, there are the specialized agencies in the charter. Here is where the World Bank and the International Monetary Fund are inserted as part of the UN system, just like the World Health Organization (WHO), the Food and Agriculture Organization (FAO) or the United Nations Industrial Development Organization (UNIDO). Consistent with the first level, the United Nations' charter outlines the objectives, structure and responsibilities of ECOSOC in chapters nine and ten. There it outlines, in a generic form, in various articles of these chapters, the relationship of ECOSOC with the specialized agencies. Nonetheless, it does not go beyond making observations, providing recommendations, requesting information and reporting to the UN Security Council.[27] Nowhere in the charter is a mandate nor the authority to manage or control the functions of any of the specialized agencies.

According to the "Rethinking Bretton Woods" Conference, the consensus at the original conference was that the Bank and the Fund should have been directly linked to the UN under one system as the centre of global economic management. But the conference's documents point out that, whilst this is true legally, in practice there are two distinct systems: The UN System and the BWI System. The BWIs are in effect specialized autonomous institutions that have no obligation to consider, if they so decide, the opinion or positions of the UN System's organs and agencies. Moreover, it points out that both have two clearly distinctive ideologies, degrees of political support and resources. However, above these differences that exist between the two systems, lies the most divergent and the most important: the decision-making method.[28]

Here is the central root of most conflicts and of the dissatisfaction with the BWIs among developing nations. As noted earlier in essay I, whilst in the UN System the decision-making process is through a democratic one-country one-vote system, with the BWIs the procedure is based on one-dollar one-vote system. In the latter, the voting concept is the same as that of the board of a corporation. Those partners with the greatest investments have the greatest share of voice. The others have an extremely limited voice, which in practice, is no voice at all since their monetary contributions are nominal. This may sound reasonable from a business perspective, but companies are not democratic by nature and, thus, applying it to organizations that mingle with the livelihood of many civil societies contradicts the spirit of the stated objectives of the BWIs. For there is no possible way to implement full employment and income strategies and the protection of the domestic economies of each nation, when the BWIs are subject to the needs and will of the industrial powers regardless of everything else. This dramatic divergence makes clearly evident the type of conflicts that constantly arise between developed and developing nations; not only with respect to the totally undemocratic system used in the BWIs, but also with the reasonably democratic system of the United Nations. In the latter case, with the U.S. having only one-vote, its conflicts and its boycotts, including falling on purpose in arrears on its dues, are famous.

In retrospect, the reason why the Bretton Woods institutions have never become integrated in the UN system and are completely autonomous is obviously because the United States and other First World nations want to have complete control of the world's financial and economic architecture. There is ample evidence that attests to this assertion. A scratch on the surface makes evident that the only reason why the capitalist world's economy is today immersed in the globalization of the neo-capitalist paradigm is because of this design of First World control. Through this voting system, the conditions necessary to impose, by the throats of the Third World, this barbarian brand of Capitalism becomes possible. Through this scheme, the BWIs have been used, by systematically conditioning their assistance, to impose compliance with the demands for the opening of markets and the adoption of supply-side economics (monetarist theory) and the dismantling of demand-side economics (Keynesian theory of full employment and of the Welfare State). To be sure, the credit of this imposition goes fully to the U.S.' vision of its Pax Americana.

There is more evidence to this situation. The U.S. has consistently blocked all efforts to move some of the economic assistance and support programs to the UN and has maintained its will to keep all key economic and financial responsibilities with the BWIs where its power reigns. According to the Rethinking Bretton Woods conference, the World Bank was originally limited to project lending, primarily bridging loans from the private sector, and it was not supposed to get involved in aid activities. After long negotiations and strong resistance from developed nations, the United Nations Fund for Economic Development (UNFED), the UN economic development agency, was approved in the 1950s, but, alas, it continued to meet strong resistance and it received minimal financial support. It was not until it was moved to the World Bank as the Agency of International Development (AID) that it was sufficiently funded to provide soft aid to the Third World. Except during the Kennedy Administration –when there was a partial swing back to economic development in the UN with the creation of the UN Development Program and the Food Program, (UNDP and UNWFP)– the pattern has been consistent in showing that the First World wants the hard part of development: Finance, economic strategy, currency management, balance of payments and trade, with the BWIs and the WTO. The so-called soft part of development: Emergency aid, environment, health and education, are left to the UN with much less funding. However, this goes against the original vision at the 1944 conference and against current development theories where both development areas must be managed together and not with two divergent entities. Thus, the hard part is managed with an undemocratic decision-making method at the BWIs, where the U.S. and the other G7s can condition financial assistance to the imposition of their interests; and the soft part is managed at the UN, under a reasonable democratic process, but usually under funded by the economic powers and sometimes boycotted by the U.S. [29]

Keynesian Economics in Practice and the Consolidation of the Welfare State

After the war, there were thirty years of a substantial degree of true economic progress in many of the nations with a capitalist system. Europe, Iberian America, Eastern Asia and the nation-members of the British Commonwealth experienced true economic expansion and real social progress.

The recovery plan for Europe was initially going to be carried out by the World Bank, but, when it became clear that it was a matter of U.S. national security to enable Europe to recover, and the funds required were much greater than originally committed, a new plan was needed. In 1947, Europe was still in a dire situation, and the winter had been particularly harsh, with a great scarcity of many things. Concurrently, the frictions between the U.S. and the U.S.S.R over Germany had already escalated into the beginning of the Cold War period. Thus, the U.S. approved a plan with the purpose of enabling Europe to recover economically in order to secure its hegemony in Western Europe as part of its detente strategy. In countries such as France, Italy and Greece, communist philosophy had a strong force, and, thus, a quick economic recovery would reduce its strength and keep it at bay. Thus, over the next five years, the Marshall Plan funnelled aid for over $13 billion to sixteen European nations including Germany, aid which was funnelled back to the U.S. economy, since Europe had nothing to sell, and the U.S. had almost everything to supply for Europe's recovery. Subsequently, when China became a threat to U.S. interests in Asia, the U.S. established a mutual defence treaty with Japan and provided the necessary financial aid to fasten its economic recovery. This was the beginning of the consolidation of the U.S. as the imperial superpower of the West.

As a result of the Marshall Plan, Europe recovered, and its economy strongly expanded. The infusion of capital provided the energy to recover and Western Europe was able to achieve great economic expansion for the next thirty years. Its tremendous growth was surpassed only by the even more impressive growth of Japan. In Europe, many new MNCs joined those already established. Liberal democracy contributed much to the consolidation of the Welfare State and to the appeasement of the memories of war and the economic depressions of the inter-war years. In line with the Keynesian paradigm, economic policy did have a very visible hand, and full employment was maintained, albeit economic growth was so strong that the economies of Western Europe seldom required the government's intervention. In 1957, the European Economic Community was created by the leading states of western continental Europe, in order to increase the probability of maintaining economic expansion by sharing their newfound wealth, created as a result of collective co-operation. In 1963, France and West Germany signed a "special relation treaty" of cooperation that buried for good any concerns of further conflict and provided the joint leadership behind today's European Union. France blocked Britain during the De Gaulle era, due to its "special" relationship with the U.S., but later it was admitted. By 1983, there were twelve prosperous European nations in the union. All this prosperity was fuelled by sustained increases in real wages, which gave way in Europe to a new culture of mass consumption and materialistic values.

During the initial years of the post-war era, the old European colonial empires that had risen during the previous century were rapidly dismantled, and a strong sentiment of national pride and optimism emerged in the old and new nations of the developing world. Britain gave India its independence in 1947. The following year the Netherlands abandoned Indonesia. France lost Indochina soon after, and resisted, unsuccessfully, Algeria's independence for eight years until 1962; Portugal, too, eventually lost Angola and Mozambique. In 1956, Morocco freed itself from its period of being a Spanish and French protectorate. The former European colonies of the XIX and XX centuries, with their newly gained independence, initiated their process of economic decolonisation, which had started between the two world wars, by nationalizing key strategic industries, especially the oil industry, or unique enterprises such as Egypt's Suez Canal. Land reform was, too, taken as a priority among several developing nations. Many of the developing countries, in line with the new Keynesian paradigm, began to develop their own welfare systems. Real wages and standards of living improved substantially –given the extremely low benchmarks of reference– and a respectable degree of progress was attained, especially among some Asian and Iberian American nations. There was a genuine desire for progress. Nationalism was high, and a renewed optimism for complete independence and a desire for the re-vindication of their aspirations of social justice, after long colonial oppression, became a top priority.

As for Japan, after the treaty with the U.S., it experienced an explosive economic growth, equal to none. From 1954 to 1972, Japan's economy expanded rapidly. Building on its pre-war industrial base, Japan became the most efficient manufacturer of a wide variety of products, from the steel industry, chemicals and automotive products, to consumer electronics. Rather than develop new technology, it based its progress on the adaptation and improvement of foreign production technology and made economic development the chief national priority. By 1977 Japan's GDP became the second biggest in the world, and there had been dramatic gains in the standards of living in all ranks of the Japanese society. During this period, Japan's' Welfare State was consolidated. A good part of the success story of Japan was based on its insertion as part of the economic system of the post-war Pax Americana, importing raw materials and exporting manufactured products.[30] The other part was no magic formula. The traditional ways of industrial relations between business owners and workers, indigenous to Japanese culture, were maintained. This culture is very much in line with the Keynesian ethos, and it played a very preponderant role in the harmony between business and labour and in the impressive increase in the standard of living of the average Japanese household.

From 1945 through the early 1970s, the United States experienced, up to then, its greatest economic expansion. By 1955, the U.S. was generating 50% of the world's production with only six percent of the population. In twenty-two years, the GDP had increased 3.7 times to $775 billion in 1967. Great investments were made in research and development by both government and the private sector, and the development of the modern U.S. multinational corporations greatly expanded overseas, buying local companies or opening entirely new operations. This period generated great real social progress in the U.S. Between 1945 and 1960, twenty-two million people joined the work force. Real income of the labour force grew 50%, and the number of people under the line of poverty was reduced to half. The most important event was a considerable shrinking of the gap between rich and poor. There were some losses for labour with the Taft-Hartley Act of 1948, which limited the bargaining power of unions. Nonetheless, since the middle of the social pyramid was widened to the detriment of its deep bottom and some of its cusped, union activity appeased considerably. The middle class expanded tremendously with great strides forward in its quality of life. This was also the time when one of the lowest proportions of immigrants arrived and when social differences between the foreign born and those born in the country, and between Catholics, Protestant and Jews, greatly diminished.[31] However, this was not true by any means, in the case of Blacks and Hispanics, they were still poor. Thus, concurrently with this new prosperity, there was a massive migration to the suburbs while new problems and new ethnic minority ghettos sprang in the cities.

Meanwhile, for the "mainstream," for the first time ever, education increased substantially, with every new generation acquiring more of it than their predecessors. In general, the daily work schedule was reduced to eight hours and the working week to five days. As a whole, the Social Security System became well established, and there were addendums to its coverage. Still, it lagged far behind, in several aspects, to that of the advanced nations of Western Europe. But, at least, many companies voluntarily offered paid vacations, retirement funds, health care coverage for the entire household and other benefits which they were not obliged by law to provide.

In consequence, the standard of living, in terms of everyday comforts, greatly increased. Television became a staple in every house in the 1960s and, with it, the great society of massive consumption was born. With the improvement in the material standard of living, the service industry flourished, and the proportion of the white-collar work force increased strongly, while the blue-collar work force's share began to drop. The leisure industry, particularly, expanded and became one of the main propellers behind the expansion of the service industry sector.

Much of this came about as the result of what John Kenneth Galbraith denominated the "New Class": a class who pursues economic and social achievement through education, seeking satisfaction instead of toil out of work. It ultimately pursues leisure, hedonism and instant self-gratification through massive consumption. Unfortunately, although in the fifties and sixties, Keynesian economics were in full swing, the increase in affluence also produced a comfort zone from which to neglect the still visible poverty of a good portion of the population. This, as Galbraith asserts, is a result of the constant belief that government is inefficient and its cost is a threat to liberty; this is the basis of the dominant view that the government should not help the poor. To be sure, the roots of this philosophy lie deep in the particular influence of Social Darwinism on U.S. culture.[32]

In consequence, because of this philosophical ethos, the great wealth of the nation, in spite of the great progress attained in this period, still draws the greatest social contrasts between rich and poor of the developed world. Paradoxically, the "Land of Opportunity" showed many similarities with the countries of the periphery, in the great social disparities of its classes. As Mexican intellectual Pablo González Casanova observed about the U.S. in the early 1980s, the immense U.S. is surprising as an empire that includes at its core contradictions that are proper of the former colonies. The classes and cultures, races and technologies, masses and minorities of the U.S. resemble those of the periphery, for although the U.S. is certainly different for its wealth and dominant modern energy, it resembles the colonies for its discrimination.[33]

It should be recognized, however, that, during this period, there were clear advances against discrimination. Supreme Court Justice Earl Warren swept away the legal basis for racial discrimination during his long sixteen-year tenure (1953-1969), and, with this, the social movements themselves, especially of the black population, achieved important gains in social justice.

Overall, for almost thirty years, the welfare of all ranks of society substantially improved in much of the capitalist world. Both developed and developing nations applied Keynesian economics. The First World consolidated its welfare system, and the Third World began its own. The most important event: that the responsibility of government, by using a very visible hand and intervening in the economy whenever necessary, was to provide for the general welfare of all ranks of society, became the general assumption. That is, that the first responsibility of democratic governments is to provide and maintain the conditions necessary for the common good. Since the economy is the human activity that encompasses the use of all material and nonmaterial resources available for human life, its democratic, rational and efficient management must exist. Therefore, democratic governments, which are the sole representatives of their domestic society, are responsible for managing the economy in order to ensure that the wealth generated benefits all ranks of society in an equitable manner. The individual self-interest, as well as the individual corporate-interest, by definition, and by enormous unquestionable historical evidence, cannot bring benefit to anyone but to themselves. Thus, the need for government to directly intervene at all times in the economy and manage it, acting as an agent to compensate for the negative effect of the free forces of the market, became clearly established. This intervention became accepted at the macro-level as well as at the sectorial or micro-level. Thus, through the Keynesian ethos, the welfare of capitalist societies prospered for almost thirty years.

The Collapse of Bretton Woods as Originally Chartered

Did the welfare of capitalist societies really prosper? It did, indeed, in spite of the powerful negative forces that continuously moved in the opposite direction. Nonetheless, it could not last for too long when the views of the key centers of power did not agree with some gains in equality. There is ample evidence that some wanted a system that could benefit none but themselves. Concurrent with the increased presence of the multinational corporation in the capitalist world, the management of the Bretton Woods institutions consolidated its grip on the periphery on behalf of the interests of the U.S. and the other members of the G7. As the "Rethinking Bretton Woods" conference asserts, the G7, with 12% of the population, has "dictated" monetary policy,[34] since inception, for all members; leaving, of course, the rest completely unprotected against its whims and interests. Thus, as time passed, the IMF became a real police instrument of the G7 on the developing nations while no progress was achieved on improving the terms-of-trade of client states.

There is ample support to this claim. The report of the conference discusses a number of key findings that show the disruption of the original mission of the BWIs in favour of the interests of the G7 nations, with the BWIs acting now as its instruments of control. The report relates a number of the BWIs' key activities that deviate from the original mandate:[35]

- The imposition of an economic agenda dictated by the U.S. and the other G7 nations as a precondition to borrowing. This is done through ready-made economic plans, which lack knowledge of the real economy of borrowing members.
- The securing of the capacity of borrowers to service debt as a main priority, in spite of the fact that this is not included in the Articles of Agreement.
- The high degree of overlap in the programs for different countries, which look strikingly similar and concentrate on financial management with little regard to the real economy. Moreover, work is done on a country-by-country basis with no coordination to avoid conflicts with other countries' programs, especially in the case of commodity price stabilization.
- A shift in emphasis at the World Bank from project lending to program lending.
- The imposition by the G7 of privileged creditor status for the BWIs, in spite of the fact that the two assumptions for this policy: that multilateral lending represents a small part of total debt and that programs are successful and benefit borrowers have been shown not to be true or have come into question by internal reports.[36]

This one-sided status in favour of the G7eventually contributed to the collapse of the BW system under the Keynesian paradigm. The lack of a democratic system for the decision-making process had blocked any attempts from the part of developing nations to put in place a structure that would regulate trade in such a way that all countries would get even handed terms-of-trade. As earlier noted, the terms-of-trade for the suppliers of commodities remained largely erratic with a clear trend towards the reduction in their prices. The refusal of the G7 to implement the ITO to regulate the trade of commodities left developing countries completely unprotected, while the developed countries felt very satisfied with the protection provided by the GATT, which was limited to manufactured goods.

This complete bias in the management of international monetary and trade policy in favour of the G7 nations generated two major events, which brought major disruptions to the BWI system. In the early 1970s, the BWI system was greatly disrupted by the unilateral suspension of the convertibility of the U.S. dollar into gold and by the oil crises as a result of the abrupt surge in oil prices prompted by the OPEC oil cartel.

The first event was the result of the increasing monetary interdependence of the G7's currencies and an unwillingness to cooperate, from the part of the U.S., to manage the growing monetary instability. This instability was mainly the result of two factors: the increasing over-valuation of the dollar due to a surge in inflation, primarily generated by military expenditures devoted to the war in Vietnam; and the adjustment of their own currencies by the U.S.' major trading partners in order to manage their own inflation. As a result, the Europeans and Japanese wanted the U.S. to devalue the dollar, in line with monetary logic, but, as earlier noted, the U.S. refused to cooperate. Instead, the U.S. wanted Europe and Japan to inflate the price of their currencies so that the U.S. could maintain the dollar at fixed rate. Nixon's political interests in the 1972 re-election were largely the motivation for the U.S. refusal. In order to assure his re-election, Nixon wanted to maintain the dollar as the pivotal currency of the system, fixed at the same rate; a situation which had been very beneficial for the U.S. for more than twenty years and which would avoid raising any domestic political problems. Thus, Nixon's political interests prevailed over financial common sense –and international commitments to manage monetary policy in coordination– and the U.S. refused to adjust the dollar. As a result, on August 15, 1971, the U.S. suspended the convertibility of the dollar without consulting any of the other members. Then it attempted to push the dollar as the new system standard; but after two years of disagreements and a new environment of chaotic floating exchange rates, the G7 left the fate of monetary policy to the whims of market forces. This event is regarded by many as the collapse of the Bretton Woods system and the start of a long inflationary period.[37]

The other major event, which occurred with the oil crisis of 1973, completed the collapse of the original Bretton Woods system. This came about when the OPEC (Organization of Petroleum Exporting Countries) nations decided to retaliate against the collapse of oil prices and the subsequent unilateral reduction in payments by the world's major oil companies, also known as the "seven sisters." Since the insistence of developing nations to introduce a commodity stabilization system had been systematically ignored by the G7 nations, the oil producing countries, through OPEC, quadrupled the price of oil within a year. It should be noted, however, that, unlike the sudden increase in oil prices, the previous collapse of oil prices came about over a period of twenty years. Thus, there had been plenty of lead-time to avoid the problem; but the industrialized nations refused to deal with the developing countries' demand to reach a price stabilization agreement.

The sudden increase in oil prices generated a sudden transfer of liquidity from oil-deficit-nations to oil-surplus-nations. Nevertheless, if the increase in oil prices fuelled inflation, the lack of cooperation for monetary management and the need to recycle the excess liquidity in oil-surplus-nations exacerbated inflationary and recessionary trends. This was the most direct effect of the oil shock and of the lack of cooperative management of monetary policy and of commodity stabilization. However, these events –the oil shock and the lack of cooperation– also had another major indirect effect: the origin of the debt crises of developing nations. With the oil shock, oil deficient developing nations, such as Brazil and Pakistan, suffered a new deterioration of their terms-of-trade when the cost of their imports increased drastically. Thus, they fell in need of financing. However, the liquidity surplus generated by the oil-producing nations was recycled primarily through private banks, which made the cost of loans very high, placing borrowers into a debt trap. To find a solution, they required assistance from the IMF, which, of course, placed them in a structural adjustment program. Moreover, as it is known, the structural adjustment programs have only exacerbated the debt trap and directly deteriorated the social indicators of borrowing nations.

In the case of oil-surplus developing nations, such as Mexico and Venezuela, their new found wealth drove them into large investment projects financed through private loans supported by the guarantee of their huge oil reserves. However, when the price of oil collapsed, they fell into the same situation as the oil-deficient borrowers. In the case of Mexico, the situation became dramatic when it defaulted on its loan servicing payments in 1982. This was the beginning of the still-unsolved debt crisis of the Third World, which gave way to additional levels of inflation and recession everywhere, and to a reversal of fortune in their path towards development.

We shall discuss the world crises from 1980 in more detail further ahead. However, the key point to emphasize at this stage is that the deviation from the original agreement at Bretton Woods, as a result of the systematic lack of cooperation within the G7 nations and between these and the developing world, gave way to the collapse of the Bretton Woods system under the Keynesian paradigm. The more troubling result of this collapse, however, is not the immediate effect on the developing nations and the capitalist world economy at large; but the conscious effort from the centres of power, primarily from the U.S., to impose a new paradigm that is premeditatedly designed to further benefit the powerful few in detriment of the impoverished many.

It should be evident that there has been, from the early stages of colonialism up to this day, a systematic effort from the centres of power to exploit other nations. Of most concern is the absence of any evidence of a change of ethos due to the supposedly advancement of cooperation. Indeed, up to this date, it is clear, that the will of the centres of power is still the same as in classical colonial times: to maintain less developed nations as weak as possible in order to control them and exploit their resources with no regard for human solidarity. To be sure, the developing nations have not progressed because of their lack of will, skill or ambition, but because of the concerted effort of the powerful, both at the core and the periphery, to obstruct their quest for social and economic freedom. As it will become evident further ahead, there is a clear partnership between the local oligarchies and the centres of economic power to maintain a very inequitable ethos.

It is a sad but unavoidable conclusion, that the barbarian code of conduct still prevails in the capitalist world and that it is the origin of the permanent inequalities between rich and poor individuals everywhere and between developed and developing nations. The worst aspect of this is the clear evidence that, as long as the lack of will for the advancement of social justice at the centres of power prevails, things will be getting much worse, and there will be no hope until that will is forced to change.

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