Review Essay

Revisiting Interwar Global Economic Governance: Technocrats, Sovereignty, and the Perennial Problem of Legitimacy in Global Governance

The Economic Weapon: The Rise of Sanctions as a Tool of Modern War. *By Nicholas Mulder*. New Haven, CT: Yale University Press, 2022. 416 pp. Hardcover, $32.50. ISBN: 978-0-300-25936-0.

The Meddlers: Sovereignty, Empire, and the Birth of Global Economic Governance. *By Jamie Martin*. Cambridge, MA: Harvard University Press, 2022. 352 pp., photos, illustrations. Hardcover $39.95. ISBN: 978-0-674-97654-2.

doi:10.1017/S0007680523000363

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The international institutions that govern global capitalism—the United Nations, World Bank, and International Monetary Fund (IMF)—wield considerable power over the flows of trade and finance, and thereby the nation-states that participate in it. (And opting out is nearly impossible.) Those institutions were created in July 1944, amidst World War II, with the laudable objectives to restore global trade and capital flows, protect national sovereignty, and promote peace through interdependence. In short, these institutions represented the solution to the failures of interwar international governance—more specifically, the failure of the League of Nations to stem macroeconomic instability or the Second World War.

These two extraordinary books, written by historians of international political economy, reject that failure narrative, at least in part. While it is of course true that the League of Nations failed to stem the Great Depression or quell the forces leading to World War II, the League fundamentally changed international law. Most notably, the League represented a turn away from empire and toward international institutions, which have governed global capitalism through "technocratic internationalism" ever since (Mulder, p. 21; Martin, p. 30). Historians have too often overlooked interwar international institution-building and the steady growth of administrative rule-making because of that

Business History Review 97 (Autumn 2023): 647–655. doi:10.1017/S0007680523000363
 ISSN 0007-6805; 2044-768X (Web).

failure narrative. Nonetheless, recent scholarship has highlighted the novel approaches that interwar international institutions took to managing international public health, migration, drug prohibition, contraband, and colonial supervision (Martin, pp. 8, 269n21). Building on a thriving subfield of "interwar internationalism," Mulder and Martin both argue that the First World War marked a decisive turning point in global capitalism as new international institutions eroded the power and authority of empires and created a new category of "international economic regulation" (Mulder, p. 10; Martin, p. 8). Mulder focuses on the development of economic sanctions, which were first deployed in peacetime by the League of Nations in the wake of World War I, and explains how they became commonplace despite highly undesirable and unanticipated effects. Martin shows how international institutions intervened in global capital and commodity markets in ways that shaped and limited domestic policies, especially for states with uncertain or partial sovereignty. Both books show how the devices of economic regulation developed first under the auspices of empire were repurposed for the use of international institutions and then deployed first at the periphery and then on the European continent. The bottom line is that these were novel forms of organization and intervention, which rewrote international law and laid the groundwork for post-World War II "second wave" iterations of global governance (Martin, p. 3). The League may have failed, but not for lack of power and it—alongside other international groups—left an indelible mark on global governance.

Across three sections, each with three chapters, *The Economic Weapon* provides a richly researched account of the origins, development, and unintended consequences of international sanctions. Although there had been state-led blockades and other types of economic aggression during times of war—at least as early as Thucydides's account of the Peloponnesian War—it was during World War I that policymakers across the Atlantic world first coordinated a multi-state economic blockade. Part I shows how their belief that commercial and financial blockades had helped end the war guided much of their thinking thereafter. Allied policymakers came to believe that inflicting economic hardships against an entire nation—including civilian noncombatants—could presage the end of war itself. Building on that logic, in 1919, the League of Nations codified the use of economic sanctions in Article 16 of its founding document, the Covenant of the League of Nations. Article 16 deemed territorial aggression an *act of war* and, though it did not trigger a *state of war*, it required that members of the League "[sever] trade, financial relations, personal travel and other forms of economic interactions" between the aggressor and all other countries (Mulder, p. 85). A "distinctively liberal approach to world conflict" was born (p. 2).

https://doi.org/10.1017/S0007680523000363 Published online by Cambridge University Press

Codifying *peacetime* economic sanctions fundamentally changed international law, displacing nineteenth-century international norms of legal neutrality and freedom of the seas. Previously, economic sanctions were considered a condition of total war. Nineteenth-century international law had explicitly distinguished between *private* property and contracts and *public* acts of war between states. And, that distinction had created a depoliticized, or neutral, space in which commerce could continue despite warring nation-states. In other words, private transactions in global markets could be "disembedded" from the states within which they operated (Karl Polyani, *The Great Transformation* [New York, 1944]). However, in reality, the application of nineteenth-century laissez-faire international theories and norms did not apply when European imperial powers vanquished weaker states through "pacific blockades," a tactic carried out twenty-three times between 1827 and 1913. Regardless, the horrific specter of World War I's total war both exploded that older notion of separate public and private spheres and pushed the victors, particularly Britain and France, to empower international institutions with tools to ensure peace by weaponizing economic governance, while not intruding on imperial prerogatives. That tension between liberal theory and imperialist reality structures both books.

In "Part II: The Legitimacy of the Economic Weapon," Mulder draws out the paradoxes built into this liberal idea of economic sanctions. In the early 1920s, "sanctionists" appeared vindicated as the economic weapon quelled Hungary's border skirmish with Romania, diffused Yugoslavia's invasion of Albania in 1921, and dissuaded Greek dictator Theodoros Pangalos from invading Bulgaria in 1925. However, the efficacy of the economic weapon—whether actually deployed or only threatened—seemed to depend on wielding it against smaller Eurasian states and not imperialist powers. And although sanctions initially played a stabilizing role in Europe, "after five years of use, sanctions seemed as likely to spur nationalism as they were to increase international solidarity" (p. 131).

Amidst the 1930s global economic downturn, international economic sanctions reinforced the trends toward nationalism and rearmament, exacerbating the crisis of globalization. In Part III, Mulder shows how economic sanctions pushed Fascist Italy and Nazi Germany to embrace autarky, or "radical self-sufficiency," just as J. A. Hobson and Norman Angell had feared it might (p. 230). The League launched sanctions against Italy in response to Mussolini's advance into Addis Abba in 1935; the sanctions depleted Italy's foreign exchange and delayed further aggression but it did not save Ethiopia from conquest. Rather than dismiss this episode as a failure of the League's coercive

https://doi.org/10.1017/S0007680523000363 Published online by Cambridge University Press

powers, Mulder reinterprets the Italo-Ethiopian War as provoking an escalatory spiral. In a tragic twist of history, officials in Nazi Germany and Imperial Japan began planning ways in which they might strengthen their own self-reliance, which entailed foreign conquests of their own.

Yet, the specter of a second world war also pushed the United States to abandon its neutrality and reinvigorate the *positive* economic weapon: aid. It was only by doubling-down on economic sanctions during World War II that the mechanism retained its power—not only as an economic bludgeoning device but also for its political power to persuade and coerce countries into the global liberal international order. President Franklin Roosevelt's Lend-Lease Program, as Mulder explains, complemented the negative economic weapon of sanctions wielded against enemies by providing access to dollars and trade for Allies—a form of "mutual assistance" that the French had long supported (p. 136). Yet, with the Americans at the helm, the economic weapon transformed again, shifting away from its post-World War I territorial police function. Just as President Woodrow Wilson had suggested, now Roosevelt insisted that sanctions could drive domestic policy choices toward the liberal international order.

Jamie Martin's *The Meddlers* interrogates how "the first wave of international economic institutions enabled foreign governments, central banks, and private interests to exercise a voice in the internal affairs of a range of sovereign states" (p. 8). While Mulder focuses on the contentious development and deployment of economic sanctions as a device of collective security, Martin shows how international institutions—and the policymakers and technocrats who directed them—intended to create and strengthen that collective by interdicting structural reforms and best practices onto vulnerable states.

Of course, such interventions were not entirely new either; imperial powers had frequently intervened into the domestic affairs of foreign countries—for example, the European sovereign debt commission established in Egypt (1876); the British First Opium War (1839); and the US Monroe Doctrine (1823) and subsequent Roosevelt Corollary (1904). And, in that way, Martin emphasizes that interwar internationalism largely transmuted the old practices of empires onto new international institutions. Simultaneously, however, World War I put the importance of territorial sovereignty in stark relief. Reconciling the competing imperatives to restore international trade and finance and to protect territorial sovereignty required a commitment to non-interference in domestic issues. Article 15 of the League's Covenant, the domestic jurisdiction clause, provided just that. Moreover, Article 23(e) ensured the "equitable treatment for the commerce" of member states. Yet, neither provision restored economic stability to war-ravaged Europe. The

League was not empowered to lend money (it had none of its own), but it could *facilitate* loans between sovereigns. Beginning in the early 1920s, the League and later Bank for International Settlements (BIS) devised tools—most notably, mediating foreign loans conditioned on the implementation of austerity policies through both monetary and fiscal channels—to essentially force policy changes onto various nation-states. These interventions were framed as necessary to create and preserve macroeconomic stability and, perhaps ironically, national sovereignty.

Across six chapters, Martin examines the escalating tension between international economic regulation and sovereignty, from the wartime councils of 1917 to the creation of the IMF in 1944. Each chapter chronicles a discrete episode of international intervention carried out by an international technocratic vanguard and the resistance it met as a violation of sovereignty. The first chapter sets up two models for "technocratic internationalism," both of which emerged under the duress of war. The first had been forged by the "radical innovation" of the Allied Maritime Transport Council under the leadership of Jean Monnet, Arthur Salter, Bernardo Attolico, and George Rublee (p. 35). Established in March 1918, the council gathered information regarding imports, exports, and other cross-border flows and used that data to address global imbalances. The second, and more striking, was the London-based Nitrate of Soda Executive. This international group was a cartel authorized to stem competitive bidding on nitrate sales by allocating markets and fixing prices regardless of protests from Chile, a major source of the world's nitrates and a country dependent on those exports. Those experiments ended in November 1918, largely due to American and British preferences to reinstate the status quo ante. But, for many war-ravaged states, within Europe and beyond, postwar inflation, currency devaluation, and polarized politics rendered that impossible. Economic (and political) stabilization depended on new capital inflows.

As explored in chapters 2 and 4, in the early 1920s the League of Nations Financial Committee facilitated loans "conditional on domestic schemes of fiscal austerity, the establishment of independent central banks, and the international oversight of sources of public revenue" (p. 65). Such schemes—borrowed from previous practices by imperial states and bankers—targeted states with uncertain or partial sovereignty. By 1923, for example, the League hailed its program of economic stabilization in Austria a major success, despite the "troubling precedent" of intervening within a European country (and, never mind the country's later "descent . . . into far-right authoritarianism") (pp. 79, 78). That "great success" then encouraged similar deployments of conditional loans in Hungary. Developmental loans also flowed to both Greece and Bulgaria in the aftermath of refugee resettlements.

And, most famously, the Dawes Plan of 1924 tied foreign loans to guarantees of central bank independence, balanced budgets, improved tax collection, and continued reparations payments. Finally, the League pioneered a short-lived development project in Nationalist China, upsetting the stranglehold of a multinational banking cartel in order to channel loans and technical assistance but without requiring the government to relinquish its autonomy over domestic projects or revenue streams. (Later, in 1934, Jean Monnet helped establish the China Development Finance Corporation.) Although many of these practices borrowed from imperialists' playbooks, these were the first instances of international institutions intervening during peacetime into domestic political economies, though to varying degrees.

The Bank for International Settlements, which opened in early 1930, embraced central bank independence as the sine qua non of the stabilization process—joining the collective meant accepting a technocratic approach to monetary policy. But, as "Black Thursday" throttled Wall Street and began to reverberate through the US economy and outward, the central bankers' meeting in Baden-Baden to draw up plans for the BIS were too late. (One wonders if they were too little and too late.) The BIS was not a lender-of-last-resort—in fact, "it could not issue notes, accept bills of exchange, [or] make loans to governments"—but it could coordinate capital flows (p. 121). Like Mulder's economic weapon, the BIS wielded power by leveraging access to capital, and thus trade and even political stability; both also belied any depoliticized space for global capital. The nature of interwar capital flows, particularly "hot money," just like the preceding gold standard era, meant that sudden outflows could destabilize not just the currency but also a nation's economy and politics. Capital flight and subsequent central bank responses to it, invariably raising interest rates, could feel just as painful as economic sanctions, and it could stoke nationalism just the same. The BIS failed to rescue Austria after the collapse of the Creditanstalt, and then it aided Nazi Germany in its invasion of Czechoslovakia by transferring assets from the latter to the former.

Several intergovernmental institutions emerged in the 1930s to control the prices of commodities and minerals, such as tin, rubber, tea, coffee, wheat, and oil. The heart of chapter 5 chronicles the British efforts to control the price of tin, a commodity predominantly located in the British Empire and to a lesser extent the Dutch East Indies. For Martin, what is most significant from that episode is that the British Colonial Office was willing to reorder the relationship between metropole and colonial governments in order to enforce output restrictions on resistant locales. In Malaya, a particularly valuable and internally divided colony, thousands of producers challenged coordination efforts and provoked political instability. "Prices were gradually stabilized," but it is not clear that stabilization could be attributed to the government's price-fixing (p. 204). Regardless of effects, the point is that for a country—or a faltering empire—dependent on commodity export revenues, international output restrictions provided a tool to achieve higher rents (a model later pursued by OPEC and the New International Economic Order movement in the 1970s). Yet, by the early 1930s, "the prospects for economic internationalism [had] dwindled as . . . trade and exchange controls proliferated, and imperial economic blocs were established" (p. 213).

Martin leaves us where we began, with the Bretton Woods agreements of 1944. His insight is that we should not understand the IMF according to the ideals and arguments posed during its ratification process or the subsequent "ambiguities in the IMF's Articles of Agreement" (p. 212). Instead, we must understand the IMF as evolving out of its interwar predecessor institutions and the postwar reality of US hegemony. The majority of the chapter is spent considering the British resistance to postwar plans for a fixed exchange rate regime that would subject it to external policing in violation of its monetary sovereignty. The irony, of course, was that the Bank of England's interest rate movements had long imposed costs on debtor countries under the gold standard. What the Bretton Woods system entailed, however, was the sacrifice of free capital flows in order to achieve both fixed (though adjustable) exchange rates to facilitate trade (through capital account convertibility) and domestic monetary discretion to manage economic fluctuations. What is oddly missing from this account is the centrality of capital controls and whether or not member states resisted those as a violation of their sovereignty, or had sovereignty itself changed? Instead, Martin focuses on British and French demands for automatic special drawing rights to facilitate exchange rate adjustments, which were ultimately scuttled by stipulations against such automaticity in the US Marshall Plan in early 1948. US hegemony undergirded the system, but Bretton Woods was a multilateral agreement to restrain capital flows in order to insulate the monetary settlement from trade disputes—all of which reordered sovereignty, in theory and practice.

In April 1932, John Dewey, the progressive philosopher, and Raymond Buell, the director of the Foreign Policy Association, debated the question: "Are sanctions necessary to international organization?" (Mulder, p. 186). Buell argued that punitive sanctions were necessary to maintain any international order, a familiar sanctionist argument. But, he also went further. Illustrating "a new philosophy of the international order," Buell argued that it was impossible "to separate a government from the individuals under its jurisdiction" and thus, sanctions

https://doi.org/10.1017/S0007680523000363 Published online by Cambridge University Press

might force citizens to demand "its government to live up to its international obligations" (p. 186). In response, Dewey argued that "punishment under civil law could not be readily transposed to the international sphere" because the legitimate use of punitive measures required a "pre-existing agreement about core values" (p. 187). Otherwise, issuing such punitive measures would risk both further isolating the aggressor state and degrading the legitimacy of the moral community issuing the sanctions.

As Mulder deftly illustrates, Buell's remarks reflected an important shift in American and British liberal grassroots groups' endorsement of economic sanctions—moving from opposition after World War I toward an embrace of sanctions as a means to deter war, despite collateral damage. *The Economic Weapon* reveals how support for international economic sanctions changed over time, largely not only in response to the changing nature of geopolitical conflict and hegemonic power but also in response to the collapse of the older public-private distinction. *The Meddlers*, on the other hand, chronicles the convergence of interventions by powerful states that controlled international institutions, intergovernmental organizations, or cartels into the domestic affairs of states with weak or partial sovereignty. American Political Development scholars might say that Mulder finds critical junctures, whereas Martin illustrates institutional isomorphism. Each of these state-led institutions created organizational rules, norms, capabilities, and cultures that converged around a particular normative framework for governing global capitalism; replication created legitimacy; and that helps explain post-World War II IMF policy choices. What is surprising is the extent to which the *idea* of sovereignty, if not its practice, appears timeless as the frameworks for interdependence grow, shrink, change shapes, and multiply. Sovereignty retained its territorial grounding; however, the meanings of political and economic sovereignty changed remarkably through the interwar period both within nation-states and multilateral institutions as the power and authority to regulate "the economic" became ubiquitous, professionalized, and oftentimes democratic. In turn, multilateral organizations took on elements of sovereignty—authority and power—which could be wielded against even powerful nation-states to transmute borders and govern flows of capital, goods, and people.

Dewey's argument that a moral community must precede punitive action cuts to the heart of both books too. Again, a normative framework resurfaces. There is an intractable tension within international institutions, between protecting the sovereign equality of member states and governing global capitalism through technocratic internationalism. That tension may be intractable but it certainly changes across time and space, and seemingly we should expect ideas about both sovereignty and rule-making to change as well. In this way, both authors challenge what the late political scientist John Ruggie, writing in 1982, famously referred to as the Bretton Woods system's "normative framework of embedded liberalism" ("International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, p. 39). For Ruggie, embedded liberalism entailed opening and structuring postwar globalization while accommodating *domestic* macroeconomic policy choices by allowing fixed but adjustable exchange rates. Thus the trade-off was about ceding sovereignty in order to control financial flows, facilitate trade, and thereby enhance domestic welfare programs and economic stability. But, for this new generation of historians of capitalism, the moral community had yet to be formed due to persistent asymmetries of power and interference. And thus, they argue that the post-World War II system has as much to do with preserving imperial norms within new institutional structures. For Mulder, that tension might be alleviated through a closer and more honest evaluation of the efficacy of economic sanctions while also coupling punitive measures with positive flows. Martin reaches a similar conclusion: the legitimacy of global economic governance requires a more honest assessment of the uneven demands made on developing world countries. In turn, he prescribes greater access to IMF special drawing rights during a balance of payments crisis.

The interwar period was short-lived and marked by many failures; however, it was also an era of profound change and experimentation. These books offer new and important insights into the challenges of global governance—then and now.

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https://doi.org/10.1017/S0007680523000363 Published online by Cambridge University Press