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THE BRETTON WOODS DEBATES: A MEMOIR

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and for the direct knowledge I have of the negotiations about them. The discussion is organized chronologically, from the origin of the plans through the major negotiations in 1943 and early 1944, to the Bretton Woods conference in July 1944 and beyond. Although Bretton Woods established the charters of the Fund and Bank, it did not resolve all the problems involved in bringing them into being. Britain's acceptance was conditioned on the agreement of the United States to make available a large loan or grant, and this constituted a hidden agenda during the Bretton Woods debates well before the start of formal negotiations on the Anglo-American Financial Agreement. Moreover, the initiation of full operations by the Fund depended on the economic recovery of Europe following the Marshall Plan.

The Issues

The basic negotiations on exchange-rate stability, foreign-exchange practices, the source of funds, and the lending policies of the Fund were completed before the Bretton Woods conference. During the informal discussion in 1943, officials from many of the countries later represented at Bretton Woods made their views known on both the White and Keynes plans. Some, including the Canadians and the French, presented plans of their own. There was no time, however, to debate more than two plans for the Fund, and there were few instances in which countries other than the United States and United Kingdom were able to influence the final outcome. The Canadians often mediated conflicts between the U.S. and U.K. positions, but most of the other industrial countries were represented by governments in exile, which carried little authority. The developing world, except for Latin America, was still in a state of dependency. In the end, differences between the United States and United Kingdom were compromised, in favor of the U.S. positions, by the completion and publication in April 1944 of the Joint Statement of Experts on the Establishment of an International Monetary Fund. Relatively little attention was given to the Bank during the bilateral and multilateral discussions in 1943 and 1944, and some of the major issues concerning it were settled with little conflict at the Atlantic City conference just before Bretton Woods.

Little could have been accomplished at Bretton Woods without the preceding long negotiations and the agreement on the Joint Statement. The issues were too complex to have been negotiated by the representatives of forty-four countries. With the basic issues already settled, however, the conference could concern itself with drafting articles of agreement to embody the previously negotiated principles, with organizational details, and with matters of special interest to individual countries. Several countries introduced motions, most of which were quickly rejected by the U.S., U.K., and Canadian delegates if they violated the Joint Statement. Within the framework of the Joint Statement, however, there was room to consider national interests, such as the size of each country's quota. The representatives of the Soviet Union had great difficulty in relating the arguments on exchange rates and exchange practices to their economic situations and confined their interventions to such matters as the gold subscription and the obligation to provide information. Certain issues, such as the location of the Fund and Bank and the functions of the twelve executive directors, were not decided at Bretton Woods but were determined at the Savannah conference in March 1946, which was the initial meeting of the Fund and Bank. Because the charters of the two institutions had by that time been ratified, the U.S. delegation saw no further need for careful negotiations to take into account the interests and sensibilities of the other delegations. The decisions already made in Washington were adopted at Savannah.

The Economic and Political Background

Wartime is clearly not the best time to engage in long-range planning for a postwar world. Political leaders and the public are heavily occupied with the economic, political, and military problems of winning the war. Nevertheless, there is a greater realization during a conflict of the importance of avoiding the mistakes that helped to generate it. In the United States, economic conditions such as the worldwide depression of the 1930s, the maze of trade restrictions and discriminatory currency arrangements of the prewar period, and the legacy of the unpaid World War I debts were regarded as contributory to Japanese and German aggression and to the absence of collective action to prevent it. Peace was seen as linked with world prosperity, and prosperity, with free trade, free capital movements, and stable exchange rates. Although the causality was ambiguous, this association was embodied in the Lend-Lease Act signed by President Roosevelt on March 11, 1941, and in Article VII of the Mutual Aid Agreement, in which the United States and the United Kingdom agreed not to engage in trade discrimination against one another. Article VII became the basis for U.S. insistence on nondiscriminatory exchange arrangements in the Fund and for the nondiscriminatory trade provisions of the General Agreement on Tariffs and Trade (GATT). The Keynes-led British delegation was reluctant to agree to the nondiscrimination clause, because it meant giving up imperial preference within the Commonwealth and sterling area. The U.S. State Department, however, and the U.S. government generally, regarded a British pledge of nondiscrimination as an appropriate concession for lend-lease aid and an important contribution to a more prosperous and stable postwar economy.

The lend-lease method of providing wartime assistance, a plan that was later extended to other U.S. allies, prevented a recurrence of war debts to the United States, but it did not deal with the issue of postwar reconstruction or the immediate problems of balance of payments and liquidity. Because the Lend-Lease Act would terminate the flow of lend-lease at the end of hostilities, world recovery would require large amounts of postwar financial assistance. The White plans for the ISF and Bank were designed to deal both with the balance-of-payments problems and with reconstruction in the immediate postwar period, but the nature and size of the financial requirements were not known in 1942. By 1944, at least government officials realized that the Bretton Woods institutions could not be counted on to deal with the financial needs at the close of hostilities.

The creation of the United Nations (UN) to address postwar political issues also influenced economic planning. The U.S. government took the lead in establishing the UN as an institution that would eventually include all nations but would be dominated by the four wartime Allies, the United States, the United Kingdom, the Soviet Union, and China. This concept was carried over into White's proposals for the ISF and the Bank, in which White accorded the Big Four the greatest voting power as well as permanent seats on the boards of directors. The U.S. proposals also embodied an American agenda for replacing the currency and trade blocs of the 1930s with free foreign-exchange markets and stable exchange rates and with nondiscrimination in trade and capital movements. All of this contrasted with the initial British approach, which would have dealt with postwar financial problems through bilateral agreements between the United States and the United Kingdom and would have retained the sterling area and imperial preference.

2 Origin and Evolution of the White Plan for the International Stabilization Fund and the World Bank

The date of the preliminary outline of the White plan for the ISF is somewhat obscure but is generally accepted to be late December 1941. According to the story circulated in the Treasury, Morganthau had become intrigued by the idea of a single international currency for conducting trade, and White sought to convince him that universal currency convertibility would be more realistic and just as effective. White's memorandum to Morganthau, "Suggested Program for Inter-Allied Monetary and Banking Action," dated December 30, 1941, proposed both the ISF and the Bank, and copies were given to several members at the Treasury's Division of Monetary Research.

The interest of both Morganthau and White in preparing a plan for an ISF may be explained in part by the preparations for the Inter-American Conference that White was to attend in Rio de Janeiro in January 1942. In early January, White prepared a memorandum, "Proposal for a Stabilization Fund of the United and Associated Nations," which he suggested be submitted to the Rio conference. White also suggested that the proposal be submitted simultaneously to all other UN members. The proposal was submitted neither to the Rio conference nor to other governments at that time, however. It is reported that Sumner Wells, undersecretary of state and chief of the U.S. delegation to the conference, wanted to introduce a resolution calling for a conference of the United and Associated Nations to consider, among other things, the establishment of a stabilization fund, but that Morganthau objected, saying that a resolution calling for a conference of allied ministers of finance should first be discussed with other countries outside the Americas. The resolution was thereafter changed to refer only to a "conference of the American republics."

The first complete draft of the White plan, "Draft Proposal for a United and Associated Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations," became available to the staff of the Monetary Research Division in March 1942 (redated April 1942). White wanted Morganthau to send the draft to President Roosevelt with a recommendation calling for a UN conference, but Roosevelt did not learn of the plan until a meeting in May with Morganthau (Oliver, 1975, p. 111) and did not want to circulate it among officials of other countries until it had been studied thoroughly within the U.S. administration. Accordingly, in May 1942, a cabinet-level committee was established consisting of the secretaries of State, Treasury, and Commerce, and the chairmen of the Board of Governors of the Federal Reserve System and the Board of Economic Warfare. At their initial meeting in Morganthau's office on May 25, 1942, the Cabinet Committee established a subcommittee, the American Technical Committee (ATC), under the chairmanship of White. It was this subcommittee that conducted the negotiations on the ISF and Bank, both within the U.S. government and with foreign governments, prior to the Bretton Woods conference. The individuals involved varied from meeting to meeting, but those attending most frequently included Laughlin Currie and Benjamin Cohen from the White House; Dean Acheson, Adolph Berle, Herbert Feis, Frederick Livesey, Leo Pasvolsky, and John Parke Young from the State Department; Elting Arnold, Edward Bernstein, Henry Bittermann, Irving Friedman, Ansel Luxford, Raymond Mikesell, Norman Ness, and Harry White from the Treasury; Will Clayton and August Maffrey from the Commerce Department; Marriner Eccles, Walter Gardner, and Emanuel Goldenweiser from the Federal Reserve Bank; Walter Lockheim from the Security and Exchange Commission; Hawthorne Airies and Warren Pearson from the Export-Import Bank; Frank Coe from the Foreign Economic Administration; and Alvin Hansen from the National Resources Planning Board.

The April 1942 White Plan

The introduction to White's first comprehensive proposal[3] contained a plea for the early formulation of plans to prevent the "disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery" (IMF, 1969, Vol. 3, p. 37). According to White, the new agencies should be established and running by the end of the war. "It would be ill-advised, if not positively dangerous, to leave ourselves at the end of the war unprepared for the stupendous task of worldwide economic reconstruction" (IMF, 1969, Vol. 3, p. 38). Although White's proposal contained the elements of a long-term world monetary and financial system, his emphasis was on immediate postwar problems, such as avoiding foreign-exchange chaos, inflation, and defaults on international debt. Thus, the initial White plan must be judged in large measure for its applicability to immediate postwar conditions, not solely as a blueprint for the long term. It was the plan's relevance to the immediate postwar period that elicited much of the criticism by Keynes, and by some Americans as well.

A number of the provisions later embodied in the Fund and Bank were contained in White's April 1942 plan. One is astounded, however, by the number of powers and functions initially included for these institutions, some of which seem clearly inappropriate for international

[3] Parts 1 and 2 of the 1942 White Plan were published in the official history of the Fund (IMF, 1969, Vol. 3); these contained the introduction and text of the ISF proposal. The entire text of Part 3, dealing with the Bank, is published in Oliver (1975, appendix A). References in the text are made to both of these sources.

financial organizations. Under White's initial plan, for example, the ISF would have had the power to disapprove of a "monetary or banking or price measure or policy" that would bring about serious disequilibrium in the balance of payments of a member (IMF, 1969, Vol. 3, p. 68). In addition, member countries would have agreed "to embark within a year after joining, upon a program of gradual reduction of existing trade barriers—import duties, import quotas, administrative devices—and further agreed not to adopt any increase in tariff schedules or other devices having as their purpose higher obstacles to imports, without giving reasonable opportunity for the Fund to study the effects of the contemplated change on exchange rates and to register its opinion" (IMF, 1969, Vol. 3, p. 69). Members would not "subsidize—directly or indirectly—the exportation of any commodity or service to member countries without the consent of the Fund" (IMF, 1969, Vol. 3, p. 71).

The ISF would also have had the power to determine the rates at which it would buy and sell the currency of any member and to approve or disapprove any changes in exchange rates governing transactions among member countries. Members would have been required to eliminate within a year controls over foreign-exchange transactions with other members, unless granted an exception by the ISF, and governments and government agencies would not have been permitted to default on their external obligations without ISF consent. The ISF would also have had the power to unfreeze blocked currency balances by a complicated process involving the sale of the balances to the ISF under repurchase guarantees by both the country holding the balances and the country whose currency was being held. Finally, the ISF would have had the authority to buy government securities of member countries and to sell them in other countries (although only with the approval of the government of the country in which the securities were to be sold). The purpose of these proposed interventions in members' money markets was not made clear.

White's plan gave the Bank the power to organize and finance an "international essential raw materials development corporation for the purpose of increasing the world's supply of essential raw materials and assuring member countries of an adequate supply at reasonable prices" (Oliver, 1975, p. 313) and "to provide for the financing and distribution of foodstuffs and other essential commodities needed for the relief of populations devastated by war conditions" (Oliver, 1975, p. 291). The Bank was even to be involved in the political sphere by a requirement that participants subscribe to a "magna carta of the United Nations," which would set forth human rights and freedoms (Oliver, 1975, p. 319).[4]

Other powers given to the Bank usurped not only the functions of the nonfinancial organizations under consideration by the U.S. government but also powers that were more appropriate to the ISF (Oliver, 1975, pp. 299-305). Under White's plan, the Bank could make or guarantee short- and long-term loans to governments and to private businesses under a guarantee of the government, and it could provide gold or foreign-currency reserves to members at low interest rates and long repayment terms. The Bank could increase its resources by issuing its own non-interest-bearing currency notes secured by the obligations of participating governments or those of intergovernmental corporations, and it could rediscount with any government, fiscal agent, or central bank acceptances or other credit instruments that it held.[5]

Why did White propose such a wide range of functions for his financial institutions, particularly at a time when discussions were being held within the U.S. government and informally with the British and Canadians on a UN relief organization, an international trade organization, and on international commodity agreements? The State Department wanted to create an international trade organization to implement Article VII of the Lend-Lease Act and had discussed the subject informally with Keynes during his 1941 visit to the United States. Both the State and Agriculture Departments were involved with international commodity agreements and food relief. Did White believe that the Treasury Department could take over from these agencies the ongoing negotiations on trade and commodities? Those of us who knew White were aware that he was never reluctant to reach for power within the U.S. government. This was one reason for the friction between the Treasury and State Departments; it was also the reason why Morganthau and White could not move toward Bretton Woods as quickly as they had hoped.

The somewhat rambling nature of White's 1942 proposal suggests that White wrote it with little input from his colleagues. The plan contained several lengthy discourses on trade protection, loan defaults, the composition of international reserves, and the role of gold—topics of special interest to White. One very long essay in the Bank plan dealt with the desirability of a new international currency (Oliver, 1975, pp. 305-311) and was probably included for the benefit of Secretary

[4] The April 1942 draft states that a copy of this magna carta is appended, but it is missing from my copy and from Oliver (1975, appendix A).

[5] No reference was made to marketing the Bank's own long-term bonds in private capital markets, a procedure that was to become the major source of funds for World Bank lending.

Morganthau. White examined the usual arguments for and against an international currency and concluded that it would not be feasible or useful. He did, however, favor a new international currency unit, especially if the Bank were to issue notes. The proposed new unit, later called "Unitas," would be defined in terms of physical units of gold. Unitas subsequently played an important role in the negotiations on the ISF.

Later Versions of the White Plan

Many of the elements included in White's first plan disappeared from subsequent versions, either because members of the Monetary Research staff objected or because other agencies, particularly the State Department and the Federal Reserve Board opposed them. The April 1942 draft was a rather personal expression of experimental ideas, and it contained a number of technical flaws and unrealistic suggestions.

Although White was adamant on some points contained in his draft, most of the concerns of other members of the ATC were met satisfactorily. This was due in large measure to the work of Bernstein, who drafted language for the revisions of the ISF plan, several versions of which were issued between November 1942 and January 1943. What was remarkable during this period was the degree to which representatives of other government agencies acceded to the basic principles of the White plan. This was due to Morganthau's strong support for the plan and to his special relationship with the President. The Cabinet Committee had decided early on that the Treasury plan was to be the focus of internal discussions. It was, in any case, the only plan available, at least until Keynes' ICU proposal became widely known within the U.S. government in early 1943. Although the Keynes plan had many admirers among U.S. government economists, particularly in the State Department, the ATC thought that its basic principle of a clearing union would not be acceptable to the U.S. government or to the public. There was, nevertheless, genuine interest in some provisions of the Keynes plan and a desire to reach a compromise on various British objections to White's proposals.

Early Discussion of the White Plan

The early meetings of the ATC were concerned with the underlying principles of the ISF and Bank, as well as with narrowing the agenda. White was anxious to obtain agreement on the basic principles of the two institutions and readily dropped those portions of his plan that appeared to usurp the functions of other government agencies. He wanted to facilitate an ATC decision to recommend that President Roosevelt call an international conference on the establishment of the