

DOCUMENTS AND STUDIES ON 19th c. MONETARY HISTORY

When Orient and Occident Meet

Proceedings of the Round Table of the "Silver Monetary Depreciation and International Relations"
program (ANR DAMIN, LabEx TransferS), Osaka, April 4-6, 2014

Georges Depeyrot, editor



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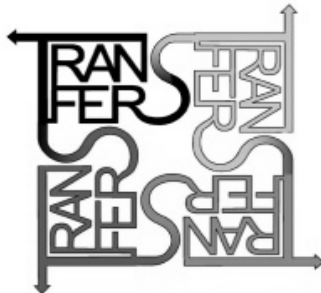
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Recherche effectuée dans le cadre du programme
DAMIN La Dépréciation de l'Argent Monétaire et les relations Internationales
Silver Monetary Depreciation and International Relations
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Introduction

Georges Depeyrot¹

Cette nouvelle table ronde du programme DAMIN consacrée à *La Dépréciation de l'argent Monétaire et les Relations Internationales* marque une nouvelle étape dans l'avancée de nos recherches.

Après les rencontres à Paris (2012), Madrid et Paris (2013), cette réunion à Osaka permet de rassembler les chercheurs venus d'Europe et d'Asie sur le thème de la rencontre entre les mondes européen et asiatique.

Mondes éloignés, mondes séparés, mondes cependant proches et voisins, l'Europe (et son prolongement américain) et l'Asie se sont côtoyés de l'antiquité aux temps modernes. Les importations et exportations de denrées précieuses ou d'aromates, entre autres, sont mentionnées dans tous les textes. Ce fut principalement après les récits de Marco Polo (1254-1324) que l'Europe commença à réellement découvrir l'Asie.

Les améliorations techniques du quinzième siècle, puis les grandes expéditions maritimes qu'elles permirent, inclurent le monde asiatique dans les destinations, sinon habituelles, du moins accessibles aux aventuriers.

Après cette phase exploratoire, les contacts entre les deux zones n'ont cessé de se développer, jusqu'à la colonisation.

En matière monétaire, les relations entre les deux zones sont également marquées par ces phases d'attraction et de répulsion. L'Orient est souvent accusé de "corrompre" les valeurs ancestrales de l'Occident, avant de n'être perçu que comme un débouché économique des productions européennes. Ainsi, des périodes d'opposition, de séduction, d'exploitation ou de colonisation se sont succédées.

Au cours du dix-neuvième siècle, le numéraire s'intègre dans une relation coloniale. Il sert à importer – exporter les biens produits ou nécessaires aux pays occidentaux et orientaux.

Le système bimétallique tel qu'utilisé par l'Union Latine se double d'une division géographique et politique. Les pays les plus riches accèdent à l'or et l'utilisent dans leurs échanges tout en maintenant ou promouvant l'argent dans les colonies et les pays dépendants.

La dépréciation de l'argent amplifiait les déficits des balances commerciales entre les pays. Acheter au pays colonisateur contre de l'or (ou en référence à la valeur de l'or), lui vendre en recevant de l'argent donnait lieu à substantiels bénéfices pour le colonisateur.

L'Inde, nous l'avons vu dans les divers volumes publiés dans le cadre de cette recherche, a toujours cherché à sortir de cette relation inéquitable. La Chine, bien que non colonisée mais dotée d'un pouvoir politique faible, n'a pas su sortir de cette situation. Le Japon sortit en 1897 de cette situation pour emprunter (en or) à Londres.

C'est dire à quel point le rôle de l'Asie était important dans l'émergence de la globalisation monétaire du dix-neuvième siècle. C'est le sujet de notre table-ronde.

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International capital flows and technological transfer: Euro Mediterranean economic bonds and the Middle East since the two oil crisis to the fading of transatlantic cooperation in the Mediterranean basin

Simone Selva¹

In the historical and economic literature on the economic slump of the 1970s it is a widely shared view to consider the two oil crises as a watershed in the rise and fall of growth patterns for the industrial democracies and their level of mutual commercial and industrial entanglement. Before this general backdrop, most of the historical accounts appeared so far did approach the energy crises of the 1970s from two viewpoints.

On the one side both political economists and, more importantly from our standpoint, historians of international economic relations, did investigate the impact of the four-fold oil price hike as far as it contributed to the dwarfing of GDPs, export and balance of payments equilibrium all across the West European countries and the United States. As such, so far the centerpiece of many investigations has been the consequences of the oil crises on the rate of growth in the industrial nations and their domestic economies. A corollary of this approach to the impact of the oil price hikes is the tendency to make a linkage between the dynamics of oil prices and economic stagnation: in this respect Paul Bairoch 's insistence on the divergence between sustained international trade and supply of commodities, and a parallel contraction in domestic demands is a case in point². In this respect a comparison between the OECD countries, the United States and Japan is worthwhile. Shortly after the two oil crises, in all these cases the contraction of volume of GDPs outpaced by and large that of both exports and imports³. According to this viewpoint, the impact of the two oil crises on any of the most important indicators of real economic growth patterns, such as for example a worsening in the means of payments or a shortfall in the consumers' aggregate demand, reversed the virtuous circle between world trade and domestic demand germane to the 1960s economic take off so far stressed by scholars specializing in international economics⁴. As far as the advanced industrial economies depending the most on the supply of energy sources on foreign markets were the raw material-scarce economies of Western Europe, notably Italy and the Federal Republic of Germany, the literature has so far stressed the impact of the two-fold energy crises on the continent-wide inflation, the downfall in the balance of payments on current account, as well as the overall capital outflows that the West European economies suffered from at that time.

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² Paul Bairoch, *Victoires et Déboires. histoire économique et sociale du monde , du XVIe siècle à nos jours* Tome 2 Editions Folio, Paris 1997; his account makes the decade's economic downturn resemble the interpretation of the Great Depression offered by Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization*, Palgrave, London 2012 (1st edition by Palgrave 2009).

³ In all of the advanced industrial democracies GDP by volume collapsed, whereas exports and imports were cut by half. Among the many statistical sources available see for example *OECD Historical Statistics 1970-2000*, OECD, Paris 2002; for a rather different overview based on data on GDP by constant and current prices broken down by country see B.R.Mitchell *International Historical Statistics: Europe 1750-2005*, Palgrave MacMillan, New York 2007;

⁴ Richard Cooper, *Economic Interdependence and Foreign Policy in the Seventies*, in id., *Economic Policy in an Interdependent World. Essays in World Economics*, The Mit Press, Cambridge (Mass.)-London 1986, pp. 1-22; id., *Economic Aspects of the Cold War 1962-1975*, in Melvin Leffler-Odd Westad (eds), *The Cambridge History of the Cold War*, vol. 2, Crisis and Detente, Cambridge University Press, Cambridge-New York 2010, pp. 44-64; Robert O.Keohane, *The Theory of Hegemonic Stability and Changes in International Economic Regimes 1967-77*, in id. , *International Institutions and State Powers. Essays in International Relations Theory*, Westview Press, San Francisco-London 1989, pp. 74 ff.;

Most accounts did insist on the European response to the economic doldrum and stagnation through the adoption of controls on capital movements, financial repression measures, the implementation of corporate agreements between big-sized firms and unions to sustain real wages or the calling on the international economic institutions for financial assistance to restore equilibrium in foreign trade or the balance of payments⁵. What stems from this economic interpretation of the economic stalemate of the decade is that the two energy crises do account for a recession borning out of a disequilibrium in the means of payments, rising costs of productions, and a corollary shortfall in productivity and competitiveness on foreign markets for the oil-scarce industrial democracies. In other words, the energy crisis triggered a worsening in the costs of productions that in turn prompted less competitiveness and a reduction in capital accumulation and aggregate demand within core capitalist economies such as the United Kingdom, Germany and Italy. Before this backdrop, quite a significant number of accounts so far produced make the argument that the European response to the economic contraction of the decade revolved around a search for traditional energy sources alternative to oil, spanning from the resumption of coal to the international gas market, as well as to the strengthening of longstanding imperial bonds with oil producing Mediterranean economies⁶.

On the other side, another strand of works stressed the intertwining between the two oil crises and the fading away of the dollar-pegged international monetary system set up during the 1944 international Conference held in Bretton Woods. This approach, coupled with a common view of the decade as a time of stalemate in the European economic and political integration process, led many observers and scholarly works to focus attention on the foreign economic policies of the United States and the European moves to react to the energy crisis merely from the vantage point of international monetary history. As such, most of the leading accounts of the Western democracies' initiatives to formulate a reaction to the economic meltdown of the decade, tackled the theme from this historical perspective. On the one side, the vast majority of works that appeared since the late 1970s onward have investigated the restructuring of Washington's international monetary hegemony after the US dollar's devaluation, insisting on the role of international monetary agreements and institutions, first and foremost the IMF, in setting the process in motion⁷. On the other hand, political scientists and to a lesser extent economic historians, engaged in reconstructing the series of repeatedly European attempts to coordinate differing European currency areas to build up an intra-European monetary system⁸.

⁵ Barry Eichengreen, *The European economy since 1945. Coordinated Capitalism and Beyond*, Princeton University Press, Princeton-Oxford 2007, chapter 9; Catherine Schenk, *The Decline of Sterling. Managing the Retreat of an International Currency 1945-1992*, Cambridge University Press, New York 2010; Peter Hall, *The Political Origins of Our Economic Discontents: Contemporary Adjustment Problems in Historical Perspective*, in Miles Kahler -David Lake (eds), *Politics in the New Hard Times. The Great Recession in Comparative Perspective*, Cornell University Press, Ithaca (NY) 2013;

⁶ Werner D. Lippert, *West Germany, the United States, and the Gas Pipeline Deal*, in Matthias Schulz, Thomas Schwartz (a cura di), *The Strained Alliance. US-European Relations From Nixon to Carter*, New-York, Cambridge University Press, 2010, pp. 65-81; H.G.Schroter, *Strategic R & D as an Answer to the Oil crisis. West and East German Investment in Coal Refinement and the Chemical Industries 1970-1990*, "History and Technology", Vol. 16 (2000), pp. 383-406; Martin Chick, Oil, *National Security and Fuel Policy in France and the United Kingdom 1945-1972*, in A.Beltran (ed.), *A Comparative History of National Oil Companies*, Peter Lang, Bruxelles 2010, pp. 181-196; Robert Toyne, *The New Commanding Height. Labour Party Policy on North Sea Oil and Gas 1964-1974*, "Contemporary British History", Vol. 16, 1, Spring 2002, pp. 89-118.

⁷ Harold James, *International Monetary Cooperation since Bretton Woods*, Oxford University Press, Oxford 1996; Charles S.Maier, *In Search of Stability*, Cambridge University Press, Cambridge 1987; Eric Helleiner, *States and reemergence of Global Finance. From Bretton Woods to the 1990s*, Cornell University Press, Ithaca, New York 1994, particularly pp. 123 ff. R.Gold, *The Institutional Legacy of Bretton woods: IMF Surveillance 1973-2007*, in D.Andrews (ed.), *Orderly Change. International Monetary Relations since Bretton Woods*, Cornell University Press, Ithaca(NY) 2008; on the eye-opening British case see D.Wass, *Decline to Fall. The Making of British Macro-Economic Policy and the 1976 IMF Crisis*, Oxford University Press, Oxford 2008. The Most recent account in this perspective is Chris Rogers, *The IMF and European Economies. Crisis and Conditionality*, Palgrave MacMillan, New York 2012;

⁸P.Salin, *L'Unification Monétaire Européenne*, Callmann Levy, Paris 1974; E.Apel, *European Monetary*

In this respect, most accounts stress that the number of European moves to shape a continent wide fixed exchange rate system was to replace the Bretton Woods system as long as it had warranted stability on the external equilibrium of the European economies, either the balance of payments or foreign trade. In particular, the European attempts to coordinate discount rates and foreign exchange rates from the so called European monetary snake through to the establishment of the European monetary system have been regarded as a way to curb a cross national import-induced domestic inflationary spirals and to reorganise their foreign trade through systematic revaluation policies and stronger European currencies.

Before this historiographical backdrop, these approaches share a twin assumption. In first instance they argue that the advanced industrial democracies of Western Europe reacted to their internal economic meltdown of the decade and to the straining on their external equilibrium without resorting to a reorganisation in the mode of production or whatever significant technological drift. Secondly, they limit their exploration on the financial dimension of the recession to monetary matters and institutional cooperation. As a corollary, notwithstanding their insistence on the role of the Middle East oil-producing countries' economic organisations, notably OPEC and OAPEC, in setting the dynamics of the international economy over the decade, they both fail in placing the initiatives of the West European countries and the United States to sort out of the recession before the multipolar world of the decade. What turns out of this approach is an underestimation of the role of the Middle East oil-producing countries within the international economy of the decade. In particular, with few exceptions so far the literature has tightly bound the restructuring of the international economy to the financial and monetary community of the western world, with a clear-cut insistence on the changing balance of power between the US dollar and the British Sterling, and the reorganisation of the international economic system on the linchpin of the American currency⁹.

This piece of work departs from this two fold perspective to offer a reconstruction of the economic dynamic underpinning the international economic relations system amid the two oil crisis and since the 1979 Iranian Revolution down into the early 1980s, through a very different methodological approach and a path-breaking research target. We try to approach the dynamics of international economic relations among the advanced industrial democracies during and after the two oil crises to inquiry how did the changing balance of economic power across the Mediterranean basin contributed to change Euro-Atlantic relations at economic level. In this context we pay particular attention to the different and changing policies of Washington and the West European countries toward the Arab moderate states, most notably Iran and Saudi Arabia, in making the recycling of oil revenues the basis to revamp the international economy at world level through the combining between technological advances and international capital flows that boomed following the demise of the fixed exchange system of Bretton Woods¹⁰. In

Integration 1958-2002, Routledge, London 2002; John Gillingham, *European Integration 1950-2003. Superstate or New Market Economy?*, Cambridge University Press, Cambridge 2003; D.Ikemoto, *European Monetary Integration 1970-79. British and French Experiences*, Palgrave MacMillan Basingstoke 2011; Emanuel Murlon Druol, *A Europe Made of Money. The Emergence of the European Monetary System*, Cornell University Press, Ithaca (NY)-London 2012;

⁹ Cathrine Schenk, *The Decline of Sterling. Managing the Retreat of an International Currency 1945-1992*, Cambridge University Press, Cambridge-New York 2010, pp. 315 ff.; Charles S.Maier, *Among Empires. American Ascendancy and its Predecessors*, Harvard University Press, Cambridge (Mass.) 2006; D.Spiro, *The Hidden Hands of American Hegemony. Petrodollar Recycling and International Markets*, Cornell University Press, Ithaca (NY) 1999; see also the rather limited transatlantic approach to the monetary order of the decade and the lack of attention to the changes in the production chains in the west and the financial role of the Oil producing countries that underpins the essays in Niall Ferguson-Charles S.Maier-Erez Manela-Daniel Sargent (eds), *The Shock of the Global. The 1970s in perspective*, Harvard University Press, Cambridge (Mass.) 2010;

¹⁰ NARA, RG 56, Office of the General Counsel, Records related to Opec Financial affairs 1974-77; NARA, RG56, Central Chronological Files of the US-Saudi Arabian Joint Commission; Library of Congress (LOC), Manuscript Division, Robert McNamara papers; NARA, RG 56, Subject Files of the Deputy Assistant Secretary for Developing Nations Finance 1976-1977;

so doing, we analyse the development of international economic relations among the United States and the international economic institutions, the West European economy and above all the Deutsch Mark currency area, and the Middle East oil producing countries¹¹. Before this backdrop, the specific target of this research paper, is three fold. First we aim to demonstrate to what extent technological transfer from the United States to the Western bloc economies and toward the non-oil producing countries, as well as later on during the 1970s through the end of the decade, toward the Middle East oil producing economies as well, was a longstanding process dating back to the second half of the 1960s. Secondly, we aim to explore the complex interplay among Washington, her European partners, the international private capital markets and the rising role of the Arab finance over the decade. In this respect, the historical idea that the United States approached the recycling of oil revenues to restore their hegemony over the West European countries, as well as that the United States charged the American commercial banks with recycling oil revenues¹², can be countered. To the contrary, the Deutsch Mark currency area did play a pivotal role in oil recycling to finance the non oil-producing developing countries' technological update way beyond the oil crisis, whereas the US Administrations and the American commercial banks, led by Chase Manhattan Bank, Bank of America and City Bank, squared off over the dynamics of recycling and the quota of petrodollars worth investing in fuelling development assistance and industrial modernisation in the largest and most populated oil producing countries, first and foremost Iran. On the whole, what turn out of our investigation is a clear cut American tendency to both restore the non oil producing countries' means of payments to import capital intensive investment goods and instrumental goods from the West European economies, as well as a will to bring and keep the Middle East oil producing societies into the western sphere of influence through massive technological transfers, industrial update and infrastructural works. In third instance, we follow this process of technological transfer after its heydays between 1974 and 1977 to report on how it changed after 1979, when the Iranian revolution and the economic collapse of the East European countries and the skyrocketing rise of their public debts, so far financed by the American commercial banks, marked a path-breaking turn in this story¹³. Since as early as the international negotiations on the Iranian hostages of 1980 onward, a decade long search for unity to make oil revenues the fuel to stir modernisation across both oil producing and non oil producing countries, and the linchpin to bring those economies within the capitalist sphere of trade and financial influence, broke down. As a matter of fact, since the political turn in Iran and the Iranian international crisis over the hostages case, the two leading forms of retaliations on the part of the United States became on the one side the freezing of Iranian financial assets in the United States, on the other an enforced ban on transfer of capital intensive investment goods, instrumental goods and manufactured goods, either for the military or for the civilian Iranian industries¹⁴. In striking contrast to this approach, the West European countries and, more importantly, those on the

¹¹ for a sample of the archival repositories we draw upon in this research paper in the making see IMF Historical Archives, Office of the Managing Director Records 1946-2000, Witteveen papers; IMF Historical Archives, Middle Eastern Department Fonds, MEDAI Subject Files; NARA, RG59, Bureau of European Affairs, Records related to Economic Matters 1953-75; NARA RG56, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977; World Bank Group Archive, Papers of the Presidents, McNamara papers, Correspondence with member countries-Germany-Correspondence;

¹² D.Spiro, *The Hidden Hands of American Hegemony*; Duccio Basosi, *The US, Western Europe and a Changing Monetary System 1969-1979*, in A. Varsori-G.Migani (eds), *Europe in the International Arena during the 1970s. Entering a Different World*, Peter Lang, Bruxelles 2011; for this perspective on the relationship between Washington and the American commercial banks see for example C.S.Maier, "Malaise". *The Crisis of Capitalism in the 1970s*, in N.Ferguson-C.S.Maier-E.Manela-D.Sargent (eds), *The Shock of the Global*; J.Stein, *Pivotal Decade. How the United States traded Factories for Finance in the 1970s*, Yale University Press, New Haven (CT) 2010;

¹³ J.Carter Presidential Library; Historical Archives of the Federal Reserve Bank of New York, Central Files, Records related to meetings with New York City bankers;

¹⁴ J. Carter Presidential Library, NLC-33-13-26-1-2, Records of the Special Coordinating Committee; NARA, RG 56, Office of the Deputy Secretary of the Treasury, Chronological Files related to the Iranian Hostage Negotiations 1979-1981;

Mediterranean shores, did not discontinue their economic bonds with Iran way down into the 1980s. In particular, both France, and even more Italy, did provide both investment goods and capital goods. On the one side France did not abide by the American policy to freeze the Iranian assets abroad and continued to fund the process of civilian and industrial modernisation across the Middle East region. On the other, Italy ventured in providing both end-items weapons and average capital intensive instrumental goods in the framework of the Iran-Iraq war¹⁵.

¹⁵ NARA, RG 56, Office of the Assistant Secretary for International Affairs, Office of the Deputy Assistant Secretary for International Monetary Affairs, Office of Industrial Nations and Global Analyses, Records Related to Portugal, Italy and Spain 1976-1981; Historical Archive of the Federal Reserve Bank of New York, A. Solomon Papers;

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The aim of the program is to analyze the question of the rise and fall of the bimetallism and the question of the depreciation of silver in the nineteenth century. This analyze includes the important question of the role of Asia and especially of China and Japan in the silver question. A large place is given to the questions of coin production, monetary unifications with the emergence of common currencies (cf. Latin Union in Europe, US and Mexican Dollar, Yen, etc.) in a process of globalization of the monetary market, including the question of the shift to the gold standard. The period concerned is mainly the XIXth century, in a large acceptance.

The DAMIN program (2012-2015), supports and encourages several actions such as publication, republication of the main basic documentation (International Monetary Conferences, Reports of silver committees, etc.), especially in the series *Documents and Studies on 19th c. Monetary History*. Translations of documents from non-European languages are also parts of the program. Of course, analyses and elaborations of new interpretation are the final goal of the program; comparative studies with other periods of monetary globalization are welcome.

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