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THE BRETTON WOODS DEBATES: A MEMOIR

RAYMOND F. MIKESELL

INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY

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CONTENTS

1 INTRODUCTION 1

The Issues 3

The Economic and Political Background 4

2 ORIGIN AND EVOLUTION OF THE WHITE PLAN FOR THE INTERNATIONAL STABILIZATION FUND AND THE WORLD BANK 5

The April 1942 White Plan 7

Later Versions of the White Plan 10

Early Discussion of the White Plan 10

3 THE KEYNES PLAN FOR AN INTERNATIONAL CLEARING UNION 12

U.S. Rejection of the ICU Proposal 14

4 U.S. DISCUSSIONS WITH FOREIGN OFFICIALS IN 1943 15

The International Currency Debate 15

Contributions to the International Stabilization Fund 16

Exchange Restrictions 17

Exchange Rates 18

Drawings on the International Stabilization Fund 19

The Formula for ISF Quotas 21

Blocked Balances 24

5 NEGOTIATING THE JOINT STATEMENT 24

Making Unitas an International Currency 25

Multilateral Clearing 25

The Right to Draw Foreign Exchange 26

Repurchase Arrangements 27

The Transition Period 28

Completion of the Joint Statement 29

6 EVOLUTION OF THE BANK PLAN 30

7 ATLANTIC CITY 33

8 BRETTON WOODS 34

Quotas 35
Other Fund Issues 38
The Bank 39
The Soviet Union Delegation 41
Liquidating the Bank for International Settlements 42

9 RATIFYING THE AGREEMENT 42

The Debates on the Bretton Woods Bill 43
Mobilizing Public Support 44

10 THE ANGLO-AMERICAN FINANCIAL AND COMMERCIAL AGREEMENTS 46

The Loan Negotiations 47
The Debate within the U.S. Government 48
The Hearings 50
The U.S. Public and the British Loan 50
The Debate in Britain 51

11 THE INAUGURATION OF THE FUND AND BANK 52

A Note on Personalities 55

12 THE BRETTON WOODS DEBATES IN RETROSPECT 58

The Par Value System 58
Multilateralism 59
Conditionality 60
Political Control versus an International Secretariat 60
Alternative Directions for the Bank 61
Did the Debates Matter? 62

APPENDIX: THE QUOTA FORMULA AFTER BRETTON WOODS 63

REFERENCES 63

THE BRETTON WOODS DEBATES: A MEMOIR

1 Introduction

The Bretton Woods conference of July 1944 and the preparatory meetings held in Washington, D.C., in 1943 and early 1944 were attended by the leading economists of the era. These included, among others, James W. Angel, William Adams Brown, Jr., Edward M. Bernstein, Alvin H. Hansen, John H. Williams, John Parke Young, Emanuel A. Goldenweiser, and Harry D. White of the United States; John Maynard Keynes, Dennis H. Robertson, and Lionel Robbins of the United Kingdom; Leslie G. Melville of Australia; Arthur F.W. Plumtree and Louis Rasminsky of Canada; and Robert Mosse of France. The products of the conference, the Articles of Agreement of the International Monetary Fund and of the World Bank, unfortunately do not reflect the high competence of their originators. This failure was due in part to the national political pressures on all the participants and in part to the conflicted attempt to create institutions that would both address the immediate postwar financial problems and provide a long-term framework for an international financial system.

This essay analyzes the negotiations leading to the establishment of the Bretton Woods institutions and appraises their significance in light of the subsequent histories of the Fund and Bank. Several accounts of these negotiations have been published, including partial reports by persons present at the creation. The special contributions of this essay consist of hitherto private notes of the deliberations and of my personal interpretation of the debates that I was privileged to attend. My knowledge of these events is derived mainly from my tenure as an economist (1942 to 1947) in the Division of Monetary Research in the U.S. Treasury Department. In this capacity, I was present at many of the pre-Bretton Woods meetings between U.S. and foreign-country representatives, served as a member of the technical secretariat at Bretton Woods, and was an economic advisor to the Treasury Department at the inaugural meetings of the Fund and Bank in Savannah, Georgia. I also attended meetings in 1945 and 1946 on the negotiation of the Anglo-American Financial Agreement, and I worked directly under White and Bernstein (director and deputy director of the Division of Monetary Research), the persons most responsible for the American proposals for the Fund and Bank.

On my first day at the Treasury Department in September 1942, Bernstein gave me a marked-up copy of White's "Proposal for a United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations," dated April 1942. I was asked to study this document and to make comments and suggestions. The subject occupied most of my time in the division during the next five years, interrupted by a tour of duty as Treasury representative in the Middle East from late October 1943 to April 1944.

The two White plans that eventually became the International Monetary Fund and the World Bank had been developing since at least December 1941, and there is evidence that portions of the plans were written earlier.[1] Legend has it that the secretary of the Treasury, Henry Morgenthau, dreamed about an international currency on the night of December 13, 1941, and called White early Sunday morning to ask that White prepare a memorandum on how this might be accomplished after the war. Two weeks later, White responded with a general outline of an International Stabilization Fund (ISF) and a (World) Bank. Both Morgenthau and White had experiences more substantive than dreams, however, to encourage them to consider plans for postwar international monetary and financial arrangements. White and his staff in Monetary Research had played an important role in the preparation of the Inter-American Bank proposal submitted to Congress by President Roosevelt in December 1940. The operations of the U.S. Exchange Stabilization Fund and the 1936 Tripartite Agreement with France and Britain (later joined by Belgium, the Netherlands, and Switzerland) also contained antecedents of some of the provisions in White's ISF plan.

Keynes, in the meantime, had begun preparing his plan for an International Clearing Union (ICU) in answer to a proposal by the German minister of finance, Walther Funk, for a post-World War II financial regime to be dominated by Germany.[2] International financial planning for the postwar period was fully launched by early 1942.

This essay is not a comprehensive review of the Bretton Woods negotiations. It discusses a set of issues selected for their relative importance for the subsequent policies and operations of the Fund and Bank

[1] Oliver (1975, pp. 110-111) reported that Frank Coe told him in an interview that White's initial outline was prepared in the summer or early autumn of 1941.

[2] Cited in Van Dormael (1978, pp. 5-6). Keynes was reported to have developed his ideas for an ICU after being asked in November 1940 by the U.K.'s Ministry of Information to answer the German propaganda for a "New Order." Keynes had developed some of his ideas earlier, however.

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 organi-

zational 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, Morgenthau 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 Morgenthau, "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 Morgenthau 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 Morgenthau 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 Morgenthau 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 Morgenthau (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 Morgenthau'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 Lauchlin 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 Maffry from the Commerce Department; Marriner Eccles, Walter Gardner, and Emanuel Goldenweiser from the Federal Reserve Bank; Walter Louchheim from the Security and Exchange Commission; Hawthorne Arey 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 Morgenthau 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.

Morgenthau. 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 Morgenthau'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

ISF and Bank. At a meeting of the ATC in July 1942, however, Acheson said that no general conference should be convened until preliminary discussions had been held with the United Kingdom and other large countries. Formal discussions did not take place until the spring of 1943.

There were objections to the timing of the proposals at the ATC meetings as well, and also to their underlying objectives. Goldenweiser, for example, criticized the Treasury proposal for responding too much to prewar traditions and said that special consideration should be given to the broad objectives of a postwar international monetary system. Hansen believed that international cooperation in preventing depressions should receive more attention than the establishment of international monetary rules, and that exchange-rate flexibility was desirable for all but the largest countries.

The State Department representatives were deeply concerned about the balance-of-payments problems that Britain would face immediately after the war, and they questioned whether the ISF could meet Britain's financial needs. Representatives of some other departments reminded White that the ISF could not be a solution to all the world's economic problems (Gardner, 1969, p. 75). Goldenweiser of the Federal Reserve Board expressed concern that some provisions of the Bank plan might compromise domestic control over credit. He also suggested a plan developed by the staff at the Federal Reserve Board to increase the gold holdings of the ISF by requiring that all contributions be made in gold, up to a limit of one-half or three-fourths of a country's gold holdings. The Federal Reserve Board plan also proposed that a deficit country be allowed to devalue its currency by 5 percent if its deficit reached one-fourth of its quota, and by a further 5 percent if its deficit reached one-half of its quota. Furthermore, the board suggested that the ISF might require a country to devalue when its deficit reached one-half of its quota. This provision was similar to one in the Keynes plan (IMF, 1969, Vol. 1, pp. 39-40). Other members of the ATC also argued for more flexible rules on changing exchange rates, and several members thought the assets of the ISF should be larger than the $5 billion suggested in White's plan. White gradually won support within the ATC for the basic tenets of his plan, however, and, by the time negotiations began with other countries, the members of the ATC were united in answering foreign criticisms.

During the discussions in the ATC, the ISF plan went through a number of drafts. The December 1942 version represented a substantial revision of the April draft, and there were further revisions in 1943, including the first published version of April 7, 1943, which was then

supplanted by the July 10, 1943, edition (reproduced in IMF, 1969, Vol. 3, pp. 83-96). Each new draft reflected the changes agreed to during the discussions, but some changes were made unilaterally by White. Unitas was introduced into the ISF by White in the December 11, 1942, draft, for example, and the scarce-currency clause was introduced in early 1943. Although the U.S. government was reluctant to make the White plan public, newspapers began publishing stories about both the White and Keynes plans in early 1943. On March 9, 1943, U.S. newspapers carried a description of the two plans. The White plan was officially released to the public on April 7, 1943, and the Keynes plan was released by the British on April 8.

3 The Keynes Plan for an International Clearing Union

The most interesting debates with foreign delegations during 1943 concerned the differences between the White and Keynes plans. The provisions of the Keynes plan for an ICU constituted the agenda of the British delegation and had substantial support from the European and British Commonwealth representatives. The Canadians and Latin Americans tended to favor the White plan. It is doubtful that Keynes' plan would have played such an important role in the debates in the absence of his considerable international prestige. Although the basic elements of the ICU, particularly the automatic extension of credit through the clearing union, were unacceptable to the United States from the beginning, a number of provisions of the plan were seriously considered as substitutes for parts of the White plan, and some were adopted at Bretton Woods.

The exact date of the initial ICU proposal is not known with certainty, but a draft was circulated in the British Treasury in September 1941 (IMF, 1969, Vol. 1, p. 16). Neither White nor Keynes saw the other's proposal before preparing their own drafts. Both plans provided for international liquidity to enable countries to stabilize their currencies, eliminated exchange restrictions on current transactions, and outlawed bilateral payments arrangements and other forms of discrimination. Although Keynes was not committed to full multilateralism as the environment most favorable to British economic welfare, he knew that Britain must plan to eliminate trade discrimination to meet the requirements of Article VII of the Lend-Lease Agreement. Despite the similarities of the two plans, however, there was a substantial difference in emphasis between them. The original White plan was explicit and rigid with regard to exchange-rate stability and the elimination of exchange restrictions and discriminatory payments practices, but it was less

generous and somewhat ambiguous in providing for balance-of-payments assistance. The Keynes plan was technically superior in providing balance-of-payments assistance, but it was liberal or imprecise in setting forth the obligations of countries with respect to exchange-rate stability and exchange controls. This is not surprising in view of the differences in the authors' major objectives.

The unique characteristic of the Keynes plan was its arrangement for both the multilateral clearing of national balances and the debiting and crediting of net balances in a clearing union. This system contrasted with the White plan's reliance on subscriptions of national currencies and drawings by members of the currencies of other members with which they had balance-of-payments deficits. Deficit balances in the Keynes plan were automatically financed by overdrafts up to amounts determined by the participants' quotas; credit balances were financed by credits on the ICU books.[6] White's Unitas was only a unit of account; Keynes' Bancor was an international currency. Although both units were defined in physical measures of gold, the gold value of Bancor could be changed by a vote of the members. The ICU thus provided for an adjustable international gold-standard system.

The Keynes plan had several important technical advantages over the White plan, and these were frequently cited by the British delegation in the debates. First, under the Keynes plan, members could finance their deficits through the ICU; under the White plan, members acquired from the ISF the currencies of individual member countries to settle their bilateral deficits with those countries, but they could not use those currencies to settle deficits with third countries. This was so because ISF members were not required to make their currencies convertible into third currencies.[7] A member might have an overall balance-of-payments surplus and yet need to borrow a particular currency, but the White plan lacked a multilateral clearing mechanism by which to do so.

[6] Limits to the debit balance that any member could accumulate in the ICU were established as a certain percentage of the member's quota, but there were no limits on the amount of credits a member was obligated to accept. Theoretically, the maximum credit position of an individual member was the aggregate amount of quotas, less the quota of that member.

[7] To meet the conditions for convertibility, a member was required to buy balances of its own currency from another member (provided the balances were acquired in payment for current transactions) with gold or with the currency of the other member at that member's option. This was not made clear in the July 10, 1943, ISF draft, but it was declared in the Joint Statement and in the Articles of Agreement of the Fund negotiated at Bretton Woods.

Second, no currency could become scarce under the Keynes plan, but the supply of a particular currency in the ISF could be less than the demand for it under the White plan. Third, the Keynes plan gave the governing board of the ICU the power to induce both surplus and deficit countries to limit their positions, for all members were subject to charges on annual increases in ICU debit and credit balances in excess of 25 percent of their quotas. In addition, the governing board might require a member to reduce the value of its currency or to take other measures as a condition for increasing its debit balance once that balance reached one-half of its quota. Although the board could not force a creditor country to raise the value of its currency if that member's credit balance exceeded one-half of its quota, the board could discuss with the members measures to restore equilibrium, including currency appreciation and the reduction of import barriers. Finally, quotas in the ICU were to be based solely on economic factors; in the White plan, the quotas of the Big Four countries were based on political considerations.

U.S. Rejection of the ICU Proposal

Although some members of the ATC recognized the technical advantages of the ICU, two arguments were directed against it: (1) it contained no specific limits on the amount of Bancor credit the U.S. government would have to provide, and (2) the clearing-union principle was foreign to the American financial community and to the Congress and was, therefore, unacceptable. The argument against the ICU was presented in terms of a worst-case scenario. Keynes' proposal suggested that the initial quotas might be equal to 75 percent of average annual prewar trade. Because world trade in 1937 and 1938 (exports plus imports) averaged about $50 billion, three-fourths would have been $38 billion. Assuming a U.S. quota of $8 billion, this would have meant maximum U.S. Bancor holdings of $30 billion if all other countries became members of the ICU and all of them accumulated debit positions equal to their quotas. The Keynes plan also suggested that quotas be adjusted every five years to reflect the growth in trade during the postwar period. One of the U.S. Treasury critics of the ICU estimated that the United States would be obligated to provide credits totaling $75 billion or more during the next decade. An economist in Monetary Research illustrated the objection to the ICU with the following example: Suppose Iceland with a gross domestic product (GDP) of $100 million had a quota of $10 million in a clearing union with aggregate quotas of $30 billion. Iceland would be obligated to provide foreign credits amounting to nearly 300 times its GDP!

These arguments against the ICU were criticized during the debates as unrealistic for several reasons. First, the United States would not be the only surplus country in the world. Many of the primary producing countries, such as Canada and the Latin American countries, would experience large surpluses as a result of heavy demand and high prices for their exports. Second, the U.S. government had policy instruments for limiting the U.S. export surplus if it needed to do so to control inflation or to limit its external credits. Third, the ICU gave substantial power to its governing board to require actions by members to limit their deficits when their debit balances exceeded one-half of their quotas. Fourth, measures could be taken to prevent the United States from having to acquire a disproportionate share of Bancor credit balances. The possibility of such measures was suggested by Keynes and explored in conversations between the U.S. and British delegates, but no acceptable formula was found. There was concern that any limitation on the obligation of a creditor to accept balances in Bancor would begin to impair confidence in Bancor as a large creditor approached the point at which the limitation would take effect (IMF, 1969, Vol. 1, p. 49). It may be noted that the same problem arose in 1969 when the Fund was authorized to distribute special drawing rights (SDRs).

4 U.S. Discussions with Foreign Officials in 1943

Although there were informal discussions between U.S. and British officials on both plans beginning in 1942, formal discussions with the British began in the spring of 1943, after an ISF draft was sent to a number of countries in March, together with invitations to send technical experts to Washington to discuss the proposal. An informal conference with the representatives of nineteen countries was held in Washington in June 1943, and bilateral discussions continued with the British and the representatives of other countries from time to time during that summer. The June conference considered the ISF and the ICU; a Canadian proposal, based on the White plan, for an International Exchange Union (IEU); as well as several other proposals and memoranda. These early discussions were largely of an exploratory nature and did not seek agreement on a particular proposal.

The International Currency Debate

During the early meetings, Keynes vigorously defended his ICU plan against the subscribed currency arrangements proposed by White. Once he saw, however, that the clearing-union principle could not be made acceptable to the American delegation, he sought to incorporate aspects

of the ICU into the White plan. His major objectives were to introduce the multilateral clearing of bilateral balances and to provide a system whereby drawings from the ISF could be used to settle obligations denominated in any currency. This would have obviated the need to have the dollar declared scarce. The scarce-currency clause in the ISF proposal violated the basic principle of nondiscrimination and was thus an embarrassment to the American delegation, but White defended it by stating that the ISF would never need to declare the dollar scarce (IMF, 1969, Vol. 1, pp. 45-46). He never explained how this could be prevented, but he may have believed that the ISF would not be in full operation until the major international currencies were freely convertible. This position, however, would have contradicted his stance on the ISF's role in dealing with the financial problems of the immediate postwar period.

Keynes proposed making White's Unitas a true international currency. Instead of having member currencies drawn from the ISF, members would draw Unitas, which would be readily convertible into any national currency, including the dollar. This was rejected by White, because it would obligate the United States to provide dollars equal to total drawing rights in the ISF (less the U.S. quota). It would, he felt, be bringing in the clearing-union principle by the back door.

Contributions to the International Stabilization Fund

The April 1942 draft did not specify the contributions of members to the ISF but did indicate their composition. Each member would initially contribute 50 percent of its quota, of which 12.5 percent was to be in national currency, 12.5 percent in gold, and 25 percent in interest-bearing government securities. The composition of the remaining 50 percent was left for future determination. There were long discussions regarding the desirability of requiring a gold contribution and of having a large portion of the contribution in government securities. It will be recalled that the Federal Reserve Board had recommended that contributions be made largely in gold, in which case there could never have been a scarce-currency problem (unless total drawings were allowed to exceed total quotas). But that would have made the ISF a mere gold depository, and there would have been no expansion of international liquidity. White argued that gold contributions were necessary for the ISF to be able to acquire member currencies in excess of the amounts subscribed, a need that would arise in periods when drawings of a particular currency exceeded those amounts.

In answer to the concerns expressed by some delegates that many countries had limited gold reserves, White indicated he would be flexible

on gold payments by countries with low reserves. The July 10, 1943, draft of the ISF provided that the gold subscription would be 25 percent of a member's quota or 10 percent of its gold and convertible-currency reserves, whichever was smaller. White also suggested that a member country might count as part of its reserves an amount not larger than its gold contribution to the ISF minus its net purchases of foreign exchange from the ISF. Many delegates had suspected that the ISF was an instrument for bringing the world back to an international gold standard, to which their governments and public had deep antipathy. White sought to answer them by pointing out that the volume of international reserves under the ISF could be expanded in accordance with the need for liquidity and that there would be no fixed relation between gold and the volume of money.

The provision in the initial ISF draft that a portion of subscriptions should be in government securities was more difficult to justify and was later abandoned. White had argued that subscribing local currency might interfere with domestic monetary control, especially if the local currency had to be backed by gold reserves, and he had pointed out that, in accordance with his April draft, the securities could be sold only with the permission of the issuing government. Despite this provision, some delegates, including the British, were concerned that the ISF might upset markets by dealing in government securities. As a consequence, the July 1943 version of the ISF omitted the compulsory subscription of government securities but stated that a member *could* substitute government securities for local currency for up to 50 percent of its quota. This was later changed to a more sensible provision that a member could substitute non-interest-bearing demand notes for its local currency. Such notes would have no effect on domestic credit conditions.

Exchange Restrictions

The April 1942 draft required members to abandon all restrictions and controls over foreign-exchange transactions with other member countries not later than one year after joining the ISF, except with approval of the ISF, and to refrain from entering into any bilateral clearing arrangements, except with nonmember countries, and then only with the consent of the ISF (IMF, 1969, Vol. 3, pp. 63, 67). Because only a few countries did not maintain some restrictions on foreign-exchange transactions, delegates were concerned that these provisions would give too much power to the ISF. They were particularly worried about the freedom of members to control capital movements. Although the ISF would permit and, indeed, did encourage capital controls for countries

with weak balance-of-payments positions, a government could not be sure that transactions were for financing the current account, rather than capital movements, if it did not have complete control over all foreign-exchange transactions. The "Replies to Questions on the International Stabilization Fund" (U.S. Treasury, Division of Monetary Research, 1943, p. 10) stated that countries might retain effective control over capital movements by establishing a licensing system requiring that all foreign exchange be bought and sold through licensed dealers. In addition, the "Replies" stated (p. 9) that member countries should cooperate with one another in exercising control over capital movements by prohibiting foreign nationals from acquiring deposits, securities, or other investments. It is unlikely that the U.S. government would have adopted such comprehensive exchange controls. Although it has imposed limited foreign-currency controls, it has not usually assisted foreign countries in enforcing their foreign-exchange regulations. The obligation of members to control exchange transactions in their markets was an issue never fully resolved.

Exchange Rates

White's initial draft gave the ISF power to set the rate at which it would exchange one member's currency for another's at the time operations began; a member could change its par value only with the approval of three-fourths of the member votes (IMF, 1969, Vol. 3, p. 60). Because the United States expected to have more than one-fourth of the total vote, it would have the power to determine every member's initial exchange rate and to bar any change thereafter. This was unacceptable to the foreign delegates, and the July 10, 1943, draft provided merely for consultation with the ISF on the initial rate prevailing on July 1, 1943, if that rate were judged to be inappropriate by either the ISF or the member. The new draft retained the provision requiring a three-fourths majority vote for any subsequent changes in par value. The justification for a change in a member's par value was a condition of "fundamental disequilibrium" in its balance of payments. There was some discussion about the meaning of fundamental disequilibrium, but Treasury officials proposed neither a precise definition nor an objective formula for detecting it. Indeed, fundamental disequilibrium has never been defined in fewer than ten pages.

White resisted efforts to liberalize a member's right to change its par value but was forced to abandon his initial position. In the immediate postwar period, the major problem was not to prevent inappropriate changes in par values but to induce countries to devalue when their

currencies were obviously overvalued. The ISF, by majority vote, could prevent a country from changing its par value, but it had no power to force a change except possibly as a condition for obtaining foreign currencies from the ISF. Even this latter possibility was not explicitly included in the Articles of Agreement approved at Bretton Woods.

Drawings on the International Stabilization Fund

The foreign delegations were concerned about both the amount of assistance they might expect from the ISF and the conditions under which assistance would be made available. The April 1942 draft provided for a normal drawing right equal to 100 percent of a member's contribution in its national currency and government obligations. Thus, if its subscription were $25 million in gold, plus $75 million in currency and government obligations, the member could draw $75 million in foreign exchange; after taking account of the gold subscription, the ISF would provide $50 million in net credit (IMF, 1969, Vol. 3, p. 50). The ISF might, however, constrain drawings by a member that was not adopting proper measures to correct a prolonged disequilibrium in its balance of payments. A member of Keynes' ICU, by contrast, could increase its debit balance by an amount equal to 25 percent of its quota during any single year without meeting any conditions, except that the governing board could set conditions for running additional deficits when the member's debit balance reached 50 percent of its quota. These could include devaluating the member's currency, controlling outward capital movements, and surrendering liquid reserves to reduce its debit balance.

Keynes, along with other delegates, argued strongly that any international stabilization agency should be a source of foreign-exchange reserves up to a certain level, rather than a source of conditional credit. The July 1943 draft also provided that the ISF could place conditions on drawings that exceeded a member's gold contribution if the ISF believed the member was exhausting its permissible quota more rapidly than was warranted. Keynes objected to this condition throughout the negotiations, but White was adamant that the ISF should have this power.

In his initial ISF plan, White had stated that, as a condition for purchases from the ISF, "the currency purchased must be needed to meet an adverse balance of payments with the country whose currency is being demanded" (IMF, 1969, Vol. 3, p. 49). It was pointed out that this condition could lead to an anomaly; a country might borrow from the ISF to meet a bilateral deficit even though it had an overall surplus. The condition was amended in the July 10, 1943, draft to read, "when the foreign exchange is required to meet an adverse balance of payments

predominantly on current account with any member country" (IMF, 1969, Vol. 3, p. 89), but this language retained the bilateral-balance condition.

The foreign delegates frequently asked whether a member could draw the currency of one country to be used for settling a current-account deficit with another country. This could not take place under the White plan without the agreement of the member whose currency was to be drawn, because, in the absence of a bilateral current-account deficit, any such transfer would be regarded as a capital transaction. A member could also ban the sale of its currency by the ISF if the ISF's holdings of that currency were less than 20 percent of the member's quota (IMF, 1969, Vol. 3, p. 90). White refused to recognize the full implications of the essentially bilateral foreign-exchange system represented by these arrangements.

White's insistence on providing credits in the form of currencies that were not automatically convertible into other currencies raised problems throughout the debates on his plan, and these were not fully resolved at Bretton Woods. A similar procedure had been used by the U.S. Exchange Stabilization Fund in its bilateral exchange agreements during the 1930s and was probably designed to conceal from at least some of the public the fact that the transactions were really loans.[8] The failure of the White plan to provide a system for clearing bilateral balances that were not fully convertible led to the establishment of the European Payments Union (EPU) in 1950, in which the IMF decided not to play a role.

Questions regarding the volume of usable assets available to the ISF were frequently raised during the informal discussions. The July 1943 draft continued to set the total size at or above $5 billion, but this was substantially smaller than the anticipated size of drawings, assuming that most member countries would have balance-of-payments deficits in the early postwar years. The Treasury staff justified the adequacy of the $5 billion figure with an estimate of $2.5 billion for the worldwide total of deficits in the three-year period from 1936 to 1938. It admitted, however, that deficits might be substantially higher. White stated that provision should be made for a larger ISF if further study indicated the need for more than $5 billion in the postwar period, but he also stated that the ISF should have the power to borrow scarce currencies from member countries and to issue its own obligations to raise additional

[8] The exchange-transaction system also avoided violation of the Johnson Act of 1934, which prohibited loans to governments in default on U.S. loans.

resources. The need for additional usable currencies was met by the General Arrangements to Borrow adopted in May 1962 (IMF, 1991, p. 35). There have also been a number of general increases in Fund quotas.

Foreign delegates also questioned the wisdom of having quotas determine both contributions and normal drawing rights from the ISF. White did not view the ISF as operating in an environment in which a large number of members would be chronic borrowers, with only a few countries supplying usable assets. Once again, however, his position seemed to be inconsistent with his view of the ISF as a major source of balance-of-payments financing in the immediate postwar period.

The Formula for ISF Quotas

Throughout the discussions in 1943, the delegates asked how quotas would be determined. The initial version of the ISF had suggested a number of elements that might go into a formula for determining quotas, including gold holdings, national income, foreign trade, and population. On the basis of assumed weights, White provided a suggested table showing quotas in a $5.2 billion ISF: the United States would have a quota of $3.2 billion, the United Kingdom, $635 million, the Soviet Union, $164 million, and so on (IMF, 1969, Vol. 3, p. 74). This gave the United States 61 percent of the total. I do not believe that White wanted to give that large a share to the United States, but he lacked the data and a formula that would give it a smaller share. White actually had in mind a U.S. quota in the range of $2.5 to $3 billion, because that figure corresponded to the size of the U.S. Exchange Stabilization Fund, which had been created by the dollar depreciation of 1934 and was held by the Treasury Department outside the Federal Reserve System. This amount could be contributed to the ISF without congressional appropriation. In the July 1943 version of the ISF, the quota formula was discussed again in terms of the relevant factors, but there was no hint of the weights to be given to each factor in the formula (IMF, 1969, Vol. 3, p. 87). Neither were the foreign delegates told that a formula had been prepared by the Treasury staff based on an enlarged ISF with total quotas of about $10 billion; the formula was discussed in September 1943 with the British delegates in negotiations on the Joint Statement. The July 1943 draft also stated that quotas were to be adjusted three years after the establishment of the ISF, on the basis of the most recent data, and at five-year intervals thereafter in accordance with the formula. Any change in the formula, however, would require four-fifths of the votes, which would give the United

States a veto. In addition, no quota could be increased without the consent of the member concerned.

In mid-April 1943, shortly after the White plan was made public, White called me to his office and asked that I prepare a formula for the ISF quotas that would be based on the members' gold and dollar holdings, national incomes, and foreign trade. He gave no instructions on the weights to be used, but I was to give the United States a quota of approximately $2.9 billion; the United Kingdom (including its colonies), about half the U.S. quota; the Soviet Union, an amount just under that of the United Kingdom; and China, somewhat less. He also wanted the total of the quotas to be about $10 billion. White's major concern was that our military allies (President Roosevelt's Big Four) should have the largest quotas, with a ranking on which the president and the secretary of state had agreed. I was surprised that White did not mention France, which was usually regarded as being third in economic importance among the Allied powers. He said he did not care where France ranked, and its ranking did not need to be an objective in the exercise. As was typical, White wanted something on his desk in a couple of days—it took me four, including a weekend. A modern computer would have saved several days of work on my state-of-the-art calculator and might have produced a more credible result.

Had there been reasonably good official national-income estimates for the major countries in 1943, it might not have been possible for me to approximate White's conditions. Only the United States and Britain had official figures, although several countries had unofficial estimates. There were published figures on gold and dollar holdings (except for the Soviet Union) and on foreign trade, but no formula could meet White's conditions without giving great weight to national income. My sources for the national incomes of the thirty-four countries I covered were estimates of average consumption found in country studies, estimates of wage rates and family expenditures, and extrapolations from budget and tax data. Countries at a similar stage of development were assumed to have the same per capita income. My national-income estimate for China was $12 billion, less than a fifth of U.S. national income in 1940, and my estimate for the Soviet Union was $32 billion. I confess to having exercised a certain amount of freedom in making these estimates in order to achieve the predetermined quotas. I went through dozens of trials, using different weights and combinations of trade data before reaching a formula that satisfied most of White's objectives. I then found that I could get even closer if I increased the quotas by the ratio of average exports (from 1934 to 1938) to national income (1940). Not all

the estimates were for a common date, but I tried to adjust the data to 1940. The final formula for determining quotas was 2 percent of national income, 5 percent of gold and dollar holdings, 10 percent of average imports, 10 percent of the maximum variation in exports, and these three percentages increased by the percentage ratio of average exports to national income.[9]

On the basis of this formula, the quotas for the United and Associated Nations totaled $10.1 billion, of which $2.9 billion was the U.S. share and $1.3 billion was the U.K. share. The Soviet Union was given $763 million, and China was given $350 million. This left me with a serious problem, for I found no way to reduce the French quota to an amount that was less than the Chinese quota. To do this, I would have had to assign to France a national income that was less than half that of the United Kingdom, yet the available information indicated that French national income (with colonies) was at least two-thirds that of the United Kingdom (with colonies). In addition, French foreign trade was much larger than China's so that, properly calculated by the formula, the French quota would have been in the neighborhood of $700 million to $800 million. The calculated quotas of India and Burma (combined) were also slightly higher than that of China, based on the same national income of $12 billion. These figures were supplied by the United Kingdom and could not conveniently be adjusted.

The first memorandum prepared for internal use by the U.S. Treasury, dated June 9, 1943, contained quotas for only eleven countries and did not include France. In a much longer list circulated in the Treasury in January 1944, China's quota was arbitrarily raised from $350 million to $600 million; France was given a quota of $500 million; India and Burma received $300 million each; and the Soviet Union was boosted to $900 million (IMF, 1969, Vol. 1, p. 96). Early in the Bretton Woods conference, another list was circulated, reportedly by someone in the U.S. Treasury, which returned China's quota to the original $350 million, raised France to $620 million, and reduced the Soviet Union to $763 million. I do not recall having seen it, but it does not appear to have been sanctioned by White. Moreover, this was not the list distributed to the Committee on Quotas at its initial meeting; that list was closer to the Treasury's January 1944 version.

[9] The formula and some of the quotas I calculated are in a memorandum dated June 1943, which was circulated in the U.S. Treasury Department. The formula was first published by Altman (1956) and was later published in the IMF's history (IMF, 1969, Vol. 1, p. 95), which also acknowledged me as its author.

Blocked Balances

Both the April 1942 and July 1943 versions of the White plan contained detailed provisions on the procedures the ISF might use to help liquidate blocked currency balances accumulated before and during the war. The sterling balances were the basic problem, for they had continued to accumulate as Britain used sterling to finance purchases from the sterling area. Because the British needed to maintain confidence in sterling, they did not want to formally block these balances, although transportation and supply shortages effectively restricted their use during the war. Neither did they want to suggest how the balances might be restricted following the war. The U.S. delegates, by contrast, saw the sterling balances, which totaled several billion pounds, as a threat to an early elimination of discriminatory exchange practices; they did not believe that Britain would be in a position to make these balances convertible into dollars at the end of the war. Because the British Treasury did not want the ISF to assist in liquidating the balances, no mention was made of blocked balances in the Joint Statement. The sterling balances became an important issue, however, in the negotiation of the Anglo-American Financial Agreement.

5 Negotiating the Joint Statement

At the June 22-23 meeting between the British and American representatives in 1943, plans were made for the negotiation of a Joint Statement on the basic provisions of an International Monetary Fund that would be presented to an international conference.[10] This decision converted the previous debate on the relative merits of the White and Keynes plans into a focused negotiation for reaching agreement on a specific plan to promote the expansion of international trade, the achievement of exchange stability, the elimination of exchange restrictions, and the shortening of the period of disequilibrium in the international balance of payments of member countries. The negotiations on the Joint Statement took place in Washington, between September 15 and October 9, 1943, during which time nine meetings were held. The British delegation, headed by Keynes, included Robertson, Robbins, Redvers Opie, and Sir Frederick Phillips. By this time, the British had abandoned any hope of obtaining an agreement based on the ICU and

[10] During the negotiations on the Joint Statement, the ISF became the International Monetary Fund.

sought to secure changes in the White plan that they believed were essential for Britain's welfare and for acceptance by the British Parliament. A number of issues were not fully resolved, and negotiations continued by mail and cable with Keynes in London and through discussions between embassy personnel. Complete agreement on the Joint Statement was reached in April 1944, but it did not cover all the issues concerning the Fund and did not deal at all with the Bank proposal. It did provide a framework to take to Bretton Woods, on which the American, British, and Canadian delegations agreed, and which they largely imposed on the other countries.

Making Unitas an International Currency

By the time the negotiations on the Joint Statement took place, White was probably sorry he had ever introduced Unitas into the ISF. White regarded Unitas simply as a unit of account and a surrogate for the gold-convertible dollar. Keynes, however, hoped to raise Unitas to the status of an international currency, which he believed to be essential for the White plan to become viable.[11] Keynes had no objection to Unitas being defined in terms of gold, as Bancor was, but he wanted members to draw Unitas from the Fund and for all members to accept it in exchange for their own currencies. White argued against Keynes' proposal as an ICU under another name, and agreement was reached to drop Unitas from the Joint Statement.

Multilateral Clearing

The elimination of Unitas still left the problem of multilateral clearing. Under White's ISF plan, a member would be obligated to buy its own currency from another member only if it had a bilateral deficit with that member. To allow for multilateral clearing, a member would have to be obligated to buy its own currency from another member whenever it was offered by that member, even if there was no bilateral imbalance between them. To solve this problem, the British delegation suggested

[11] During the September 1943 discussions, Keynes presented a memorandum entitled "Suggestions for the Monetization of Unitas," dated September 21, which would make Unitas a truly international currency rather than just a unit of account. Each member would be given a balance in the Fund in Unitas by paying 12.5 percent of its quota in gold and the remainder in securities denominated in Unitas. These balances would be freely acceptable to all members for settling all international obligations. Also, members would agree to accept Unitas in exchange for their own currencies, up to the point at which a member's holdings of Unitas reached 120 percent of its quota. Clearly, this anticipated the SDR system.

a clause in the Joint Statement requiring a member to buy back its currency from any other member, using that member's currency or gold, so long as its own currency was acceptable to the Fund and the other currency was available from the Fund. When a member was asked to buy back its currency with the currency of another member, it could acquire the other member's currency from the Fund. Under these conditions, the Fund's holdings of the other member's currency would be reduced, raising its own drawing right on the Fund, so that it could then draw any currency it needed. This somewhat complicated arrangement could have solved the multilateral clearing problem, but it was opposed by White. The U.S. delegation did agree, however, to a provision in the Joint Statement that was designed to accomplish the same purpose: "Subject to VI, below, a member country may not use its control of capital movements to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments" (IMF, 1969, Vol. 3, p. 134). This language was included in the Articles of Agreement of the Fund (Article VI, Section 3). Presumably, it means that, after the transition period, a member would have the obligation to allow the transfer of its currency between two other members to settle an imbalance between them, thus providing for multilateral clearing. This was never absolutely clear, however, and the issue of multilateral clearing arose again at Bretton Woods.

The Right to Draw Foreign Exchange

A major issue in the negotiation of the Joint Statement had to do with the conditions on the rights of members to draw foreign exchange from the Fund. Keynes repeated his position that members must be assured that foreign exchange would be available unconditionally, in order for them to take action with respect to their domestic economies and to fulfill the obligations of the Fund agreement on nondiscrimination. In response, White proposed that each member should have the unconditional right to draw an amount equal to its gold subscription; that it would have the right to draw an additional amount equal to 25 percent of its quota over a twelve-month period until the Fund held an amount of its currency equal to 150 percent of its quota; and that it could make further drawings, even when the Fund's holdings of its currency exceeded 150 percent of its quota, unless the Fund had given notice, in which case it could only draw an amount equal to 12.5 percent of its quota (IMF, 1969, Vol. 1, p. 70). Keynes found this formula unacceptable, however, and proposed that the only limitation on a member's drawing would be quantitative (25 percent per year) until the Fund's

holdings of its currency reached 200 percent of the quota. The U.S. delegates then made a further concession to the British position in a draft presented on October 8, which read:

> A currency is acceptable:
>
> (a) If at the time the currency is tendered to the Fund the member country represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund;
>
> (b) If the Fund's total holdings of the currency of the member country have not increased by more than 25 percent of the quota during the previous twelve months, and if they do not exceed 200 percent of the quota; and
>
> (c) If the Fund has not previously given notice of 6 months to a year which has expired that a member country is making use of the Fund's resources in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts. (IMF, 1969, Vol. 1, p. 71)

Keynes (IMF, 1969, Vol. 1, p. 71) proposed to add that "the Fund will not give notice if its holdings of the member currency do not exceed 166 percent of its quota." Although this addition was not acceptable to White, the U.S. delegation had come a long way toward satisfying Keynes' desire for a margin of unconditional drawings. One question, however, remained. Could the Fund challenge a member's assertion that the currency it demanded from the Fund was currently needed for making payments that were consistent with the purposes of the Fund? This might be a reason for the Fund to give notice that the member would be suspended from making further use of the Fund's resources (IMF, 1969, Vol. 1, p. 72). The issue of unconditional drawing rights was taken up again at Bretton Woods without, Keynes felt, a definitive resolution.

Repurchase Arrangements

The initial White plan had contained the requirement that a member repurchase its own currency held by the ISF when the member's reserve position improved, but the obligation was not clear. The July 1943 ISF draft required that each member offer to sell to the ISF in exchange for its national currency "one-half of the foreign-exchange resources and gold it acquired in excess of its official holdings at the time it became a member of the Fund [ISF], but no country need sell gold or foreign exchange under this provision unless its official holdings are in excess of 25 percent of its quota. . . . [Only] free and liquid foreign-exchange resources and gold shall be considered [for this purpose]" (IMF, 1969, Vol. 3, p. 91). Keynes wanted to limit the obligation to surrender an

increase in reserves to cases in which the member's reserves exceeded its quota and the member had drawn on the ISF in the preceding year. In addition, he wanted to define reserves to include only gold and gold-convertible currencies. The U.S. draft of the Joint Statement presented on October 8 stated that, "if at the end of a stated period, a member's official holdings of gold and free foreign exchange have increased and those holdings are adequate, the Fund may require that half the increase may be used to repurchase any of the Fund's holdings of its currency in excess of its quota." Keynes presented an alternative draft that substituted gold-convertible currencies for free foreign exchange. In the final version of the Joint Statement, White agreed to substituting "gold-convertible exchange" and to adding the provision "so long as this does not reduce the Fund's holdings of a country's currency below 75 percent of its quota, or the member's holdings of gold and gold-convertible exchange below its quota" (IMF, 1969, Vol. 3, p. 133).

The Transition Period

Neither the April 1942 nor July 1943 versions of the White plan provided for a specific transition period. Nevertheless, the 1943 version obligated a member "to abandon, as soon as the member decides that conditions permit, all restrictions (other than those involving capital transfers) over foreign-exchange transactions with other member countries, and not to impose any additional restrictions (except upon capital transfers) without the approval of the Fund [ISF]." It further provided that "the Fund [ISF] may make representations to member countries that conditions are favorable for the abandonment of restrictions over foreign-exchange transactions, and each member shall give consideration to such representations" (IMF, 1969, Vol. 3, p. 95).

The ICU proposal, by contrast, provided for a transition period of indefinite length and assumed that financial resources outside the ICU would meet immediate postwar financial requirements. The British delegation was not prepared to accept an obligation to remove exchange restrictions upon joining the ISF without knowing how Britain was going to deal with its immediate postwar financial problems. Yet White had defended the ISF plan to the public as an arrangement that would, within a relatively short period, establish exchange-rate stability and eliminate discriminatory exchange restrictions. The Treasury draft of the Joint Statement presented at the October 1943 meeting included a statement that provision would be made to cover the transition period,

but the nature of that provision was not specified.[12] A British draft of December 1943 provided for a transition period during which members would not be required to abandon their exchange regulations (IMF, 1969, Vol. 1, p. 73). There was also the implication that members' drawing rights would be limited during this period, and this was Keynes' position. The availability of drawings during the transition was not clarified, however (IMF, 1969, Vol. 1, p. 75).

Completion of the Joint Statement

At the close of the September-October 1943 Joint Statement negotiations, a number of differences remained between the U.S. and U.K. delegations. The most important were:

(a) The amount of the gold subscription by each member. The United States proposed 25 percent of the member's quota or 10 percent of its gold and foreign-exchange holdings, whichever was smaller; the British proposed 12.5 percent of the member's quota. The British later accepted the U.S. proposal but specified that the foreign-exchange holdings were to be *net* of official foreign obligations.
(b) The powers of the Fund to limit a member's access to its resources. The British urged that no restrictions be imposed until the Fund's holdings of a member's currency exceeded 166 percent of the member's quota.
(c) The latitude to be provided for a unilateral change in a member's exchange rate.
(d) The terms of the requirement that a member repurchase its currency from the Fund.

All but the issue of a member's access to its resources were resolved in negotiations before the publication of the Joint Statement on April 21, 1944. Control over access, although seemingly settled in the final version of the Joint Statement, reappeared at Bretton Woods.

The Joint Statement was a compromise that did not wholly satisfy Keynes and also departed considerably from White's initial plan. Some members of the U.S. delegation believed that the Fund could not become operational until after postwar reconstruction, which would require external financial resources considerably larger than the Fund

[12] A draft memorandum entitled "Joint Statement by Experts of United and Associated Nations on the Establishment of an International Stabilization Fund," dated October 13, 1943, was circulated by the U.S. Treasury following the last formal meeting in Washington.

and Bank could provide. Keynes had misgivings about Britain's surrendering the sterling area in favor of full multilateralism, but that had been decided by Article VII of the Lend-Lease Agreement and was very likely to be a condition for postwar financial aid from the United States. He was aware of the difficulties he would face in selling the Fund to the British Parliament. Nevertheless, he was prepared to negotiate the Fund agreement at Bretton Woods on the basis of the Joint Statement. White took great pride in the fact that his plan would provide the framework for two large and influential international financial institutions, one of which he expected he would play an important role in managing.

6 Evolution of the Bank Plan

White's April 1942 Bank proposal provided for so many functions that it was difficult to differentiate between the basic roles of the Bank and the ISF or to justify the existence of two institutions. Keynes is reported to have stated that the titles of the two institutions should be reversed. White's view of their respective roles, however, was clearly stated in his proposal: "The Fund [ISF] is designed chiefly to prevent the disruption of foreign exchange and to strengthen monetary and credit systems and help in the restoration of foreign trade, whereas the Bank is designed chiefly to supply the huge volume of capital to the United Nations and Associated Nations that will be needed for reconstruction, for relief, and for economic recovery" (Oliver, 1975, pp. 297-298).

The Bank was White's answer to the criticism that the ISF could not promote currency stabilization and the elimination of exchange restrictions in the immediate postwar period. But, if the resources of the Bank were to constitute a condition for achieving fundamental goals of the ISF, why was so little attention paid to the Bank during the interdepartmental discussions in 1942 and 1943? White frequently gave the impression that the major purpose of the Bank proposal was to provide "the bait" for countries to join the ISF, because he always regarded ISF membership as a condition for Bank membership.

A new draft of the Bank proposal was issued in December 1942 and circulated within the Treasury, but it was not greatly different from the April 1942 version. In the April 1943 draft,[13] the authorized capital of the Bank was raised from $10 billion to $20 billion, with each partici-

[13] According to Oliver (1975, p. 140), the next draft after the December 1942 draft was dated August 2, 1943, but I found in my files a draft by White dated April 1943. I believe this is very similar to the August draft, although I no longer have a copy of the latter.

pating government subscribing 10 percent of its national income. The initial payment was reduced to 20 percent of a member's capital subscription, of which half would be in gold. This draft retained many of the powers given to the Bank in White's initial draft, including the issuing of notes expressed in terms of Unitas, and the provision of central-banking services.

In the discussions by the ATC, a number of criticisms were raised regarding the powers and functions White gave to the Bank. There were objections to the Bank's having the power to issue notes expressed in terms of Unitas, to finance an International Essential Raw Materials Development Corporation and an International Commodity Stabilization Corporation (added in the April 1943 version of the plan), and to provide short-term financing for trade and engage in other commercial banking activities. There was also objection to its being empowered to make loans for "providing metallic reserves or otherwise strengthening the monetary systems of the borrowing country" (April 1943 draft, par. 5). The Bank plan quite properly provided that loans should not be tied to purchases by the borrower in particular countries. The currencies loaned by the Bank would not necessarily be freely convertible, and these currencies that were not freely convertible could only be used for purchases in the country of their origin. In later drafts and in the final Articles of Agreement of the Bank, a clause gives each member a veto over the use of its currency for loans by the Bank, including the right to veto an exchange of its currency for other currencies. Thus, as in the case of the currencies subscribed to the ISF, there were severe limitations on the usability of the Bank's assets. This meant, moreover, that the U.S. government would have a veto over the use of any dollars subscribed to the Bank for making loans. So far as I am aware, it never exercised this power, and, although the United States has voted against particular loans by the Bank, it cannot veto a loan.

The White plan for the Bank was rivaled by a plan written by John Parke Young and submitted to the ATC by the State Department. This plan, entitled "A Proposal for an International Investment Agency" was similar to the White plan but had several distinguishing features. It proposed that loans made in national currencies could be spent in any country chosen by the borrower, and the borrower could repay in the same currency it had borrowed. Furthermore, loans to private enterprise would not have to be guaranteed by the borrower's government. Although this last provision was not accepted by the ATC, it became a reality with the establishment of the International Finance Corporation (IFC) in 1956 (see Young, 1950, pp. 778-790, for a discussion of his plan).

The ATC gave very little time to the Bank plan in 1943, and, once the extraneous powers were removed in subsequent drafts, there were no serious arguments about it. The ATC did discuss whether dollars subscribed by the U.S. government had to be spent in the United States or whether the Bank could convert them into the currencies of the countries from which the borrowers desired to purchase goods (Oliver, 1975, p. 146). Some U.S. officials argued that Congress would insist that U.S. dollars subscribed be spent in the United States. Yet it was also agreed that the Bank should not make "tied loans." This apparent contradiction was resolved when the Bank began operations. Most of its loans were made in currencies borrowed by the Bank, rather than in the subscribed currencies.

During the bilateral meetings with the British in 1943, a draft of the Bank plan, dated September 24, 1943, was submitted, but only one day was given to discussing it. A major issue was whether the Bank would engage primarily in making direct loans from its resources or in guaranteeing loans made by the private sector. Keynes favored the latter and recommended that the capital of the Bank serve primarily as backing for loan guarantees and that its capital not exceed $5 billion, rather than the $10 billion suggested in the U.S. proposal (the $20 billion in the April 1943 draft had been reduced to $10 billion). Keynes also wanted either no gold subscription or a very small one. It was ironic that the British wanted a smaller Bank than the U.S. delegation wanted, for White had initially expected the Bank to meet the large postwar reconstruction and recovery requirements. Keynes evidently thought that Britain had more to gain from a small Bank requiring a small gold and sterling contribution, for he did not think Britain would borrow from the Bank.

There was much public discussion of the Bank in the United States following the publication, on November 24, 1943, of "A Preliminary Draft Outline of the Bank," which included a number of suggestions made by the British in the September-October talks. Members of the ATC and representatives of foreign governments, including the Soviet Union, also met. In response to the numerous questions raised about the Bank, the U.S. Treasury issued a document entitled "Questions and Answers on the Bank for Reconstruction and Development," dated February 24, 1944. One question dealt with the adequacy of the suggested capital of $10 billion, for the published draft provided that, initially, only 20 percent of that amount would be paid in by member countries. The answer given was that, although it would be possible for the Bank to call for additional payments, most of the 80 percent would remain unpaid but would serve as a surety fund for the Bank's obliga-

tions as guarantor or issuer of securities. This arrangement would minimize the problem of obtaining permission from members to use their currencies for loans.

Considerable attention to the Bank proposal was given at the meeting in Atlantic City from June 15 to 29, 1944. Important changes were submitted by Keynes in a draft prepared by the British and other delegations during the trip across the Atlantic. This "Boat Draft" emphasized the function of the Bank as guarantor, rather than lender, of national currencies subscribed to the Bank, and it provided that 80 percent of the subscribed capital could not be called, except to make good a default on the Bank's obligations. This was acceptable to the U.S. delegation. There remained, however, differences between the British and U.S. delegates with regard to linking membership in the Bank to membership in the Fund. There was also disagreement about whether the Bank should be able to make loans for general reconstruction purposes or whether it should be limited to financing specific long-term projects. The British pointed out that requirements for reconstruction often involved a number of goods and services that did not correspond to specific projects. Balance-of-payments loans were another divisive issue. The British favored them; the United States wanted to restrict them. In the end, the Bank was given ample power to make nonproject loans, which later came to be called Structural Adjustment Loans.

7 Atlantic City

The Atlantic City meeting was convened to set the agenda for the Bretton Woods conference, but it was mainly occupied with considering proposed amendments to the Joint Statement and to the Boat Draft for the Bank. Altogether, sixteen countries joined the United States in Atlantic City, although the European delegation arrived late. Despite the previous long negotiations on the Joint Statement, Keynes asked for additional changes, probably in response to British discussions with Commonwealth representatives. In some cases, the changes requested were for clarification, but others were substantive. In all, some seventy amendments were proposed by the various delegations, and U.S. Treasury economists attending the meeting were kept busy writing memoranda, mainly directed at showing why the amendments should not be accepted. Throughout the meeting, Treasury technicians were exceedingly defensive about U.S. positions, especially with regard to the Fund, and were more interested in criticizing proposals from other delegations than in examining them for merit.

Well into the meeting, White (1944) sent a memorandum to Secretary Morgenthau outlining what he thought were the most significant issues raised by other delegations about the Fund. White stated that “the American technical advisors have regarded the determination of quotas as fundamentally an objective matter.” He indicated that he wanted to stick by the formula, except for setting aside 10 percent of total quotas ($800 million) to be apportioned among countries for which the formula-based quotas were clearly inadequate. This statement contrasts with White’s downgrading of the quota formula at Bretton Woods. The memorandum to Morgenthau also mentioned the Soviet Union’s demand for a reduction in the required gold subscription for countries suffering the greatest war damage and the desire of the Soviet Union to be free to change its exchange rate without the approval of the Fund, because its exchange rate had no effect on the Fund’s international transactions. In addition, several countries, including the Soviet Union, objected to the close relation between quotas and voting power; the British wanted voting power in the executive committee to reflect the importance of the countries, but not necessarily to be very closely related to their quotas. Finally, the British renewed their proposal for eliminating the power of the Fund to set conditions, other than quantitative limits, for the use of its resources. These and other issues became part of the agenda for Bretton Woods.

8 Bretton Woods

With forty-four delegations coming together for three weeks, the Bretton Woods conference could not have been expected to reach a consensus on dozens of technical questions and then negotiate a report producing charters for two very complex institutions. Bretton Woods was a drafting meeting, with the substance having been largely settled beforehand by the U.S. and U.K. delegations and supported by the Canadians. The drafting process was skillfully guided and executed by American technicians, who served either as members of the secretariat to the conference or as advisors to the U.S. delegation. In practice, it did not matter which hat they wore. Although delegates from other countries made numerous proposals that conflicted with the basic preconference positions and agenda, the technicians were positioned to prevent their introduction into the charters. The commissions and committees at Bretton Woods presented a facade of democratic procedure, but the outcome had been largely predetermined by the U.S. and U.K. delegations. The negotiations that did occur were concerned mainly with problems relating to

the quotas and gold subscriptions of individual countries, and these were carried on by the conference leaders, not in open meetings.

The Bretton Woods conference was conducted by three commissions: Commission I, on the Fund, chaired by White; Commission II, on the Bank, chaired by Keynes; and Commission III, on other aspects of international financial cooperation, chaired by Eduardo Suarez of Mexico. The work of the commissions was, in turn, carried out by committees dealing with specific topics such as quotas, operations, and management. The records of the debates are sketchy and incomplete, and information on many of the more interesting discussions is based on unpublished notes and the memories of participants.

Quotas

Assigning quotas in the Fund was the most difficult and divisive task of the conference. The quotas of the Big Four had been determined at the highest political level in the United States, and the British accepted the U.K. quota initially suggested by the U.S. Treasury. White had little interest in the distribution of quotas among the remaining countries, except to be sure that the total should not exceed $8.5 billion, but the British supported the petitions for higher quotas made by some of the Commonwealth countries. Fund quotas were important for determining the normal drawing rights of countries, but they were also a matter of national prestige.

The quota issue was assigned to the Committee on Quotas chaired by Fred M. Vinson (who became secretary of the Treasury and, later, chief justice of the Supreme Court). I served as technical advisor to the committee. Vinson distributed a Treasury list of quotas in which a number of changes had been made since January 1944. Some of the changes had been negotiated by White, and some had been made by me on the basis of new information and with White's approval. Vinson emphasized that the list was meant only as a basis for discussion. The quota formula was not distributed, and White asked me not to reveal it. Even though White wanted to suppress the formula, however, copies were circulating at the conference. Representatives of fifteen countries were on the Quota Committee, including Canada, France, the Soviet Union, the United Kingdom, and the United States. After the list was distributed to the Quota Committee, more than half the delegates present strongly objected to the quotas for their countries, and several demanded to know how the quotas had been calculated. Vinson, who had not been well briefed on the history of the quotas, asked me to explain the basis for the list. I had anticipated this request and gave a

rambling twenty-minute seminar on the factors taken into account in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific.

Following my explanation, there was a long silence, during which I waited for a harsh cross-examination. The silence was broken by Rasminsky of Canada (later head of the Canadian Central Bank), who said he was well satisfied with my explanation and moved to accept the list. Rasminsky had discussed the quota recommendations with the U.S. delegation earlier and had agreed to support them. During a recess in the meeting, several delegates asked me about the calculation of their quotas, and I gave them the national income and other data I had used in applying the formula. In a few cases, they gave me more recent data, which I then used to recalculate the quotas. As the changes tended to be small, the new figures were substituted in the Quota Committee report after clearing them with Vinson. I recall making minor adjustments in some of the Latin American quotas. I did not negotiate any quota changes with the delegates of the larger countries; they took their objections to White or to one of the British delegates.

The quotas listed in the Quota Committee's report differed from the January 1944 Treasury Department quotas as follows: Australia's quota was raised from $150 million to $200 million; Brazil's, from $100 million to $150 million; India's and Burma's, from $300 million to $400 million; and the Soviet Union's, from $900 million to $1200 million. China's quota was lowered from $600 million to $550 million, and France's quota, from $500 million to $450 million. There was no bargaining in the formal sessions of the committee and the major differences between the committee's final report and the original list reflected negotiations with the delegates of the larger countries. The report was approved unanimously by the committee members, although China, Egypt, France, India, and New Zealand expressed reservations. When the report was presented to Commission I of the conference, other countries not represented on the Quota Committee also objected, including Australia, Greece, Iran, and Yugoslavia. By the time the conference closed, China, Egypt, Greece, New Zealand, and Yugoslavia had withdrawn their reservations, leaving only those of Australia, France, India, and Iran entered on the record. Except for a return of China's quota back to $600 million, the recommendations of the committee differed only slightly from the quotas adopted in the Final Act of the Bretton Woods conference. The French quota remained at $450 million, despite

vigorous protests; this was less than the amount proposed in the January 1944 list, which I believe the French delegation never saw.

Following the Quota Committee's final vote on its report, Pierre Mendes-France, chief of the French delegation (and later premier of France) stopped me in the main hall of the hotel to ask about the method of quota determination and, specifically, how France could possibly be allocated a quota lower than China's and only one-third that of the United Kingdom. I repeated my litany on the scientific nature of the quota-calculation process and showed him the data I had used for France, but I did not reveal the formula, which he may never have seen. He was not prepared to dispute my data but became increasingly agitated over the process that could give France such a low quota. The French delegation represented the de Gaulle government in exile, and it was well known that President Roosevelt and the U.S. administration were not on good terms with de Gaulle. I believe that Mendes-France regarded the decision on the French quota as a deliberate insult. Because I also believed the French quota was too low, I was greatly embarrassed during the confrontation and wished some senior member of the American delegation would come along to rescue me. Mendes-France became so vocal that our conversation drew the attention of Secretary Morgenthau, who asked what the problem was. Mendes-France asked him why France was given a disgracefully low quota and one that was less than China's. Morgenthau explained that President Roosevelt had promised China its quota would rank fourth, whereupon Mendes-France went into a rage, speaking unintelligibly, half in French, half in English. Morgenthau calmed him by agreeing that he and other members of the U.S. delegation would meet with Mendes-France privately. I quietly withdrew and went for a walk on the lawn but continued to shake for much of the rest of the day.

Not all countries were interested in having large quotas. Some that held substantial gold and dollar reserves, such as the Union of South Africa and Venezuela, preferred low quotas, because members were required to make gold contributions to the Fund equal to 25 percent of their quotas, or to 10 percent of their net official holdings of gold and U.S. dollars, whichever was smaller. In addition, quotas for Bank members were the same as their Fund quotas, so larger quotas meant larger capital subscriptions to the Bank. Nevertheless, to maximize the resources of both the Fund and the Bank, it was desirable to have large quotas for countries with large reserves and strong balances of payments.

The use of a single Fund quota to serve three purposes was both illogical and unnecessary, and this was frequently pointed out during the

conference. There could well have been one quota based on, say, foreign trade and export variability to govern drawing rights, a second quota based on reserves and balance-of-payments history to govern contributions to the Fund, and a third quota based on economic and political importance to determine voting rights. All three quotas could have been adjusted at, say, five-year intervals in accordance with formulas that might be revised every decade or so.

The lack of candor regarding quotas at Bretton Woods was unfortunate, because it created considerable controversy and mistrust. White and his staff used an arbitrarily determined procedure to produce the recommended quotas and then tried to keep the formula from most of the delegates. In his remarks during the conference, White repeatedly played down the role of the formula, but he nevertheless insisted that the suggested quotas were determined by some scientific procedure. Because the quotas produced by the formula were ostensibly presented only as a basis for negotiation by the delegates, making the formula available to all of them would have brought forth better national data for use in determining accurate figures.

White's position on the quota formula at Bretton Woods, which he repeated three years later at a meeting of the executive directors of the Fund (IMF, 1969, Vol. 1, pp. 97-98), is difficult to understand. As noted above, White's (1944) "Memorandum for the Secretary" prepared at the Atlantic City meetings stated that "the quotas must be based on a formula that recognizes a country's ability to subscribe to the Fund, her needs for use of the Fund, and the responsibility that must be given to her in the management of the Fund." This hardly squares with White's statement that the quotas adopted by the conference were negotiated and that the formula played only a minor role as a point of departure. Neither does the record agree with Vinson's statement when presenting the Quota Committee's report to the conference that "the formula had to be discarded because a period that would be fair to one country could not be fair to other countries" (IMF, 1969, Vol. 1, p. 97). It should be noted that revised versions of the quota formula are still used by the Fund in setting quotas for new members (see Appendix).

Other Fund Issues

The delegates reviewed many of the issues that had been debated before the conference. There were proposals for giving countries more liberty to change their par values, but the U.S. administration had already moved as far as it felt it could in the direction of exchange-rate freedom if it was to tell the Congress and the American public that the Fund

would stabilize exchange rates. There was an extended discussion about the conditions governing drawings on the Fund, but only minor changes were accepted by the conference, and much of the ambiguity in the Joint Statement concerning the Fund's power to decide a member's right to exercise its drawing rights found its way into the Articles of Agreement. The issue of making foreign-held balances convertible arose again at Bretton Woods, because India and other sterling-area countries holding large amounts of sterling wanted to be able to use their balances for purchases in any market after the transition period. The British insisted that convertibility should be extended only to currently acquired sterling needed for making current payments, and not to long-standing balances. The delegates also discussed at length the obligation of a country to repurchase its own currency held by the Fund. Many delegates wanted to soften this obligation, but, apart from an elaborate interpretation, there was little change in the repurchase provision proposed by the Joint Statement. Because the Joint Statement had made no provision to levy charges on the Fund's holdings of a member's currency obtained when that member drew on the Fund, the conference had to formulate specific provisions for levying those charges. It adopted the position of the U.S. delegation that charges should increase in proportion to the increase in the Fund's holdings.

Considerable time was spent at Bretton Woods on questions relating to organization and management, including the functions of the executive directors, the appointment of a managing director, and the location of the Fund, but some of these issues were not resolved. There was also much discussion of the nature and length of the transition period, which the British and others were anxious to extend beyond the three years suggested in the Joint Statement. In reality, of course, the time a member would have to meet its exchange-regulation and convertibility obligations would come to depend upon its rate of economic recovery and its progress in restoring payments balance.

The Bank

There was no Joint Statement to guide Commission II, but the United States and Britain had reached agreement on the basic structure and functions of the Bank at the meeting in Atlantic City. There were, in any case, fewer controversial issues than with the Fund. The original U.S. position favoring a large gold subscription to the Bank had already been shifted to a modest payment of 2 to 4 percent, and the United States had agreed that most of the capital of the Bank should remain uncalled and should serve simply as a guarantee against the Bank's obligations.

The British and Dutch proposed that 20 percent of subscribed capital be used to finance the Bank's lending operations and that the remaining 80 percent be used to meet contingent obligations. This proposal was accepted by the conference without objection from the U.S. delegates (Oliver, 1975, p. 188).

Another important Bank issue related to the scale of its operations. White's initial draft envisaged a Bank with substantial borrowing capacity to support an amount of lending several times larger than its capital. Although some foreign delegates favored this position, those countries that did not expect to borrow from the Bank wanted to limit its liabilities to the amount of its capital. This was also the position of Edward E. Brown, president of the First National Bank of Chicago and a member of the U.S. delegation, and of Marriner Eccles, of the Federal Reserve System. This position was adopted by the conference.

The delegates also debated whether the Bank should adopt the traditional lending standards of a commercial bank or whether it should take greater risks when a loan was in the general interest of world recovery. The American delegation wanted the Bank to follow conservative banking standards, but the British disagreed. There was also disagreement on whether the Bank should be empowered to make loans of gold or foreign exchange to increase a member's reserves, loans for accumulating inventories of raw materials, and general balance-of-payments loans. The British and most other delegations wanted the Bank to have the power to make nonproject loans. Despite the position taken by White in his initial draft, the American delegation at Bretton Woods tended to favor limiting the Bank to specific project lending. A compromise was reached, which became Article 3, Section 4 (vii): "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development." Recently, the Bank has been making more than one-third of its loans in nonproject form.

There was a renewal of the earlier discussion concerning the right of a country to veto the use of its currency subscription for making loans to other members. Although most delegates agreed that countries should have this right, the Mexican delegate criticized it at length, partly on the grounds that a member government might veto the use of its paid-in subscription simply because it wanted to avoid a de facto capital export (Oliver, 1975, pp. 198-201). The veto has not been a problem, however, and I am unaware of any case in which the Bank has been unable to use a specific currency. A nation's total subscription may, in any event, be used to meet obligations of the Bank in the event of large defaults.

For reasons never explained, White wanted quotas in the Bank to be the same as those in the Fund, and, in particular, he wanted the total quotas to be the same. The Latin American countries objected on the grounds that developing countries should contribute less capital to the Bank, and the Soviet delegation refused to subscribe more than $900 million to the Bank, but without reducing their $1,200 million quota in the Fund. The U.S. and British delegations argued that, apart from the 2 percent gold subscription, the size of Bank quotas were unlikely to affect the actual contributions of either the developing countries or those occupied during the war; not only did these countries lack resources, but they could veto the Bank's use of their currency subscription. The Soviet delegation, presumably under orders from Moscow not to accept a Bank quota equal to that of the Fund, did not accept this explanation. The Latin American countries were mollified by an offer from Canada and China to increase their quotas by an amount that would enable the conference to reduce Latin American figures. Intense diplomatic pressure on Moscow failed to convince the Soviets to agree to their quota and to sign the final agreement of the conference. Finally, to prevent the withdrawal of a Big Four member, White obtained permission from Morgenthau to raise the U.S. quota from $2,750 million to $3,175 million. This increase, along with the Canadian and Chinese increases, made it possible to meet the proposed total of $8.8 billion but to reduce the Soviet quota to $900 million and to reduce the quotas of the Latin American countries and several other developing countries as well. At the closing plenary session, however, Morgenthau announced he had just received word from Moscow that the Soviet Union would accept a quota of $1,200 million. This raised total Bank quotas to $9.1 billion.

The Soviet Union Delegation

Goldenweiser, who was born in Russia, characterized the Russians as "struggling between the firing squad on the one hand and the English language on the other. They seemed to be very much afraid of the reactions in their own country, and didn't dare to take a step without consultation by phone or cable with their government" (Van Dormael, 1978, p. 174). Although the Soviet delegates had no interest in technical discussions about foreign-exchange markets, they were well aware of the provisions in the Fund and Bank charters that affected their national interests. These included the amount and composition of subscriptions, the amount of credit a member could get from the two institutions, and the obligation of members to supply information. The Russians regarded information about their gold and other reserves as equivalent to their

most important military secrets. They also wanted a special exemption from the provisions on changing par values, because exchange-rate adjustments and currency convertibility were meaningless in the Communist economic system (see Mikesell, 1951, chap. 4, for a more complete discussion).

The Soviet delegation signed the Final Act of the conference and gave every indication that the Soviet Union would become a member of both institutions. So far as I am aware, the Soviets never gave their reasons for refusing to join. I believe their refusal was part of the general Soviet move toward isolation from the capitalist countries after the war and reflected the fear that Soviet officials cooperating with the West in these international financial institutions would compromise their loyalty to communism.

Socially, the Soviets were quite friendly, and I recall being recruited by White on two occasions for a Treasury Department volleyball game with the Russians—who soundly defeated us. They also entered into the spirit of Commission IV, the Bretton Woods hotel nightclub, where we all tried to sing one another's songs.

Liquidating the Bank for International Settlements

An interesting footnote to the debate at Bretton Woods was the controversy over a Norwegian resolution that the conference liquidate the Bank for International Settlements (BIS) "at the earliest possible date." The reason for the resolution, which was supported by other European delegations, was that the BIS was alleged to have cooperated with the Germans in transferring looted assets from occupied countries. The U.S. delegation was split between White and Morgenthau, who favored the resolution, and the State Department, which regarded it as a political matter that should not be decided at the conference. To add to the embarrassment, Ned Brown's bank had participated in the formation of the BIS, and the president of the BIS was an American. Keynes wanted the liquidation delayed until the establishment of the Fund because of an unexplained obligation undertaken by Britain when it joined the BIS. The Final Act of the conference recommended "the liquidation of the Bank for International Settlements at the earliest possible moment" (U.S. State Department, 1948, p. 1095). That moment has never arrived.

9 Ratifying the Agreement

There was substantial opposition in both the American Congress and the British Parliament to ratifying the Bretton Woods Agreement. Moreover, as the war came to a close, many people realized that the proposed

institutions would not have the resources to deal with immediate postwar financial problems. A strong argument was made for delaying their establishment and for concentrating on programs more relevant to the immediate problems, but those fresh from the negotiating triumph at Bretton Woods were anxious to convert the agreements into charters for living organizations. To do so, they promised legislators and the public much more than the institutions could deliver.

The Debates on the Bretton Woods Bill

During the debates in the House and Senate committees on the bill authorizing U.S. membership in the Fund and Bank, most of the questions and critical testimony focused on the Fund. The American Bankers Association and leading New York bankers condemned the Fund as being either premature or undesirable, although they generally favored the Bank. The U.S. Treasury and other government witnesses avoided technical discussions as much as possible and concentrated on the Fund's potential contribution to exchange-rate stability and unfettered world trade. Only rarely were debates carried on at a more substantive level.

Much of the questioning concerned the security of the Fund's resources (and therefore the U.S. subscription). One of the strongest criticisms came from Senator Robert A. Taft (Gardner, 1969, p. 130), who argued that drawings on the Fund by poor and unstable countries meant "pouring money down a rat hole," that only private banks had the wisdom and experience to make international loans (the widespread defaults on private bank loans to Latin America during the interwar period were conveniently forgotten). U.S. administration witnesses emphasized the power the Fund's board had to restrict loans to countries that were not following sound domestic and foreign-exchange policies, but this did not satisfy the critics. In Britain, Keynes was playing down the obligation of Fund members to avoid restrictive exchange practices, and, to elicit support in Parliament, he emphasized the freedom Britain would have to deal with her domestic and balance-of-payments problems within the Fund's framework. Some U.S. congressmen challenged White by quoting Keynes' speeches. Senator Taft quoted Keynes' statement that the IMF system was "the exact opposite of the gold standard," whereas White declared that the Fund was consistent with a modern gold-exchange standard.[14]

[14] Taft put into the record an address by Keynes before the House of Lords on May 23, 1944 (U.S. Congress, 1945, pp. 209-216).

Alan Sproul, president of the Federal Reserve Bank of New York, joined the large private banks in arguing that the Fund would not be able to operate during the transition period, which might continue for an indefinite period. Most of the private bankers favored John Williams' key-currency proposal (Williams, 1937) involving a large loan to Britain conditioned on sterling convertibility (U.S. Congress, 1945, p. 319). There was also criticism of the concept of convertibility in the Fund, which differed from conventional free-market convertibility, and of the scarce-currency clause, which might legitimize trade and exchange discrimination against the United States.

The U.S. administration's defense of the Bretton Woods Agreements Act was handicapped by its lack of credibility. It promised long-term financial reform that was to be achieved by institutions launched in a period of world disequilibrium and economic dislocation. Furthermore, it offered no plan for dealing with those immediate problems. There was, thus, considerable justification for the fear some congressmen expressed that the resources of these institutions would be dissipated without accomplishing their objectives. It was party loyalty and White's skillful association of the Fund and Bank with world peace, rather than belief in the economic soundness of the institutions, that accounted for the passage of the Bretton Woods Act in July 1945.

Mobilizing Public Support

After two decades of isolationism promoted by defaults on U.S. World War I loans and discriminatory restrictions against U.S. trade, the American public was not ready to embrace foreign aid, except to allies in a common war. Assistance merely to induce countries to observe the rules of fair trade and to eliminate government control over commerce was not widely accepted. The war had, however, spawned broad support for international cooperation on behalf of peace and collective security. By tying Bretton Woods to the peace movement, the Treasury Department, in collaboration with the rest of the administration, was able to elicit grass-roots support for the Fund and Bank in the face of strong opposition from banking, big-business associations, and conservative Republicans. There was also considerable support from foreign-trade associations and firms heavily dependent on exports.

The Treasury mounted a massive campaign during the second half of 1944 and the first half of 1945 by sending speakers to foreign-relations organizations, civic economic clubs, foreign-trade associations, and universities. All of the cabinet-level officials of the Treasury and many professional economists in Monetary Research participated, and some of

us spent a large part of our time on this campaign. Norman Ness and I were sent on two coast-to-coast tours, lecturing to dozens of civic and regional organizations, plus a number of additional visits to East Coast and Midwest cities. Morgenthau and White often committed themselves to more speaking engagements than their busy schedules would allow, so that their commitments were met by staff members, often with little advance notice. On one occasion, the Secretary agreed to speak at the Connecticut Economic Council in Hartford, but he had to cancel and asked White to take his place. Three days before the event, White decided that he could not go and asked Bernstein to substitute. At 9:00 P.M. the evening before the speech, Bernstein called me at home to ask that I take a 7:00 A.M. train to Hartford to deliver the talk (which had not been prepared in advance). The next afternoon, I found myself on the platform with Ralph Flanders, president of the Federal Reserve Bank of Boston, and William Irwin, of the American Bankers Association, neither of whom was friendly to Bretton Woods.

The lectures and public forums emphasized the advantages to American exporters of stable exchange rates and free access to foreign markets; the exceptions to these objectives contained in the Fund's Articles of Agreement were avoided or treated as unimportant. The transitional provisions were downplayed, as were the perplexities and ambiguities in the provisions on convertibility and changes in exchange rates. The speeches tended to be litanies of unrealistic promises and light dismissals of difficulties. The chaotic monetary and financial conditions following World War I were compared with the orderly regime to be established by the Bretton Woods System. Virtually every speech touted stable monetary conditions and exchange rates as defenses against future dictators and World War III. International monetary cooperation would somehow guarantee world peace.

The bankers, who had at least read summaries of the Bretton Woods Agreement, raised questions about the safety of the Fund's assets, the conditions for initiating exchange-rate changes, and the conditions governing drawings from the Fund. They rightly queried the complex language having to do with convertibility and eligibility for drawings on the Fund. The bankers were also concerned about the extent to which the Fund might interfere with their foreign-exchange operations. They were more comfortable with the Bank's charter, which emphasized the Bank's role as a guarantor rather than a direct lender. A report by the American Bankers Association advocated combining the Fund and Bank, with the function of the Fund largely confined to making currency-stabilization loans to those countries whose currencies were used in

international trade. The bankers raised sensible objections to the concept of worldwide currency stabilization for small countries and were critical of making loans to Latin America for this purpose; they believed that most developing countries outside Latin America would continue to tie their currencies to sterling, the franc, or the dollar. They thought that U.S. trade interests would be adequately served by eliminating currency blocs and by making the currencies of the major industrial countries convertible into dollars at stable exchange rates.

10 The Anglo-American Financial and Commercial Agreements

Despite the elaborate planning to put new financial institutions into place before the end of the war, there was little attempt within the U.S. government to forecast or plan for the economic conditions likely to exist at the end of the war. Administration officials disagreed among themselves about the nature of the immediate postwar financial problem that Europe would face when lend-lease was terminated. Although it was implicitly assumed throughout the debate on the Fund that Britain would need substantial assistance if it were to meet its obligation to eliminate payments discrimination, no specific proposal was developed in the Treasury Department. In Britain, there was also much discussion about the need for American assistance and about Britain's right to such assistance in view of her six years of sacrifice in the common cause. Yet the British made no formal proposal until the fall of 1945, following the termination of lend-lease.

The Anglo-American Agreement was tied to Bretton Woods in two ways. First, the British Parliament was unlikely to ratify Bretton Woods in the absence of a U.S. loan. Without such a loan, Britain would have had to compete with forty other countries for the limited number of dollars available from the Fund; in addition, drawings would have been sharply restricted during the transition period. Britain would therefore have little incentive to commit to the obligations of the Fund, and Britain did not expect to borrow from the Bank. Second, without the U.S. loan and an accompanying commitment by Britain to sterling convertibility, there was little chance of reducing trade discrimination against dollar goods during the next decade. A failure to reduce trade discrimination would have greatly embarrassed the Truman administration, for officials of the State, Treasury, and Commerce Departments and members of the Federal Reserve Board and the Export-Import Bank had assured audiences throughout the country that the establishment of the Fund would guarantee the elimination of discrimination against American exports.

The Loan Negotiations

Formal negotiations for a loan to Britain began at the Federal Reserve Board on September 13, 1945. The British delegation, led by Keynes and Lord Halifax, asked for $6 billion, which Keynes hoped would be a grant rather than a loan. Although it was made clear to the British that Congress would not agree to a grant, the loan given carried generous terms, an interest rate of 2 percent and repayment of principal and interest in fifty annual installments beginning in December 1951. But the foreign-exchange obligations set forth in the loan agreement were far more demanding than those of the Fund. Within one year after the effective date of the agreement, sterling earned from current transactions by all sterling-area countries was to be freely available for making current payments to any currency area without discrimination. Britain also agreed not to apply exchange controls to payments for U.S. products authorized for import into the United Kingdom. Finally, Britain agreed to an early settlement of the sterling balances accumulated by sterling-area and other countries prior to the end of the war. The balances were to be divided into three categories: "(a) balances to be released at once and convertible into any currency for current transactions; (b) balances to be similarly released by installments over a period of years beginning in 1951; and (c) balances to be adjusted as a contribution to the settlement of war and postwar indebtedness." Quantitative import restrictions imposed by Britain "with certain exceptions" were to be "administered on a basis which does not discriminate against imports from the U.S." (U.S. State Department, 1945, pp. 7-10).

The financial agreement, which covered the loan conditions, exchange arrangements, sterling balances, and import restrictions affecting British trade with the United States, was accompanied by a Joint Statement on Commercial Policy and a Joint Statement on the Lend-Lease Settlement. The State Department sought to tie the obligations under Article VII of the Lend-Lease Agreement to both the loan agreement and the lend-lease settlement. The Statement on Commercial Policy constituted an endorsement of the major points made in a State Department document, "Proposals for Consideration by an International Conference on Trade and Employment," that served as the basis for the establishment of the GATT in 1947. The U.S. and U.K. governments agreed on procedures for the international negotiation and implementation of these proposals. The Joint Statement on the Lend-Lease Settlement set forth the principles for dealing with the various claims arising from the lend-lease and reciprocal aid programs. The lend-lease settlement provided for a complete write-off of more than $20 billion in assistance and for a

transfer to Britain of about $6.5 billion of U.S. property located in Britain at the end of the war. To settle various other claims, including lend-lease in the pipeline, Britain agreed to pay $615 million on the same credit terms as for the $3.75 billion loan in the financial agreement.

The Debate within the U.S. Government

Fred Vinson became secretary of the Treasury shortly after Truman became president, and White lost much of the influence he had held under Morgenthau. Several projections of the British balance-of-payments deficits were made by the Treasury, State Department, and the Federal Reserve Board, with a view to determining the gap that needed to be filled by U.S. assistance. These studies were based on projecting 1938 British imports and exports to the 1946-50 period. These projections depended heavily, however, on a number of assumptions about British domestic policies and production and about trade patterns for the world as a whole, all of which were radically changed by the war. The projections of the British deficit differed widely, and officials tended to choose whichever figure best suited their policy preferences with respect to assisting the British.

During 1945 and 1946, the Monetary Research Division was deeply divided over the issue of Allied policy for the postwar German economy and the matter of a British loan. With regard to Germany, White took the position that it should be deindustrialized and reduced to a minor economic power.[15] Bernstein, however, along with a majority of the Monetary Research staff, believed that the German economy should be restored and that Germany should be integrated economically and politically with Western Europe. A discussion of these differences and the bitter dissension they caused must wait for a later paper.

White did not initially take a public position with regard to the British loan, but he made it known within the Treasury Department that he was opposed to the loan, and he actually sought to subvert it. Bernstein and Luxford were strongly in favor of the loan. White's opposition to the loan is difficult to understand. Prior to Bretton Woods, he recognized the need for substantial aid to Britain and other European countries during the transition period. In March 1944, he recommended to Morgenthau a loan of $5 billion to the Soviet Union (Rees, 1973, p. 302). In 1945, however, White told the Senate Banking Committee that

[15] Although White was a major player in the development of the Morgenthau Plan for Germany, he did not favor some of Morgenthau's harsh views on the destruction of German industry or dismemberment of Germany (Bloom, 1967, chaps. 7 and 8).

Britain would not need a loan if Bretton Woods were approved (Gardner, 1969, p. 241).

I recall White's telling me that the British did not need the loan because they had accumulated an abundance of gold and foreign exchange for dealing with their postwar deficits. He also said that Britain could meet the Fund convertibility and nondiscriminatory obligations within a reasonable period of time if Britain immobilized most of the sterling balances. He suggested that a large loan or grant to "bribe" Britain to meet those obligations would undermine public support for the Bretton Woods institutions. How much of White's position was based on an objective appraisal of Britain's needs is difficult to say. His statement to the Senate Banking Committee was probably influenced by his concern that the need for a loan to Britain would weaken the case for Bretton Woods. Following completion of the loan negotiations in December 1945, in which White played almost no role, he supported the loan agreement and gave a very convincing analysis of why Britain needed it,[16] but he did not testify before Congress.

Bernstein openly disagreed with the statement White made during the Senate Banking Committee hearings on Bretton Woods that Britain did not need a loan (Black, 1991, p. 49).[17] At the time of the loan negotiations, Secretary Vinson appointed White to chair a technical committee that would prepare the Treasury's position, but White held only one meeting. According to Bernstein, moreover, White tried to keep Vinson from knowing that Bernstein and Luxford, who were members of the committee, favored the British loan. These men therefore wrote a memorandum to Vinson stating that Britain should have a loan large enough to meet her Fund obligations and that the loan should not be conditioned on the early convertibility of sterling balances. Bernstein, who was appointed assistant to the secretary of the Treasury for international affairs (White was assistant secretary), was put in charge of the Treasury's participation in the loan negotiations and the subsequent presentation to Congress (Black, 1991, pp. 52-53).

In contrast to the negotiations on the Fund and Bank, the Treasury did not play a dominant role in the British loan negotiations. Apart from the amount of the loan, $3.75 billion, which was a compromise between the State Department's $4 billion figure and Vinson's $3.5 billion, most

[16] One example is White's address on the Anglo-American Financial Agreement to the Civitan Club in Washington on April 9, 1946, but there are others.

[17] Black's book was based on a series of interviews with Edward Bernstein and was authorized and reviewed for accuracy by Bernstein.

of the negotiations had to do with the commercial obligations in the loan agreement, and the State Department took the lead, largely under the direction of Clayton, assistant secretary of state for economic affairs.

The Hearings

The hearings in both the Senate and House began with testimony by Secretary Vinson, but the testimony below the cabinet level was dominated by officials from the State Department and the Federal Reserve Board. There was no other testimony by the Treasury Department, and there was little organized opposition to the British loan in the hearings. The New York banking community, including a representative of the American Bankers Association, strongly supported the loan, as did the U.S. Chamber of Commerce. This was somewhat ironic, because a major purpose of the loan was to make Bretton Woods possible, which the banking and business community had largely opposed. Senator Taft made critical comments and reminded the Senate Banking Committee that White had testified during the Bretton Woods hearings that Britain did not need a loan (Gardner, 1969, p. 241), but Taft no longer had the support of prominent opposition witnesses. Richard Gardner (1969, pp. 249-250) has suggested that the deterioration of political relations with the Soviet Union played a major role in congressional approval of the loan; he refers to an appeal by Republican Senator Vandenberg that the loan would provide political support against Soviet influence in Europe.

The U.S. Public and the British Loan

The public reaction to the British loan was very different and may be characterized by extreme puzzlement and much disapproval. A poll taken in June 1946 gave the loan only 10 percent unqualified approval (Gardner, 1969, p. 236). This rating may have reflected a general opposition to foreign aid and a lack of knowledge regarding the reasons for the loan. Most people believed the Fund and Bank would meet postwar financial needs; that was, after all, what they had been told by those of us who were writing and speaking in favor of Bretton Woods. The arguments for the loan, that Britain needed it to make sterling convertible and to avoid discrimination against U.S. exports, and that the loan was necessary to induce Britain to join the Fund and Bank, were not persuasive. The first argument suggested we were paying twice for nondiscrimination. The second suggested Britain was blackmailing us. Some observers were willing to accept the loan as compensation for British sacrifices during the war and as an important contribution to

economic collaboration and world peace. Others, however, who remembered Britain's discriminatory trade policies before the war, questioned her willingness to abide by fair-trade rules. They suggested that we might be strengthening Britain and the sterling bloc at the expense of future U.S. trade. I recall dealing with statements of this kind while lecturing on behalf of the British loan. Bankers asked why we had not negotiated a commercial and financial agreement with Britain rather than set up the Fund. They also asked whether our other wartime allies would also ask for loans, whether this was just the first in a series of loan requests. Those of us who were sent out to win support for the loan assured our audiences that Britain's need was unique. But the skeptics were right. The British loan was just the beginning.

The Debate in Britain

The debate in the British Parliament on both Bretton Woods and the Anglo-American Financial and Commercial Agreements was, in a sense, the final Bretton Woods debate. The commitment to make sterling convertible for current payments and to terminate the wartime form of the sterling area was vigorously opposed in both Houses by many members of the Labor and Tory parties. Keynes, who played a major role in the final approval of the legislation authorizing British membership in the Fund and Bank, and in the approval of the financial, commercial, and lend-lease agreements, spoke before the House of Lords on December 18, 1945. His speech (Gardner, 1969, pp. 232-235) was in part an apology for the terms of the loan. According to Keynes, the Americans drove a hard bargain and were not willing to take into account Britain's wartime sacrifices before lend-lease began to cover British imports. Yet Keynes strongly defended not only Bretton Woods, but also the provisions of the Anglo-American Agreement regarding convertibility and trade discrimination. He argued that the members of the sterling area would not be willing to accept inconvertible sterling after the war and that the dollar pool, which involved the deposit in London of dollars earned by the sterling area, was no longer viable. In other words, Britain could not continue to live off countries such as India, Palestine, Egypt, and Ireland, which together held two-thirds of the sterling balances. Keynes defended multilateral trade as the path that Britain must take if it was to be a major center of world trade. Did Keynes really believe what he said or was he simply trying to obtain desperately needed funds for Britain? Sir Roy Harrod (1951, pp. 609-610), who was very close to Keynes, thought Keynes' defense was genuine.

11 The Inauguration of the Fund and Bank

The initial meeting of the boards of governors and of the executive directors of the Fund and Bank was held in Savannah, Georgia, in March 1946. It was concerned with organizational and administrative matters rather than economic issues. These included (a) the procedures for electing the executive directors by member countries that were not entitled to appoint directors; (b) the duties and salaries of the executive directors; (c) the selection of the managing director of the Fund and the president of the Bank; and (d) the location of the Fund and Bank. The basic decisions had already been made by the American government, and Treasury secretary Vinson, who chaired the conference, made this clear at the outset.

The only substantive issue on which there was open opposition to a U.S. position concerned the functions and salaries of the executive directors of the Fund. From the start, White had wanted control of the Fund to be in the hands of a board of directors whose members represented their governments and who would be continuously involved in decisions on exchange rates, drawings, and other matters involving the Fund's relations with member governments. His position was in sharp contrast with that of Keynes who wanted the day-to-day operations to be in the hands of an international secretariat, with the executive board meeting only occasionally on general Fund policies. The larger issue was whether the Fund was to be run by representatives of governments or by international civil servants. White's position, and that of the U.S. administration generally, reflected a desire to have the Fund heavily influenced by the United States in order to promote the U.S. economic objectives of stable exchange rates, nondiscrimination in trade, and international financial equilibrium. The Articles of Agreement (XII, 3g) were not clear in the matter. They stated that "the executive directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require." This language had been a compromise and begged the question of whether the business of the Fund required daily, monthly, or annual meetings. The Savannah participants also debated whether there would be enough business to occupy fourteen full-time executive directors and their alternates, regardless of how often they met.

Keynes' desire to have the Fund operated by international civil servants in part reflected his desire to make drawing rights unconditional, rather than subject to judgment by a political body. White argued that the Fund must exercise control over its resources to avoid misuse by members following inappropriate policies. The U.S. government had

already won this battle in the Joint Statement and in the Articles of Agreement, which provided for conditions on drawings in addition to quantitative limits. Why, then, did Keynes continue to argue the point at Savannah when supporting his position on the functions of the executive directors? In discussing this question, Harrod (1965, p. 121) wrote that, "it has been represented to me by Professor Mikesell and Mr. Bernstein that Keynes ought to have realized at Bretton Woods that it was the intention to make drawing rights conditional, and *must* have realized it at the Savannah meetings. I guess that at most he thought the matter still open at the former conference, when there was a great pressure of business."

A closely related issue was the salaries of the executive directors. A committee, chaired by an American, recommended (with Keynes abstaining) a salary of $30,000 for the managing director; maximum salaries of $17,000 for the executive directors; and $11,500 for the alternates, all net of taxes. Using U.S. tax rates at that time, the pretax equivalent was $25,000 for the executive directors and $15,000 for the alternates. These salaries were higher than U.S. cabinet-level salaries and much higher than salaries of British officials. Keynes regarded them as monstrous. The Americans argued that high salaries were necessary to attract competent people to such important positions, but Keynes thought that the executive directors should be government officials who only occasionally performed duties at the Fund and Bank, a view consistent with his belief that they should not be heavily involved in management of the institutions. In his view, moreover, salaries out of line with those of government ministries would create administrative difficulties. In an effort to settle the issue before the salary recommendations were submitted to the conference, a small meeting was arranged involving Keynes, White, Collado, one or two others, and me. Because White had been designated to be the U.S. executive director of the Fund and Collado, the U.S. executive director of the Bank, each had a personal interest in the salary issue. After some discussion, Keynes became very emotional and implied that White was promoting the "outlandish" salaries for his own personal gain. To his credit, White did not reply to this personal attack.[18]

Following Bretton Woods, it was expected that White would be named managing director of the Fund, but two developments prevented this. First, a Federal Bureau of Investigation (FBI) report alleged that

[18] So far as I am aware, this meeting has never been recorded. I told the story to Harrod on his visit to me in Charlottesville, Virginia, while he was writing his *Life of Keynes*, but he did not mention it in the book.

White had participated in a group providing information to the Soviet Union, an allegation that eventually led to his resignation as U.S. executive director of the Fund. Second, the U.S. government decided it would nominate an American to be president of the Bank and a European to be managing director of the Fund. It was, in fact, Keynes' candidate, Camille Gutt, who was elected managing director. Before the American decision in favor of a European, however, Keynes had favored White for managing director, because he believed White would provide competent technical leadership and would be able to protect the independence of the Fund from subversion by politicians.

The Savannah conference was a triumph of American power but a dismal demonstration of American diplomacy. Vinson angered some of the foreign delegates, particularly the British, by forcing through the American position with little regard for normal conference proprieties. He expressed displeasure at Keynes' opening speech (Harrod, 1951, pp. 631-632), which invoked "the good fairies" to watch over "the Bretton Woods twins" and expressed hope that "the bad fairy," Carabosse, would not condemn them to "grow up politicians." Vinson regarded the reference to bad fairies as an attack on American politicians in general and on the secretary of the Treasury in particular.

Keynes was bitterly disappointed that the Bretton Woods institutions would be located in Washington rather than New York, where they might be less influenced by American politics. Harrod (1951, p. 121) states that Keynes was "deeply distressed by the proceedings at Savannah, and it was his doctor's opinion that his distress at that meeting was directly responsible for his death a few weeks later."

The Savannah conference witnessed much dissension at other levels as well. Vinson and White did not get along well, perhaps because Vinson knew of the FBI report on White and of White's earlier attempt to defeat the British loan. Bernstein and White continued at odds, and Bernstein had a distressing personal confrontation with Roman L. (Bud) Horne, who, as acting secretary of the Fund pending the election of a managing director, controlled the limited amount of U.S. money made available to finance the conference. Bernstein wanted to use some of these funds to pay for a dinner party given for several delegates, but Horne refused to authorize the expenditure, and the two men quarreled bitterly. The spell of Keynes' malicious fairy seemed, indeed, to dominate the birth of the Bretton Woods twins.[19]

[19] Personal animosities displayed at Savannah carried over to the appointment of Fund officials in May 1946. Bernstein had been promised appointment as director of research

A Note on Personalities

Personalities played an important role in the Bretton Woods debates and in the final outcome, and my impressions of the leading characters may be of interest. I saw White in numerous meetings and on dozens of other occasions when we talked alone. His Monetary Research staff was largely comprised of former and future academicians, most of us acquired from universities. The staff was intensely loyal to White, and he respected us as scholars and strongly supported us, even when he thought we had made mistakes. I do not recall White embarrassing any staff member by dressing him down, but he showed another side of himself when involved in negotiations with government and bank officials. He was often brash, and even crude, in his meetings with Keynes and the British delegation, and I was present when he addressed Keynes as "Your Royal Highness" and "Your Lordship." Lord Robbins, who participated in many of the pre-Bretton Woods meetings but was not close to White, described White well:

> It is true that White was not a very beautiful character. He was brash, truculent and, I suspect, somewhat unscrupulous where his own interests were concerned. In his younger days he had been the victim of academic unemployment, possibly partly due to the discreditable anti-Semitism which at that time tended to affect the policies of the great university with which he had been associated; and I am fairly clear that he was determined that henceforth Harry White should not be worsted in the struggle for survival—or eminence. But that he was in any way associated with the groups in the United States who actively wished harm or wished to exploit our position of weakness will not stand up to examination for a moment (Robbins, 1971, p. 198).

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of the Fund, but White sought to appoint Frank Coe, who had succeeded White as director of Monetary Research in the Treasury. At a meeting attended by Bernstein, Coe, Luxford, and White, Coe withdrew, stating correctly that Bernstein was better suited for the position (Black, 1991, p. 58). Bernstein's appointment as director of research was later endorsed by Vinson, but, because White wanted Coe to have an important place in the Fund, he promoted Coe as secretary of the Fund. Meanwhile, Gutt became managing director and wanted Horne to be secretary. In a meeting in Vinson's office, Vinson told Gutt that he must accept Coe instead. About two years later, however, Coe was forced to resign following accusations of Soviet connections. Horne, who had been made deputy secretary, assumed the post of secretary, which he held until his retirement in the mid-1960s. Coe went to Canada (where he was born) to avoid testifying before the House Committee on Un-American Activities. Later, Coe and his wife fled to China, accompanied by Sol Adler and his wife, both of whom were formerly with the Monetary Research Division. Adler had been similarly accused of having Communist connections. All eventually died in China. Coe, Adler, and his wife (the former Dorothy Richardson) were colleagues and personal friends of mine. Harold Glasser, who succeeded Coe as director of Monetary Research, was also later forced to resign because he, too, was accused of being part of the group that had supplied information to the Soviet Union.

White often expressed to his staff his dislike of the State Department, with which he frequently struggled for power within the U.S. government. He, like Morgenthau, wanted the Treasury Department to be the center of postwar economic policy and planning. This was reflected in the comprehensive nature of the original White plan and in the interagency debate over the status of postwar Germany. International financial institutions were not a high priority for the State Department, however, and, without White's zeal, there might never have been a Fund or Bank. The Bretton Woods institutions might not have come into being if they had not been well advanced before the end of the war, for by then there was a plethora of immediate economic problems that these institutions were not equipped to handle.

White sought to conduct his own foreign policy independently of the State Department. He dealt directly with foreign officials in Washington, and members of the Monetary Research staff who were well placed in American embassies in Allied countries secretly reported directly to White without going through their embassies. White sometimes also used the press to promote his policies in opposition to those of the State Department. On one occasion, while I was alone with him in his office, he dictated over the phone a long, top-secret State Department paper to a reporter.

White believed, in particular, that we should have sought closer cooperation with the Russians, and, through certain members of his staff, he provided information to and discussed policy with Soviet officials. These relations were later discovered by the FBI and led to his downfall. They were not known to most of us in Monetary Research. None of White's associates who were later accused of being spies for the Soviet Union—Sol Adler, Frank Coe, Harold Glasser—ever indicated to me that they were not completely loyal to the United States or that they did not believe in a democratic capitalist society. I knew them so well on a personal basis that it is hard for me to believe that they could have concealed such ideologies so completely. Although they may have had some association with the American Communist movement in their youth, as did many of my college acquaintances during the 1930s, I believe that the accusations directed against them arose solely from White's propensity to carry on direct relations with the Soviet government outside regular diplomatic channels. Had these same activities been carried on with the British or Canadians, they would have been regarded as perfectly acceptable. White and his closest associates simply ran their own foreign ministry.

Many people have asked me if White was a Communist. I am con-

vinced that he was not. White believed in free markets and capitalism and devoted his energies to planning for a postwar world with free and nondiscriminatory trade and payments. He was, however, oblivious to the ideologies of his associates and was quite willing to deal with Communist officials to achieve his objectives. The Soviet Union shared his political objectives regarding postwar Germany, and he believed that Soviet officials would support the Fund and Bank proposals. He did not share the pervasive fear that Communist ideology would spread to much of the world or that the Soviet Union might dominate the world by military conquest. He believed that a Communist state could operate under a system of nondiscriminatory trade rules and could abide by the trade and exchange obligations of his plan.

A few weeks before White died, he and I were speakers at a conference of the American Academy of Political and Social Science in Philadelphia. After the evening meeting on April 19, 1947, I spent a couple of hours with him in the lobby of the Benjamin Franklin Hotel. He was in a reflective mood, and we reminisced about the events leading to the creation of the Bretton Woods institutions. White had already given up his position as executive director of the Fund. He had been working as a consultant to the Chilean government and had recently returned from Santiago. He was scheduled to testify before the House Committee on Un-American Activities, but he spoke very confidently of being able to disprove the charges against him and appeared to look forward to the opportunity. White was not depressed and gave no indication of planning suicide. He did speak of his heart condition, and, when we parted, he apologized for taking the elevator rather than walking the two flights to his room. Some say he committed suicide to avoid testifying before the House Committee. I do not believe it.

As a young academic who had studied and taught both *The Treatise on Money* and *The General Theory*, I was awed by Keynes and grateful that I could sit in meetings with him. Although he fought hard for positions he regarded as important for Britain's welfare, his economic arguments were, in contrast to White's imperative discourse, academic and dispassionate. Keynes could accept philosophically the economic advantages of multilateral trade while continuing to defend a discriminatory sterling area. The contrast between the literary quality of Keynes' clearing-union proposal and the legalistic formulation of the July 1943 version of the White plan was reflected in the manner of their discourse. Keynes disliked the style and format of the Fund's Articles of Agreement. He said they were written in Cherokee, and he blamed the language on the Treasury Department's lawyers. He frequently complained that

Americans were too dependent on attorneys and, on one occasion, suggested that, “when the Mayflower sailed from Plymouth, it must have been entirely filled with lawyers” (Acheson, 1969, p. 83).

Keynes was capable of displaying temper and once threw one of White’s drafts to the floor, but he usually expressed his anger through sarcasm. Although Keynes always had an air of dignity and he did not join in the revelry of Commission IV, he was approachable. Junior persons, such as I was, were able to talk privately with him, and I always found him eager to answer my questions. If we took too much time, however, Lady Keynes would tiptoe over to protect him from becoming too tired. Those of us who were privileged to shake his limp hand on the train from Savannah to Washington, following his light heart attack, were left with the memory of saying farewell to a truly noble man.

12 The Bretton Woods Debates in Retrospect

There is little resemblance between the present functions and operations of the Fund and Bank and the way they were conceived at Bretton Woods. This has happened to many institutions; they either change with emerging economic and political conditions or they disappear. In view of the divergence between the plans for the Fund and Bank and their actual functions today, their longevity and expansion have been remarkable. They had too much money to fail, however, and they have increased their assets, and their staff, at a rate that rivals the postwar growth of the largest international behemoths. Their successful aggrandizement has been due in large measure to the fact that increases in financial resources do not require their members to make budgetary outlays. In the Fund, larger subscriptions are matched by larger reserve claims of the contributors. In the Bank, most of the increase in subscriptions is not paid in; it is subject to call only if the Bank is unable to meet its debts. Because both institutions are now mainly sources of financing for developing countries, the industrial nations can provide large amounts of multilateral aid with little economic or political pain.

The Par Value System

A major purpose of the original White plan was to prevent competitive exchange depreciation by bringing changes in par values under Fund control and by obligating members to maintain their exchange rates within a narrow range of their par values. Keynes argued that members should have more freedom to change their par values, and he did not share the American view on the importance of preventing competitive

exchange depreciation. He did want his clearing union to have the power to require a country in disequilibrium to devalue its currency, and he regarded currency overvaluation rather than undervaluation as the major threat to equilibrium. Both White and Keynes favored a par value system, but Keynes wanted an international currency other than the dollar as the standard of value for defining parities.

The difficulty with the par value system established at Bretton Woods was that the par value of the dollar could not be changed in terms of all other currencies without changing the official dollar price of gold, which would have required congressional approval. Ideally, what was needed was an international standard that was not fixed to gold but that was equal in value to a basket of currencies, such as the modern SDR. The incompatibility of the gold-dollar standard with a change in the par value of the dollar was not regarded as important in 1944, when it seemed inconceivable that the dollar would ever need to be devalued. It became a serious problem in the late 1960s, however, when large U.S. payments deficits occurred. The United States solved the problem by leaving the gold standard in 1971, an action that terminated the par value system. Because Bancor was also to be defined in terms of gold, neither White's ISF nor Keynes' ICU could have circumvented this problem.

Another weakness of the par value system was the requirement that countries obtain permission from the Fund to change their parities. It is quite likely that these procedures discouraged some governments from devaluing their currencies because of the likelihood of leaks to the market. Instead of creating a bias against adjustments in par values, there should have been incentives for changes, as in Keynes' ICU.

Multilateralism

Keynes' major criticism of the White plan was that it did not provide for multilateral settlements based on an international currency unit, such as Bancor or a monetized Unitas. Under his ICU, all member currencies would have been convertible into Bancor, and thus into all other member currencies, so long as no member had exhausted its quota in the clearing union. If a number of countries had exceeded their quotas so that their currencies could no longer be accepted by the ICU, those countries might have begun trading on a bilateral-payment basis rather than a convertible-currency basis. Because very few countries were prepared to trade on a dollar-convertibility basis in the early postwar period, there was no mechanism for clearing bilateral balances denominated in currencies other than the dollar. The need for such a clearing system was met in 1950 by the EPU, which the Fund, in response to

strong pressure from the U.S. Treasury, declined to support or manage. Had the Fund rather than the BIS managed something like the EPU, the transition to universal convertibility might have been smoother and more rapid, with the Fund guiding the world into a multilateral payments system. As it was, the Fund remained largely irrelevant for the first fifteen years of its existence.

Conditionality

Would the history of the Fund have been different if Keynes' position on unconditional drawings within quota limits had been adopted? The Fund's ability to influence members' policies would have been considerably diminished if it had not been permitted to attach conditions other than quantitative limits to drawings beyond the first credit tranche; the standby agreements have been important in influencing the financial and general economic policies of the members. But the Fund has frequently allowed members to draw well beyond the normal limit (125 percent of quota), and it would undoubtedly have imposed conditions in such cases, even if Keynes had won the argument. His proposal provided for imposing conditions and penalties on members that exceeded their quota limits.

Political Control versus an International Secretariat

Keynes' last battle was to prevent the politicization of the Fund by limiting meetings of the executive directors to one or two a year at most, and by delegating the operations of the Fund to an international secretariat. Would this have made much difference? The effect of these measures would have depended on whether the executive directors and the governments they represented confined themselves to general policy decisions, applicable to all members, or whether they took positions on transactions with individual members. In the former case, the staff of the Fund would have provided assistance to members on the basis of guidelines established by the executive directors. These guidelines might have used inflation rates, fiscal deficits, and monetary expansion to determine eligibility for drawings. Large structural-adjustment loans would not have been made to members with high inflation rates and large fiscal deficits, as has frequently happened. Neither would Russia have been permitted to obtain large credits despite a 30 percent monthly inflation rate. Indeed, much of the Fund's assistance to members that have made no progress toward equilibrium can be explained only by the desire of the Fund's membership to realize political objectives.

Alternative Directions for the Bank

Under the Bank's charter, a major purpose of the Bank was to "promote private foreign investment by means of guarantees or participations in loans and other investments" (*United Nations*, annex B, pp. 68, 72). Initially, White envisaged the Bank as dealing only with governments, central banks, UN agencies, and international banks owned jointly by member governments. Later, when provision was added for Bank loans or guarantees to private enterprise, a requirement was added that governments guarantee the loans. Under this condition, the Bank could not play a significant role in promoting the international flow of private capital.

The Bank's history might have been somewhat different had the ATC adopted the provision in Young's (1950, pp. 784-785) State Department proposal that would have permitted the Bank to lend to private enterprise without a government guarantee. There were also proposals made at Bretton Woods that the Bank be permitted to acquire equity securities, and this would also have enabled the Bank to play a much greater role than it has in promoting the flow of private capital to developing countries. Throughout the early history of the Bank, the United States and other countries expressed considerable interest in the establishment of a special institution to make and guarantee loans to the private sector, but the IFC did not come into being until 1956 and did not begin making a significant volume of loans and guarantees until 1970.

Although the White plan had recognized a role for the Bank in supplying capital for specific projects in developing countries, the conservative nature of the Bank's charter, which emphasized not only the soundness of projects, but their bankability in terms of the borrowing country's ability to repay, deterred the Bank's early administrators from making large loan commitments for development. Furthermore, the Bank's articles made no explicit provision for lending to support the process of economic and social development, and it would take more than twenty years for the Bank to become a development institution. There was some debate at Bretton Woods, and even in the pre-Bretton Woods discussions, about whether the Bank's loans and guarantees should be confined to specific projects or whether the Bank could make nonproject loans. This was settled by a compromise that allowed nonproject loans under special circumstances. This loophole was large enough, however, to justify a large volume of Bank loans for purposes not tied to specific projects.

Both the Fund and Bank have shown a remarkable ability to adapt to new objectives and strategies for foreign economic assistance. The Fund

is no longer limited to providing short-term loans to facilitate monetary, fiscal, and foreign-exchange measures to restore balance-of-payments equilibrium. It provides medium- to long-term assistance for structural adjustment requiring major shifts in the allocation of resources. The Bank is no longer concerned simply with promoting output growth but pursues a large number of social objectives ranging from the reduction of poverty to environmental protection and the sustainable use of natural resources. In some cases, the adaptations have been made by new interpretations of the provisions adopted at Bretton Woods. In other cases, adaptations have required the creation of new affiliates, such as the International Finance Corporation (IFC) and the International Development Association (IDA).

Did the Debates Matter?

In light of the changes that have taken place in international financial policies and practices and in the functions and policies of the Fund and Bank, did the debates of fifty years ago really matter? Would the subsequent history of these institutions have been significantly different had different positions been approved at Bretton Woods?

The debates at Bretton Woods did not determine the postwar international financial regime, but they did determine the constitutions of the Fund and Bank. The compromises reflected in those constitutions with respect to the powers of the institutions and the obligations of members gave the Fund and the Bank the flexibility to respond to changes in the international economic environment. Moreover, the constitutions set forth important principles, such as free and nondiscriminatory exchange practices, the free international flow of capital, and untied loans, all of which have influenced international economic policy.

Finally, the institutions themselves would not have been established without the Bretton Woods debates, and their activities have had a substantial influence on national financial policies and international cooperation. Foreign-exchange markets in the industrial world are today largely free, and their freedom is at least a goal for the developing countries and the countries of the former Soviet Union. International currency stabilization exists in Western Europe and may again become a global aspiration. And the promotion of free markets and competitive enterprise in the developing countries continues to be a high priority for the Fund and Bank. Whatever the difficulties along the way, the Bretton Woods debates effectively turned the world away from the state controls of the 1930s and toward an international commitment to free and nondiscriminatory markets for currencies, capital, and goods.

Appendix: The Quota Formula After Bretton Woods

Since Bretton Woods, there have been many revisions in the quotas of the original members, as a result both of the five-year review required by Article III, Section 2, of the agreement, which provides for updating the data used to calculate quotas, and to periodic proportional increases in all quotas. Furthermore, there are now more than fifty additional members in the Fund, and the staff of the Fund has continued to use a modified version of the original formula to determine the quotas of new members, with some changes made in the weights and the definitions of the variables. The modified Bretton Woods formula used for the Ninth General Review (March 1987) was defined as follows:

$$(0.01Y + 0.025R + 0.05P + 0.2276VC)(1 + C/Y) ,$$

where Y is GDP in 1985; R is average monthly reserves in 1985; P is annual average current payments from 1981 to 1985; C is annual average current receipts from 1981 to 1985; and VC is the variability of current receipts, defined as one standard deviation from the five-year moving average from 1973 to 1985. Reserves include SDRs, European Currency Units (ECUs), and reserve positions in the Fund. The formula is currently supplemented by four other formulas that use different weights for the variables. Presumably, judgment is used regarding the choice of formula for each case. Under the Ninth General Review, 60 percent of the overall increase in quotas was distributed in proportion to members' shares in the total of the calculated quotas, whereas the remainder was "devoted to making members' quotas more in line with their relative economic positions" (IMF, 1991, p. 24).

The quotas of the larger countries are sometimes changed without reference to the formula but with reference to their general economic positions. The merger of East and West Germany obviously called for a larger quota for Germany, and the quota for Japan was increased to bring it into equality with the new German quota (IMF, 1991, p. 96). An agreement was reached between the United Kingdom and France to have equal quotas. Were he alive, Mendes-France would surely feel he had been vindicated.

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