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SPECIAL RELATIONSHIP OR USEFUL ALLIES? THE BRETTON WOODS SYSTEM AND ANGLO- AMERICAN RELATIONS

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Abstract

This thesis deals with the ‘Special Relationship’ between the United States and Great Britain, and the role that the Bretton Woods System played in this relationship. Was it an important agreement that strengthened the bond between two members of the same family or was it a useful tool that served both countries’ national interests? This research argues that a distinction should be made between the Bretton Woods System and the alliance during World War Two and the Cold War. These two wars signify two very different contexts in which cooperation occurred on a different basis and on a different level. In the end it concludes that the Bretton Woods System was probably intended as a model for international monetary cooperation introduced by two Anglo-Saxon countries, who shared a deep bond of culture and mutual understanding. However, during the Cold War this changed to a pragmatic approach by two different countries with two different agendas. During these years, the goal was to defend national interests, but for that they needed each other.

Introduction

On August 15, 1971 United States President Richard Nixon shocked the world by unilaterally announcing the end of the direct convertibility of gold to the dollar. This caused the first experiment at floating exchange rates, which has been the norm for major currencies in the world since 1973 (Brinkley and Nichter 232). A floating exchange rate is “a system in which governments may attempt to moderate exchange rate movements without keeping exchange rates rigidly fixed” (Krugman and Obstfeld 481). Nixon’s decision practically ended the Bretton Woods System that had been established in 1944 and which had ensured international monetary interdependence. His announcement came at a time when American power seemed to be fading worldwide. The United States was engaged in a costly war in Vietnam and had witnessed the violent political assassinations of both Martin Luther King and Robert Kennedy in 1968. In the late 1960s the US deficit grew at an enormous pace, mostly because of the Vietnam War (Judt 454). A quarter of a century of unprecedented growth since the end of the Second World War came to an end (Gordon 383).

By taking the decision to end the convertibility of gold alone, Nixon did not take into account the opinion of the US’s staunchest ally in the international political arena, namely Great Britain. Ever since World War Two a so-called ‘Special Relationship’ had existed between both countries, built on the fact that both countries shared their language, culture, and democratic system (Dumbrell 4). Discussions of a postwar monetary and economic settlement were primarily discussed between the Americans and the British. The Bretton Woods Agreement was also the result of Anglo-American negotiations and collaboration (Eckes Jr. 61.). The ‘Special Relationship’ remained intact after the war. During the early Cold War Great-Britain was seen by the U.S. as a valuable military ally (Dumbrell 161). However, in the early 1970s the two allies seemed to be drifting apart. Nixon’s foreign policy was focused on Vietnam, the Soviet Union, and China, while the British started moving closer to the

European Community (EC). They finally entered the EC on January 1, 1973. Because the British started maneuvering towards Europe in those years, it seems at least plausible that something had happened that made them do so. As was mentioned above, the abolishment of the Bretton Woods System led to the international monetary system that is still dominant today, making it a very important event of the early 1970s.

Although the relationship between the United States and Great Britain has been a much debated topic, the correlation with the Bretton Woods System has not undergone close scrutiny yet. However, it should be investigated, because of the events in the early 1970s, around the time of the end of the Bretton Woods System. President Nixon was opting for *détente*, which released the tension of the Cold War, but also made the US less dependent on the UK in global affairs and containment policy. The British, on the other hand, entered the EC in 1973, just shortly after the Nixon Shock. Does this mean that Anglo-American relations were affected? This research will thus further investigate the impact of the end of the Bretton Woods System on Anglo-American relations in the 1970s. It will analyze relations up until 1979, because in that year Margaret Thatcher became prime minister and this marked a new period of relations (Dumbrell 5). In the first chapter, previous literature on this subject will be discussed, divided into two different categories. The first category is Anglo-American Relations during and after World War Two until the late 1970s. The central question is about how these relations are being interpreted. After looking at the previous analyses of the 'Special Relationship,' this chapter will go to the second category, which is international relations theory. This section will also look at how these ideas of the 'Special Relationship' fit within international relations theory. There are a couple of paradigms in studies about international affairs that are used to evaluate and predict certain events. In this case the theoretical approaches of realism, liberalism, and constructivism are compared. The central question here is about how these theories can be useful in this particular case study.

All subsequent chapters will be about concrete events and evidence leading up to the conclusion. They will all have sub questions related to what drove Anglo-American relations during the years that are discussed in the chapters. The second chapter will look at the Bretton Woods System and the Second World War more closely. It will explain the cooperation during the war and some key features of the Bretton Woods agreement. Its sub question will be: On what basis did the United States and Great Britain cooperate during World War Two? It will include the Bretton Woods Conference and the subsequent system, in order to decide the importance of it in Anglo-American relations in the first half of the 1940s. The third chapter will analyze the alliance during the Cold War until the Nixon Presidency. It will look at how previous leaders of both countries cooperated and differed on several issues. In the end, the chapter is meant to show us on what basis decisions were made, i.e. what the driving factors for cooperation were during those years. The sub question will be as follows: On what basis did the United States and Great Britain cooperate during the Cold War? The fourth chapter will look at Nixon, British Prime Minister Edward Heath, and the Nixon Shock that ended the Bretton Woods System. It will look more closely at what factors made the US President to decide to end the international monetary cooperation and Britain's response to the event. The sub question for this chapter will be: How did the end of the Bretton Woods System influence the 'Special Relationship'? The final chapter will look at the remaining years of the 1970s, to see whether the relationship was influenced or not by Nixon's decision. Its sub question will be: On what basis did the United States and Great Britain cooperate in the remaining years of the 1970s after the Nixon Shock? In the conclusion this research will try to answer the research question: What role did the Bretton Woods System play in the 'Special Relationship' between the United States and Great Britain?

The Special Relationship and International Relations Theory

Throughout the years, a lot has already been written and said about the ‘Special Relationship’ between the United States and Great Britain. The basis on which these close ties between both countries existed has been most closely studied. Generally, there are two different schools of thought in analyzing the relations. The first school, which shall be called the ‘Cultural School’ claims that the ‘Special Relationship’ rested on common cultural characteristics and shared values. Winston Churchill for instance once described the “joint inheritance of Britain and America as not just a shared history but a shared belief in the great principles of freedom and the rights of man” (Wallace and Philips 263). They shared values and commitment to a liberal world order. Former Prime Minister Harold Macmillan even compared the relationship between the two nations as that between Rome and Greece, with Greece being the teacher leading by experience (Ibid. 263-264).

There are arguments being made by various academics in favor of the ‘Cultural School’ as well. The concept of culture in this research is defined as “an historically transmitted pattern of meanings embodied in symbols, a system of inherited conception expressed in symbolic forms by means of which men communicate, perpetuate and develop their knowledge about and attitudes towards life” (Geertz 89). This means that Churchill’s notion of shared principles about freedom and human rights also belong to one’s culture. C.J. Bartlett confirms this by claiming that despite their immense differences on policy issues like the Suez Crisis and the Vietnam War, the cultural and linguistic link between the two kept them together (Young 844). The fact that diplomats of both nations could communicate with each other in their native language also appeared to be a great advantage. Judt went even further by calling Britain and the US part of an “Anglophone empire,” indicating that their common language resulted in policies that were so identical they could easily be regarded as one (Judt 160). The clearest example of such an empire and such a deep bond was of course

World War Two. In those years both countries even cooperated on the development of nuclear weapons, an agreement formalized in the 1943 Quebec Agreement. Never before had two nations trusted each other as much as the British and the Americans did in those years and it is hard to believe that this trust was based on something other than cultural similarities. Coker also argues that the values they shared were the closest bond between the two, thereby supporting Bartlett's argument. He mentions Henry Kissinger, one of President Nixon's most prominent advisors, especially on foreign policy, who in 1982 reminded a British audience of the fact that the United States still looked to Great Britain as their closest ally in trying to ensure a freer and safer world. According to Coker, the idea that they both had this same vision in mind tied them closely together (Coker 408). Nye talked about this cultural impact in general. He coined the term 'soft power,' which is defined by "the ability to obtain desired outcomes through attraction or persuasion rather than coercion or payment" (Nye Jr. and Welch 5). It is contrasted with hard power, which is the ability to achieve the desired outcome through coercion or payment (Ibid. 2). He argues that language alone is not enough for such deep ties as those between the US and Britain. The fact that the United States was admired by the British also played an important role in the 'Special Relationship', thereby confirming the utility of 'soft power' (Nye Jr. 83). This admiration was derived from the fact that as an English speaking country and former British colony, the United States was now the most powerful nation in the world. This common past created a sense of sentiment (Dumbrell 14). The bond that they shared during World War Two based on mutual understanding and admiration served as a basis for the 'Special Relationship' of the Cold War. They did not have such a close relationship before because the United States maintained a policy of "no entangling alliances" and isolationism (Cooper Jr. 412-435). Their mutual understanding became evident in the beginning of the war with the Atlantic Charter, stating their common goals for world peace and freedom.

In sum, the arguments of the 'Cultural School' are that the 'Special Relationship' existed because of shared values, language, and culture as defined by Geertz. Their shared history was also an argument, used by Macmillan when he invoked the comparison of the Romans and the Greeks. This also refers back to the United States being a former British colony, thereby ensuring a close bond between the two. Nye's concept of 'soft power' is used by arguing that because of admiration for the United States, the British drew closer to the US, which made the 'Special Relationship' even stronger.

Despite the fact that there have been made several arguments for the 'Cultural School', there are much more supporters of the idea that the 'Special Relationship' was built on common interests. This line of thinking is called functionalism (Danchev 739). Already in the 1950s, when the 'Special Relationship' was supposed to be very much alive, Walter Gifford, then the US ambassador to the UK, said that they were two different peoples with sometimes different interests (Dumbrell 274). Robert Jervis argues that they were indeed collaborating on the basis of interests. He claims that the 'Special Relationship' did exist, but within the international power structures of the Cold War. The British needed the Americans because of their global standing (Jervis 98). The United States on the other hand were concerned about Britain's willingness to remain engaged in the world (Rossbach 87). According to Danchev, the relationship between both countries was built on war, with the Second World War as a clear example (Danchev, *Essays in Anglo-American Relations* 160). Rossbach studied the period of Heath and Nixon in detail, claiming that the 'Special Relationship' was losing its reason of existence, because the British were moving towards the EU, while Nixon was pursuing détente (Rossbach 7). The relationship was based on the fact that both countries did not want to lose their international status (Ibid. 204). However, according to Dobson, the relationship did change in the late sixties, because the economic 'Special Relationship' came to an end (Dobson 233-235). This strongly indicates that the end of the Bretton Woods

System would have some influence on the ties between both nations, because they were collaborating so closely in economics.

In sum, the functionalists think that practical reasons were the basis for the 'Special Relationship.' Both countries tried to cooperate on issues where they shared interests or otherwise had other interests but the same goal. According to Danchev war was an important factor in their collaboration, but the use of the Second World War looks less impressive, because the Cold War, which is the main subject of this research, was different from World War Two. That the Cold War was vital to their relationship was emphasized by Rossbach, who claimed that in the early seventies the 'Special Relationship' was losing importance because of détente. Finally, Dobson stressed the economic ties and the changing nature of cooperation in that area since the late 1960s. These arguments proved that they were working together based on pragmatism, not on idealism.

When looking at the effects of the end of the Bretton Woods System, it is also very important to look at the theories in international relations, because they provide a framework for underlying motives of actions in the international political arena. There are four major overarching paradigms in international relations theory and all four of them are worth studying for this research. All sub-categories such as for instance neo-liberalism and neo-realism are excluded, because discussing all these approaches is beyond the scope of this research.

The first major theoretical approach that is worth studying is realism. Realism has been defined as "an analytical approach in international relations in which the primary actors are states and the central problems are war and the use of force" (Nye Jr. and Welch 5). Fear and the desire to dominate are the dominant human drivers. All states are in search for power and security (Ibid. 69). The father of realism is the ancient Greek historian Thucydides. His *History of the Peloponnesian War* covered the war between Athens and Sparta in the fifth

century B.C.E. According to Thucydides Sparta went to war in order to limit Athens' power (Ibid. 25). One can see the need for security as the driving actor in Sparta's reasoning. As Gilpin states, "the classic history of Thucydides is as meaningful a guide to the behavior of states today as when it was written in the fifth century B.C." (Gilpin 7). In the seventeenth century A.D., the British philosopher Thomas Hobbes made an important contribution to realism. He argued that all humans are in a natural state of war with each other, only concerned with individual interests. However, human beings are rational, so they will opt for a sovereign hegemon (Lloyd and Sreedhar par. 6). Another important argument of realists is that morality cannot exist in international politics. This was also the point that Carr, who is considered to be the first modern realist, made in his *The Twenty Years' Crisis 1919-1939* (Carr 19). A couple of years after Carr published his book, Hans Morgenthau came up with the six principles of realism, which have been a guideline for realists ever since. First, politics is governed by objective laws. This should make it easier to predict a statesman's behavior. The second law is that a state's interests are defined in terms of power, which sets politics apart from other spheres of action. Those first two rules combined make up the third rule, which says that interest defined as power is an objective category that is universally valid. The meaning of this can change over time. A fourth law is that universal moral principles cannot be applied to the actions of states. By claiming this, Morgenthau agrees with Carr. The fifth and penultimate principle is that the moral laws that govern the universe are different from that of nations. And finally, Morgenthau claims that the difference between realism and other schools of thought in international relations is real. (Morgenthau 4-15)

The second major paradigm that needs to be looked at closely is liberalism. Liberalism is "an analytical approach to international relations in which states function as part of a global society that sets the context for their interactions and that stresses the domestic sources of foreign policy" (Nye Jr. and Welch 3-4). Liberalism is directly and diametrically opposed to

realism. Its roots can be traced back to the philosopher Immanuel Kant and his essay *Perpetual Peace* from 1794 (Cristol par. 1). Liberals see states, but also non-state international actors as the central international players. The dominant drivers are welfare, justice, security and the desire to live well. Cooperation is an important aspect of international relations. Liberals claim that two states will act the same in the international political sphere when they have the same domestic political structure. (Nye Jr. and Welch 63,69) Moravcsik confirms this by stating that these domestic institutions have a profound impact on policy making. Unconditioned harmony does not exist, so cooperation is needed. He claims that liberalism explains the distinctiveness of interstate relations among modern western states, thus the US and the UK included. (Moravcsik 513-516) Shimko writes that liberals perceive mankind as being reasonable and moralism is the basis of this (Shimko 282-285). This is directly contradictory to realists' notions that there is no place for morality in international politics. Woodrow Wilson is considered to be a classic example of liberalism, with his idea of a League of Nations after World War One and the need for cooperation among nations (Moravcsik, *Liberalism and International Relations Theory* 1).

Constructivism is the third approach that will be considered within this research. Constructivism is "an analytical approach that emphasizes the importance of ideas, norms, cultures, and social structures in shaping an actors' identities, interests, and actions" (Nye Jr. and Welch 1). One of its founders is the German Alexander Wendt, whose *Anarchy Is what States Make of It* outlined some of the constructivist's principles. He distances himself from the old paradigms by stating that "the debate is more concerned today with the extent to which state action is influenced by "structure" (anarchy and the distribution of power) versus "process" (interaction and learning) and institutions" (Wendt 391). He rejects realists' notion that the anarchic structure of the international system, which he too recognizes, necessarily leads states to play competitive power politics. A state may have multiple identities based on

institutional roles and relationships to other states. (Wendt 398) Wendt's claims lead back to the constructivists' core belief, namely that even a central realist concept like power politics is socially constructed. International relations are historically and socially constructed (Jackson and Nexon 81). Constructivism is often more closely related to liberalism than to realism.

And finally, the fourth major theory within international relations is Marxism. This may seem strange, because the entire Cold War was a struggle against Marxism, at least from the Anglo-American perspective. However, the policies of the Soviet Union have become an embarrassment for Marxists (Jones and Hobden 142). Marxist theory in international relations harbors valuable insights into the 'Special Relationship,' especially concerning the Bretton Woods System. Marxism rejects the realist and liberal notions of state conflict and cooperation, instead focusing on economic interests and considerations in international affairs. The social world should be studied as a totality. This is also what Rosenberg argues, when he wrote that an international system cannot be purely and entirely political, thereby dismissing realism (Ibid. 152). Materialism plays an important role and institutions within a society control, reflect, and reinforce the patterns of power controlling the economy (Ibid. 144). The global capitalist system dominates the entire world, incorporating all of humanity in its grasp. Cox further develops this idea, by pointing out two hegemons who helped create this system. These hegemons are the United States and the United Kingdom. They maintain stability in this structure (Cox 139-140). This argument makes Marxism a suitable approach for this research, because it is centered on economics and the Bretton Woods was arguably the most prominent example of economic cooperation in the Cold War years.

When comparing those theoretical approaches to the two schools that discussed the 'Special Relationship,' it is immediately striking that the functionalist school of Danchev easily fits into a realist framework. Both the Second World War and the Cold War served as important factors in their close collaboration, because they thought they needed one another.

Their individual goals were focused on obtaining power and the 'Special Relationship' was maintained to achieve this. Security would automatically be the result of that power. The 'Cultural School,' on the other hand, fits more into a liberal/constructivist framework. Because they share a history and a language, they are more closely related than other states. Both states had a democratic system. This basis served as the most important condition for their close cooperation. Nye's concept of soft power also played a role in this, because the British admired the United States. Marxism is a little bit outside the realm of the debate on the 'Special Relationship,' because none of the authors mentioned above mentions economic interests as leading factors in the US-UK alliance. However, it is relevant for this research, because it studies the influence of agreements and policies like the Bretton Woods System on the bond between the two nations.

In the next chapters, this research will describe the 'Special Relationship' in the years leading up to and after the end of Bretton Woods. The theories of international relations will be applied to the policies of before and after the 'Nixon Shock.' This will in the end form an important guideline for answering the research question. All of these concepts attempt to explain how events take place and decisions are made in international politics. If this research will conclude that power politics played the most dominant role in the 'Special Relationship,' then realism proved to be the most viable theoretical approach to explain this relationship. If the 'Cultural School' was right and the entire collaboration was based on mutual understanding, liberalism will have proved to be the most suitable concept for explaining Anglo-American relations during the Cold War years. But before we go into the Cold War years in detail, the next chapter will first look more closely at the Bretton Woods System and economic policies during the Cold War years.

World War Two and the Bretton Woods System

This chapter will deal with Anglo-American Relations during the Second World War and the creation of the Bretton Woods System. Its sub question is: On what basis did the United States and Great Britain cooperate during World War Two?

The 'Special Relationship' between the United States and Great Britain that marked the second half of the twentieth century was a new era in Anglo-American relations. During World War One they had already successfully combined forces against the German emperor, but this close collaboration did not survive the war, because during the 1920s they went back to being rivals, with the US challenging Great Britain's dominance on the world seas (Dumbrell 9). This even led to tensions during the 1929 meeting between President Hoover and Prime Minister MacDonald, but the Great Depression and the subsequent return to isolationism ended this tense period of relations (Ibid. 10). When the Germans invaded Poland on September 1, 1939, the French and the British jointly declared war. France was quickly overrun by the Nazis in June 1940, but the British were able to fend off a German invasion of their isles. However, they were in dire need of support and they turned towards President Franklin Roosevelt for help. This awoke a sense of shared identity in most Americans and the Senate approved a lend-lease bill, thereby granting US destroyers to the British navy (Herring 522-523). The so-called Atlantic Charter of August 1941, a couple of months before the US would officially enter the war, was drafted by Churchill and Roosevelt. Here both nations laid out the principles of a desirable postwar world and it created a core argument of the 'Cultural School' on Anglo-American relations. After all, it held that all people had the right to self-determination, they would fight for freedom of the seas, territorial adjustments had to be in accord with the wishes of the people involved, and trade barriers had to be lowered. After Pearl Harbor was attacked by the Japanese Empire in December 1941, the United States finally entered the war officially.

It was during these years, until 1945, when the Nazis and the Japanese surrendered, that “the United States and Britain achieved probably the closest collaboration by any allies in time of war” (Ibid. 547). The top military leaders worked together through a Combined Chiefs of Staff and the nations shared their economic resources. However, Churchill and Roosevelt did not agree on everything. Both allies clashed over the potential role in the future for Britain in the Balkans and the dissolution of the British Empire (Dumbrell 11). The British were also resenting the fact that their world power was fading, while the US was becoming the new dominant nation (Herring 547). They also disagreed over the second front, alongside the eastern one, where the Soviet Union was battling the Germans since June 1941. Roosevelt wanted to create one in 1942, but Churchill, fearful that the bulk of such an invasion force had to be provided by the British, since the Americans would have to transport an entire army across the Atlantic, wanted to postpone (Hamilton 28-29). The Americans led the combined war effort, with Dwight Eisenhower as the Supreme Allied Commander in Europe (SACEUR), but with regard for British sensitivities. Despite the fact that a great many Americans thought of the British supreme commander Bernard Montgomery as one of the most overrated generals of the war, Eisenhower did grant him important missions, thereby showing his awareness of the political aspects of the war (Eisenhower 113). From the British side, Montgomery was by no means forced or obliged to obey Eisenhower, because he was the highest military official of the British. The fact that he nevertheless did obey shows the close bond and mutual understanding between the US and the UK during those years.

By the fall of 1943, the war was practically over in the sense that it was clear the Allied Forces would ultimately prevail. The Soviets were pushing back Hitler’s armies, while Anglo-American troops were in control of the Mediterranean and General MacArthur was driving the Japanese back in the Pacific (Hamilton 31). The Allies needed to look beyond the end of the war, to think about how the world should look like once the hostilities would cease.

One aspect of the postwar world was economic cooperation. For the first time since the early days of the Republic, foreign policy had the highest national priority and the US did not want to repeat the mistakes made after the First World War by going back into isolationism once they had won (Herring 538; Eckes Jr. 1). In order to achieve a system of international economic and monetary collaboration, the United States and Great Britain organized a conference in July 1944, in the Mount Washington Hotel in New Hampshire, for which more than seven hundred delegates from 44 Allied countries showed up. They agreed that the absence of war was vital to international trade and economic interdependence fostered world peace (Eckes Jr. 3-4). The gold standard they agreed to was supposed to make sure international trade was possible, because gold was used to maintain the balance (Ibid. 5). The fixed exchange rate was set at 35 dollars an ounce. In principle, gold became the world's reserve currency (Krugman and Obstfeld 546). Exchange rates could be valued and revalued against the dollar, which had to be determined by the newly founded International Monetary Fund (IMF). The US dollar thus did not have any flexibility, thereby making everyone within the Bretton Woods System dependent on them (Eckes Jr. 237). When the system was approved by all participants, it created a "spirit of unity and international altruism" (Ibid. 135). It was thought that they had finally reached both a stable and a durable international order.

Even though the British and the American delegates formed a coalition at the conference, the period leading up to the conference they had not been so united. Although domestic recovery was more important than globalization for Roosevelt, he did want to create an international monetary system for stability. The US had not been ready for this after World War One, but now they were. (Eckes Jr. 14-23) Because the standard of living had obviously declined in the UK, so the British, even more than the Americans, pursued a course of internationalism, with the US and Great Britain as leading powers (Ibid. 66-69). During the

negotiating process, the Americans were led by Harry Dexter White, a close aide of President Roosevelt, while the British delegation was headed by the famous economist John Maynard Keynes. Both men were said to be mostly interested in domestic concerns (Gavin 9). To achieve this, both White and Keynes first proposed a system of their own, before they came to an agreement that would close the ranks during the conference. Keynes knew that Great Britain would face enormous postwar deficits, so he wanted to create a system in which their currency, the sterling, would not be penalized. That is why he proposed a so-called 'currency union' in which a country's surplus payment balances would foster a penalty payment and debtor nations would have unlimited access to the international fund. He also did not want to rely on gold as the international reserve currency. (Gavin 18-19) The American delegation did not accept his proposal. White did want to have gold convertibility and standards, because the US owned the largest supply of gold in the world. He proposed the creation of a United Nations Stabilization Fund and a Bank for Reconstruction. These would help deficit countries to keep their currencies stable. They would also be able to restrict national authority in some cases when countries would not be able to take care of their own currency. Being the preponderant economic power in the world, such a system would give the US even more control over international economic processes. (Eckes Jr. 46-47)

In the end, both delegations came to an agreement, of which the process and its details are beyond the scope of this research. The most important feature of the negotiations was the different starting points of both nations. By the time they commenced at Bretton Woods, they were quite certain that the Allies were going to win the war. For that reason, they could go back to defending their national interests and it is crucial distinction from the war effort. While the battle fought during World War Two created the need for a 'Special Relationship', with close coordination of their forces and resources, the postwar world was not. This would favor the realist paradigm, because in that case, both nations were just looking after their own

interests, thereby needing the help of the other. On the other hand, both countries started their friendship during a time of US neutrality in World War Two. The fact that they turned towards Britain as their favored belligerent would indicate that they did indeed share a bond, thereby supporting the liberal/constructivist paradigm. This is not a final answer to the research question, because at the time, both countries could not comprehend what the world would look like after the defeat of the Axis powers. They could not suspect that within two years after the hostilities had ended, they would be engaged in a dispute with their former ally, the Soviet Union, thereby creating the need for a renewed tightening of the 'Special Relationship.' The next chapter will look further into the early Cold War years and their alliance, focusing on international crises as examples of what the underlying reasons were for the close Anglo-American collaborations.

The Early Cold War

This chapter will deal with the Anglo-American relations during the early Cold War years, up until the years of Nixon and Heath. It will try to answer the sub question: On what basis did the United States and Great Britain cooperate during the Cold War?

At the end of World War Two, Britain owed more than 3,000 million pounds to her wartime creditors, making it the largest debtor in the world during the early postwar years. The United States experienced an economic boom, which made them decide to aid Europe and Great Britain by supplying them with US dollars, the so-called Marshall help. (Newton 391-392) The United States also granted a 3.75 billion dollar loan to the British (Herring 605). After Roosevelt's death, Harry Truman had taken over as president and under his leadership the US began to distrust the Soviet Union, who had been their wartime ally against Nazi Germany. Truman was not alone in not trusting the Soviets and their leader Stalin. In a speech given in Missouri in 1946, Winston Churchill talked about the division of Europe in Eastern and Western spheres of influence. He called for the extension of the fraternal Anglo-American wartime cooperation, thereby acknowledging the Soviet threat. (Ibid. 605-607) A crisis in the fall of 1946 over Turkey "provoked the first of numerous war scares" (Ibid. 609) The Cold War had begun. From there on the US became dependent on the British to help them contain the Soviet Union in Europe, thereby indeed renewing their wartime alliance (Dumbrell 51).

During the year 1947, the Soviet Union took control of Czechoslovakia and installed a puppet regime. This made the British cling even more closely to its relationship with the United States, especially because they were experiencing a sterling crisis themselves (Newton 397-398). In 1948, Stalin, fearful of a possible revived West-Germany, approved a blockade of all access roads to Berlin, creating the need for a common defense organization and a year later, the North Atlantic Treaty Organization (NATO) was founded. This was a huge victory for the British, because they now had a Western alliance designed to "keep the Americans in,

the Russians out, and the Germans down” (Reid 63). After the Soviet Union exploded their first atomic bomb in 1949, the United States approved of a British plan to develop their own nuclear deterrent for their defense. They were given privileged access to secret US nuclear information, because they were being regarded as a valuable nuclear ally in the Cold War (Dumbrell 160-161). Intelligence cooperation in those years was also extremely close, sharing classified information with each other, but with no one else. However, the US made clear that they were the senior partner, by not giving the British any say in their own nuclear policies, while the British had to confer with them if they wanted to do something with their atomic weapons (Ibid. 167-168).

The alliance soon paid off for both of them when the Korean War broke out. After the Second World War, Korea had been divided by a communist North, controlled by Kim Il Sung, and an American backed South, controlled by Syngman Ree. When the North Koreans crossed the internationally recognized border between the two countries, the US called for a United Nations (UN) mandate to strike back (Meisler 55-59). However, the US forces needed troops from other countries in order to uphold the notion that they were fighting under the colors of the UN, while the British, by sending an entire division, could maintain their status as a world power (Ibid. 64). It was not until a couple of years later that Britain’s weakness and its demise as a global power became evident during the Suez Crisis. The Egyptian leader Gamal Abdel Nasser was a nationalist, who wanted to unite the Arab world under Egyptian leadership. He also wanted to destroy Israel. When the US withdrew an offer to financially support the Aswan Dam project in Egypt after Nasser recognized Communist China, the Egyptian responded by nationalizing the Suez Canal and blockading the Gulf of Aqaba, thereby making it for Israeli ships to reach the southern part of their country (Kissinger 529). This was perceived by the British as a direct attack on their interests and prestige. The corporation that ran the canal had been British and their oil supplies had to be moved through

these waters to reach the homeland (Herring 675). Together with the French and the Israeli's, Britain's Prime Minister Anthony Eden decided it was better to go to war than let this happen without a meaningful response. The attack took place in late October 1956. President Eisenhower had never been aware of British intentions, so he became furious. His reelection campaign was about to finish and the Soviet army was marching towards the Hungarian city of Budapest, to crush a revolt there. The Suez War thus set off the most serious crisis in Anglo-American relations during the Cold War, but it also fixed the power balance between the two for the rest of the century (Dumbrell 49-50). This event would also show to the world the international monetary dominance of the United States. At the same time, Britain experienced economic troubles, because they were not able to pay for their overseas military commitments. In order to get the British back into line, Eisenhower linked a possible monetary bailout by the Americans to a British withdrawal from Egypt (Gavin 34-36). Eden had no choice but to withdraw, and shortly thereafter, he resigned as Prime Minister.

Under Eden's successor Harold Macmillan relations improved again. He accepted the junior partner status of Britain in the relationship, thereby abdicating all aspirations to be a global superpower. When the Soviets launched their space shuttle Sputnik in October 1957, both nations once again realized who their real opponent was. The Americans underlined the need for a reliable partner in the Global Cold War with the 1958 McMahon Act, which further increased British access to nuclear information. (Dumbrell 53-55) Eisenhower's young successor, John F. Kennedy, genuinely like Macmillan and they built a trusting relationship, but he also did what he could to limit his "scope for independent action on the world stage, particularly with respect of East-West relations" (Ashton 722). The Kennedy-Macmillan era also did see tensions, for instance when the United States sold advanced weaponry to Israel in the early sixties (Dumbrell 56). The British were clearly upset by the idea that their 'Special Relationship' was possibly being destabilized by the close alliance between Washington and

Tel Aviv. Fortunately for them, this was not the case.

The British could not reverse their demise as a world power by clinging to the 'Special Relationship' with the Americans (Rossbach 11). For that reason, the British started looking for other partnerships. In 1951, the Treaty of Paris had established the European Coal and Steel Community (ECSC), which was an international organization that was aimed at unifying the Western European countries after World War Two. It was expanded into the European Economic Community (EEC) by the Treaty of Rome, signed in 1957. After having at first declined to be a part of the community, the British later started to recognize its potential. In 1951, they had not been interested, but that was before Suez and the evidence that they could not merely rely on the Americans. In 1961 they first applied to become a member. (Van Meurs et al. 94-102) The Americans also favored a British membership, because they wanted a reliable partner within the organization (Dumbrell 216). However, during the negotiating process the British still behaved as if they were a world power that could dictate the terms of accession. They wanted to negotiate all kinds of privileges for themselves, thereby making it impossible for the French and the West-Germans to agree. In the end, French President De Gaulle vetoed British accession (Van Meurs et al. 98-99).

By that time the 'Special Relationship' had deteriorated a bit. Kennedy's successor, Lyndon Johnson, disliked the British Labour Prime Minister Wilson fiercely (Dumbrell 75). On top of that, the British sterling experienced great problems during the late 1960s, which developed into a crisis in 1967. The Americans were now involved in a costly war in Vietnam and needed international support. Their relations with France and West-Germany had worsened during the previous years, therefore once again stressing the need to stay close to the British (Gavin 73). The Americans wanted to remain involved in Europe and the British needed American financial support. A collapse of the sterling would also endanger the US dollar. Therefore, Johnson had no choice but to come to the aid of the British, bailing out the

sterling (Gavin 129-131). Nevertheless, under Wilson Great Britain renewed its membership application for the EEC in 1967.

One can see that both nations during this period acknowledged they needed each other, without referring to their special bond based on culture and language. They indeed did work together closely, like on nuclear policies and intelligence, but when the Americans, as a senior partner, disagreed with the British, they did not hesitate to force their ally back into line. The British on their part wanted to stay close to the Americans, because it would grant them a more prominent status on the world stage, such was their idea. But the Suez Crisis woke them up brutally, because they now knew they could not always rely on their Atlantic ally. Therefore, they went to look for other possible partnerships, turning towards Europe as a logical alternative for the 'Special Relationship.' The fact that both nations were more or less interdependent economically also became evident during the 1960s, when the Americans had no choice but to grant loans to the British, in order to save the sterling, because otherwise the dollar would also experience problems. Here the Bretton Woods System of monetary cooperation was an important aspect of the 'Special Relationship', but it seemed as though it was always subordinate to international political considerations. This favors the realist approach, which would argue that nations were always looking for ways to enhance their own power. Such was the situation when Richard Nixon and Edward Heath took office as President and Prime Minister respectively. The Americans were experiencing growing problems with their own currency, while the UK was moving closer towards Europe (Rossbach 2). Their respective periods in office also witnessed the end of the Bretton Woods System and saw Great Britain officially enter the EEC. The next chapter will look further into the events of this period, up until the Nixon shock and the initial responses to the event.

Nixon, Heath, and the End of the Bretton Woods System

This chapter will deal with Anglo-American relations during the first years of Nixon and Heath, up until the Nixon Shock and the end of the Bretton Woods System. It will try to answer the research question: How did the end of the Bretton Woods System influence the 'Special Relationship'?

Despite the fact that the The Hague conference of 1969 initiated an even further going integration of the EEC, the British still wanted in. Nixon welcomed British accession, because he wanted a reliable partner within the community (Rossbach 4-6). Prime Minister Heath was not necessarily pro Europe, but he was against the decline of the British Empire. Even though he was not the one who officially applied for membership, Heath was the one who actively pursued it by compromising on issues where his predecessors would not. Regional actors were about to dominate the world, he thought, and he also did not believe in an indefinite special alliance with the Americans. (Ibid. 2-3) The Americans were fearful of West-German domination within the EEC. They even pressurized the founding nations to accept the British (Dumbrell 223). Nixon and Heath also liked each other. The President once confided to his aides that he could talk frankly with Heath, more than with West-German chancellor Willy Brandt (Brinkley and Nichter 515). On his part, the British Prime Minister wrote in his 1998 autobiography that he had a close relationship with Nixon (Heath 471). Despite their mutual respect and personal closeness, both leaders pursued their own nation's interests during their tenures in office. During the Strategic Arms Limitation Talks (SALT) the United States negotiated an agreement with the Soviet Union on the limitation of nuclear weapons, even though the British did not like such an arrangement. The British were nevertheless vital to this agreement, because they provided test sites for the Americans to test missile detecting systems (Rossbach 87-88, 103). As a reaction, Heath decided to look for nuclear cooperation with the French, in order to strengthen the defense of the EEC.

At the same time, economic and monetary problems were facing the western countries. During the sterling crisis in 1967 the British had already floated their currency, thereby allowing it to fluctuate against the international markets. This was unusual for a nation that was considered to be a great power, but in the early 1970s, the French and the Germans followed suit. The Bretton Woods System was created to prevent this kind of unilateral practices from happening. Technically speaking, the Bretton Woods System was terminally ill (Gavin 11). The Americans were now faced with these European troubles, but they were also experiencing some of their own. The 1960s had been devastating to American confidence. Two Kennedy brothers and Martin Luther King had been assassinated. Racial issues came to the forefront of attention and on top of that the United States was waging a war in Vietnam. President Johnson kept sending more and more soldiers to Southeast Asia until their number reached more than half a million in 1968. Simultaneously, domestic spending increased because of Johnson's Great Society (Krugman and Obstfeld 558). This resulted in an economic crisis in the early 1970s, during the Nixon presidency. The Vietnam War and the Great Society were not the only reasons for the economic downfall in these years. Since 1960 there had been serious doubts about whether the United States' gold reserves were large enough to keep the Bretton Woods System going (Ibid. 557). The London gold market closed after the sterling crisis and this sparked the events up until the Nixon and Heath years. The world was on a de facto gold standard (Gavin 182). This constituted a problem for Nixon, because all countries could easily devalue their currency and change the convertibility from gold to dollars. The United States could not do this, because they provided the central currency. Dollar devaluation could only be reached in multilateral negotiations (Krugman and Obstfeld 560).

These domestic social and economic problems eventually forced Nixon's hand. On August 15, 1971, he announced that he had "directed Secretary Connally to suspend

temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States” (Peeters and Woolley par. 1). Later on in the address, the President mentions the international allies and partners of the United States:

“To our friends abroad, including the many responsible members of the international banking community who are dedicated to stability and the flow of trade, I give this assurance: The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner. In full cooperation with the International Monetary Fund and those who trade with us, we will press for the necessary reforms to set up an urgently needed new international monetary system. Stability and equal treatment is in everybody's best interest. I am determined that the American dollar must never again be a hostage in the hands of international speculators” (Ibid.).

Despite the fact that Nixon mentions the US' allies during his address, he did not care to think about their possible reactions when he discussed the measure with Secretary of the Treasury John Connally and the Director of the Office of Management and Budget George Schultz.

During an lengthy conversation on August 12, three days prior to the announcement, he not even once mentioned the British and their potential response (Brinkley and Nichter, 231-261).

In the speech, Nixon only mentions US interest as a motivator for his actions, thereby confirming the idea that he was only concerned with just that and that he did not care about the British. The fact that he terminated the Bretton Woods System, a symbol of joint Anglo-American cooperation during the Second World War, apparently did not matter to him.

British Prime Minister Heath was of course not amused when he heard the announcement. He considered the lack of consultation from the American side to be a blow to British prestige worldwide (Rossbach 62). He was also concerned with Britain's position in Europe, because negotiations for membership of the European Community were taking place at the same time.

If the United Kingdom were to enter the Community, it had to do so from a position of strength (Ibid. 64).

When looking at the period that marked the end of the Bretton Woods System, one could see that the British and the Americans were mostly concerned with their own interests, thereby, in this case, supporting the realists' claim that a nation's driving motivations are power and security. Nixon did not mention the British or any other ally of the United States once during his conversation discussing the end of gold convertibility. Heath was not interested with the fact that international monetary cooperation suffered a serious setback because of Nixon's decision, but with the blow it delivered to British prestige. Realist theory is also the best approach for describing Nixon and Heath's other decisions in their early years in respective offices. The British were moving towards the EC and the Americans thought it was in their best interest to push them, because they wanted a reliable partner inside the organization. Nixon later also conceded that he saw Heath as instrumental in improving US-EC relations (Ibid. 73). The British were not moving towards Europe because they wholeheartedly supported it, because they had no choice. They could no longer rely on the Americans and if they were to remain a world power, they had to change their strategy. It looks as though idealism was not a part of both leaders' considerations. This was also proven by the fact that the British opted for nuclear cooperation with the French after the Americans signed the SALT Treaty with the Soviet Union. Despite the claims of the 'Cultural School', the British looked for other partners when the Americans did not want to serve their interests or did not share their goals. The British underscored this point by floating their currency in 1967 without consulting the Americans. When Nixon took unilateral action in 1971, the British were offended, but they did not extend the same courtesy to the Americans four years earlier. Therefore, it can be concluded that in the late 1960s until the Nixon Shock in 1971, power and security for their own nations drove both countries. The Bretton Woods System

was used as long as it served their interests, but it was let go of when it no longer did. The next chapter will look at the Anglo-American relations during the remaining years of the 1970s. It will look at whether changes in policies and alliances took place, in order to determine if these really changed because of the end of Bretton Woods.

After the Nixon Shock

This chapter will deal with Anglo-American relations during the remaining years of the 1970s. It will try to answer the research question: On what basis did the United States and Great Britain cooperate in the remaining years of the 1970s after the Nixon Shock?

Heath's first response to the Nixon Shock was pushing more and harder for British integration in Europe (Rossbach 205). However, the British Prime Minister was not prepared to become a member at any cost. He still wanted to obtain special privileges while entering the Community, something the original six members were not prepared to give the British (Van Meurs et. al. 108). Despite this setback, Heath still realized it was his only option to join and in 1972 he convinced his fellow members of parliament. The world was going to be dominated by regional powers and the EC was to become such a power. The British officially became a member on January 1, 1973 (Ibid. 109). His fear to be abandoned by the US had forced Heath to continue the process of integration, despite less favorable conditions for the British than was initially hoped for (Rossbach 129).

Nevertheless, despite the fact that Heath more aggressively pushed for integration after the Nixon Shock, the British did not entirely let go of their 'Special Relationship.' The Cold War was still raging and both Anglo-Saxon countries were still each other's greatest allies in this. Heath also explicitly mentioned that, because of this, he did not want to loosen US-UK ties (Ibid. 156). The United States concurred in this and both nations expressed the need to combat the possible expansion of Soviet influence. The year 1972 saw a relaxation in relations, because British anger because of the Nixon Shock had more or less disappeared. The President himself was at the time mostly preoccupied with ending the Vietnam War, so it was no time to be antagonizing friends (Ibid. 187). To underline the importance of Britain and the other European partners, Henry Kissinger, who became primarily responsible for US foreign policy because of Watergate, named 1973 the year of Europe (Ibid. 142-143). This era

of good feelings was not to last. A severe crisis in October of that year almost wrecked the relationship (Dumbrell 92). On October 6, several Arab coalition partners surprised Israel with an attack from multiple sides. The Syrians attacked the Golan Heights, which they had lost during the Six Day War in 1967. Egypt attacked from the Sinai Peninsula, while Jordan and Iraqi forces supported both the Egyptians and the Syrians in their efforts. The United States immediately supported their Jewish ally, but to their astonishment, the French and the British did not (Ibid. 92-93). The US initiated an enormous effort in order to resupply the embattled Israelis. In the end they provided them with eleven thousand tons of war material (Herring 805). They were nevertheless dismayed by the fact that their staunchest ally did not back them. The fact that Nixon faced a domestic political crisis because of the resignation of both his Vice President, Spiro Agnew, and his Attorney General, Elliot Richardson, did not help, making the experience more bitter (Brinkley and Nichter 739). Their 'Special Relationship' further deteriorated in the next year, during the crisis on the island of Cyprus. The Turkish army had invaded that country in July 1974, because it wanted to protect the Turkish minority on the island, who were living there with a Greek majority. The US did not want to respond to the invasion (Dumbrell 95). However, Cyprus was a former colony of the British, so they wanted to be actively involved in the crisis. They headed the subsequent peace talks in Geneva, which also included Turkey and Greece. The United States wanted to let the UN troops already present on the island handle the crisis, also because they feared a possible communist Greek government on the island (Meisler 200). In the end, the British adhered to the will of the Americans and the UN enforced a division line separating both parties.

These events took place at a time when both Nixon and Heath were forced to leave office, both for a different reason. Shortly after the Turkish army invaded Cyprus, Nixon was forced to step down. Heath's successor was Harold Wilson, who had also been his predecessor. His tenure in office runs parallel to that of the American President Gerald Ford.

Both men served from 1974 to 1976. The most important events during their time in charge were the complete American withdrawal from Vietnam in 1975 and the Conference on Security and Cooperation in Europe (CSCE). The British played a prominent role during this conference and they were instrumental in reaching a final agreement (Dumbrell 96). As a result, some American forces were withdrawn from Europe. This was acceptable to Ford, because in the wake of the Vietnam debacle, US troop withdrawals were welcome everywhere. Wilson also tried to restore the 'Special Relationship' by taking American stances on the Middle East, including Israel (Ibid. 96-97). His successor James Callaghan also was an Atlanticist, and he valued British contacts with the Americans over those with Europe and the Community (Ibid. 98). He and Ford's successor James Earl Carter had a good relationship. There were some struggles over Rhodesia, a former British colony, but now part of South Africa. The British did not like American involvement, but these issues were of minor relevance, also because the Americans did not really care about the crisis (Ibid. 97). At the same time, the British were also facing domestic concerns, because they were experiencing problems with their currency, just as they had prior to the fall of the Bretton Woods System. Financial institutions thought the pound was overvalued and in order to solve the crisis, the British were forced to go to the IMF. Again, the United States stepped in, this time to save NATO and the EC. The IMF eventually granted the loan to the British, but on American conditions (Burk).

During the remaining years of the 1970s not much happened between the two countries. Détente was as good as dead, which meant that Great Britain kept its role as the United States' most important Cold War partner (Herring 829). Both nations were still suspicious of Soviet intentions and containment rose in importance again. This common goal ultimately set for the Reagan-Thatcher friendship of the 1980s, which brought the 'Special Relationship' to its highest level since World War Two (Dumbrell 106). Again, as in the

previous chapter, it seems that both nations were mainly concerned with their own interests in the years after the Nixon Shock. Whenever their interests were at stake and they collided with those of their special ally, both nations did not hesitate to take a different path from the other. This became obvious during for instance the crisis on Cyprus and the Arab-Israeli war of 1973. Economically speaking, the British were still dependent on the United States, despite the fact that there was no Bretton Woods System anymore, as became evident during the crisis in 1976. So again, like in the previous chapter, the functionalist school and realist theories proved the best concepts for analyzing the 'Special Relationship.'

Conclusion

Anglo-American relations have been very close since World War Two. Even today, they are still very close allies and still they are discussing foreign policy, including Britain's role in Europe, just like they did during the Cold War years. This research tried to focus on one aspect of this complicated relationship between the two nations, namely the Bretton Woods System and the role it played in the alliance. In the previous chapters and their sub questions, a couple things have become obvious. First, the United States was always the dominant partner, with Great Britain in a subordinate position. Second, that there was a difference in the nature of the relationship during the Second World War and the Cold War. During World War Two, everything was at stake for both countries and they were both deeply committed to the survival of liberty. Therefore, their collaboration was more intimate than in the years of the Cold War, when the threat of war always loomed over them, but without it becoming real. That was of course the essential difference between the two wars: the one was a total war with a staggering amount of casualties, while the other was more of a covert war and an imminent threat, with much less casualties. Therefore, it is possible to explain the 'Special Relationship' during the Second World War through a liberal/constructivist perspective, while the Cold War can probably best be described from a realist perspective. The Bretton Woods System should also be viewed through this perspective. At the time it was launched, the Allies were still fighting the Nazis. Therefore, its intentions were probably more liberal than realist, because of the context in which it was founded. However, when the war was over the importance of the agreements lost its significance. This became obvious during the Cold War, when the Bretton Woods System was constantly subordinate to the interests of the individual nations, especially of those of the United States, because they were the world's hegemon. So the role that the Bretton Woods System played in the 'Special Relationship' during World War Two can best be described with the liberal/constructivist approach, while the role it played during the Cold

War can be best described with a realist approach. This means that the economic considerations and the sentiment were not the most important factors in Anglo-American relations, while national interests, power, and security were the dominant goals. What this conclusion means for modern day relations is a possible subject for further research. As was already mentioned, the alliance changed significantly during the 1980s, when Ronald Reagan and Margaret Thatcher rose to power. Because of their close bond, it is possible that they did share their values, which would make a liberal/constructivist approach more suitable for describing Anglo-American relations during the 1980s. But again, this is a possible topic for further study. For now, it suffices to conclude that the Bretton Woods System did not play a very prominent role in the 'Special Relationship' between the United States and Great Britain.

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