CHAPTER 4: RATIFYING THE BRETTON WOODS AGREEMENTS

Ratifying the Bretton Woods Agreements was nearly as difficult and complex as negotiating them, for two reasons. First, there was powerful opposition from the U.S. banking community and the U.S. Congress to the IMF. And second, neither the British administration nor the British Parliament was willing to join the IMF without the assurance that Britain was financially able to meet the obligation to make sterling convertible, and that it was in Britain's interest to adopt nondiscriminatory trade policy. Much of my work for the Treasury Department between July 1944 and my departure in 1946 was devoted to "selling Bretton Woods" to the American public. I made two round trips from Washington, D.C., to the West Coast, speaking mainly to university groups and foreign policy organizations, and I frequently went on quick trips as a substitute for White or Bernstein, or even Morgenthau. Speaking before university or foreign policy groups was easy, since they accepted the idea of U.S. participation in international affairs. Occasionally when I spoke with groups dominated by bankers or isolationists, there was not just stiff opposition, but personal attacks on White and Morgenthau, who were sometimes charged with being leftists or, in White's case, pro-Communist. This occurred at a civic organization in Hartford, Connecticut, when at the last minute I was asked to speak in place of Secretary Morgenthau. I simply told the banker who made a personal attack on White that it was improper for him to raise such issues with a guest speaker who, as a minor Treasury Department employee, could not properly deal with them.

Some opposition to the Fund and the Bank stemmed from a dislike of any kind of foreign aid, especially that provided through international institutions. Many believed that the U.S. had met its obligations fully with Lend-Lease aid during the war, and that we were not responsible for reconstruction. The banking community strongly opposed the IMF on grounds that it might interfere with domestic financial policies. Instead, it favored a substantial loan

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The Anglo-American Financial and Commercial Agreements

Despite the elaborate planning to put new economic institutions into place before the end of the war, there was little attempt within the U.S. government to forecast or plan for the balance of payments conditions likely to exist at the end of the war. Administration officials disagreed among themselves about the nature of the immediate postwar financial problems 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 payment discrimination, no specific proposal was developed by the U.S. government. In Britain, both the leaders and the public believed that Britain had a right to substantial American assistance in view of Britain's 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.

This proposal, which resulted in the Anglo-American Financial Agreement negotiated in 1945–46, was tied to Bretton Woods in two ways. First, the British Parliament was unlikely to ratify Bretton Woods in the absence of a satisfactory 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 and the Bank. In addition, it was expected that drawings from the Fund would be sharply restricted during the transition period during which members would be unable to meet their convertibility obligations. In the absence of a loan, Britain would 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. Failure to reduce trade discrimination would have greatly embarrassed the Truman administration. 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. I was among those who gave such assurances.

The Loan Negotiations

Formal negotiations with the British delegation led by Keynes began in September 1945. The British asked for $6 billion, which Keynes hoped would be a grant rather than a loan. It was made clear to the British that the U.S. Congress would not agree to a grant, and that the U.S. administration believed Britain could meet the obligation of making sterling convertible with half the amount requested. At the end of the negotiations, the U.S. offered a loan of $3.75 billion with generous repayment terms. Under the loan agreement, Britain agreed to make sterling earned from current transactions by all countries freely convertible. This meant, in effect, that sterling could be sold on world exchange markets for dollars or other currencies, and Britain was obliged to maintain the par value of sterling. Britain also agreed not to apply exchange restrictions to payments for U.S. products authorized for import into the United Kingdom. Another provision in the agreement supported a U.S. proposal for an international trade agreement, which served as a basis for the establishment of the General Agreement on Tariffs and Trade.

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 under Morgenthau. Several projections of the British balance of payments deficits were made by the Treasury and the State Departments and by the Federal Reserve Board, with a view to determining the gap that needed to be filled in the early postwar period for Britain to restore her economy. These projections were based on estimating 1938 British imports and exports to the 1946–50 period. They depended heavily on a number of assumptions about British domestic policies and production and about world trade patterns—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 need for a British loan. My own position, based on an analysis of Britain's balance of payments, favored a loan larger than Britain st American exports. I was among

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actually received. Initially, White did not take a public position regarding the loan, but he made it known within the Treasury Department that he opposed the loan. Bernstein, along with most of us in Monetary Research, strongly favored the loan. We were convinced that without the loan the British Parliament would not ratify the Bretton Woods Agreements. 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 reconstruction loan of $5 billion to the Soviet Union. In 1945, however, White told the Senate Banking Committee that Britain would not need a postwar loan if Bretton Woods were approved.

I recall White 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 obligations. He also said that Britain could meet the Fund convertibility and nondiscriminatory obligations within a reasonable period of time if it immobilized most of the sterling balances. He suggested that a large loan or grant to induce Britain to meet those obligations would undermine public support for the Bretton Woods institutions. Was White's position based on an objective appraisal of Britain's needs, or did it reflect his concern for the passage of the Bretton Woods legislation? He surely must have been aware that the loan was a condition for Britain's membership in the Fund.

This led to a rift within the Treasury Department. Bernstein openly disagreed with White's statement to the Senate Banking Committee that Britain did not need a loan. At the time of the loan negotiations, Secretary Vinson appointed White to chair a technical committee that would prepare the Treasury Department's position, but White held only one meeting. According to Bernstein, 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 the loan should not be conditioned on the early convertibility of sterling balances. Bernstein was appointed Assistant to the Secretary of the Treasury for International Affairs and put in change of the Treasury Department's participation in the loan negotiations and the subsequent presentation to Congress.

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. One explanation of White's shift in position is that he wanted Congress to believe the loan was unnecessary before it ratified the Bretton Woods Agreements. This suggests he was being dishonest with Congress. However, I am convinced that White believed that Britain did not need the loan and that Britain would ratify the Bretton Woods Agreements without the loan.

In contrast to the negotiations on the Fund and the Bank, the Treasury Department did not play a dominant role in the British loan negotiations. The amount of the loan, $3.75 billion, was a compromise between the State Department's $5.0 billion figure and Vinson's $3.5 billion. Most of the negotiations had to do with the commercial obligations in the loan agreement. Here, the State Department took the lead, largely under the direction of Will Clayton, Assistant Secretary of State for Economic Affairs.

The Role of Congress

Hearings in both the U.S. Senate and the House of Representatives on the British loan began with testimony by Secretary Vinson, but government testimony below the Cabinet level was mainly 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. But New York bankers did not support the Bretton Woods Agreements—somewhat ironic, given that a major purpose of the loan was to make Bretton Woods possible. Senator Robert Taft, a leading conservative, made critical comments about the loan and reminded the Senate Banking Committee that White had testified during the Bretton Woods hearings that Britain did not need a loan, but Taft no longer had the support of prominent opposition witnesses. Richard Gardner has suggested that the deterioration in political relations with the Soviet Union played a major role in congressional approval of both the loan and the

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Bretton Woods Agreements. He refers to an appeal by Republican Senator Vandenberg that the loan would provide political support against Soviet influence in Europe.

Congressional approval of both the British loan and the Bretton Woods Agreements was achieved because the Democratic majority in Congress wanted to support a strong request by Roosevelt, and because a large portion of the American public favored U.S. participation in international political and economic affairs. Voting against the British loan or membership in the IMF and the World Bank was regarded as an expression of isolationism.

The U.S. Public and the British Loan

U.S. public reaction to the British loan may be characterized by extreme puzzlement and considerable disapproval. A poll taken in June 1946 gave the loan only 10 percent unqualified approval. Most people believed the Fund and the Bank would meet Europe's postwar financial needs; that was 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 the 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 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 setting up the Fund. They also asked whether our other wartime allies would ask for loans, and 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.

Moreover, Britain maintained sterling convertibility for only a few months and did not restore convertibility until 1960 after having benefitted from Marshall Plan aid.

The Inauguration of the Bretton Woods Institutions

The conference held in Savannah, Georgia, in April 1946 for the inauguration of the Fund and the Bank should have been accompanied by a high degree of international cooperation and optimistic outlook. But it wasn't. The Bretton Woods conference had been concerned largely with debating ideas, but the Savannah conference focused mainly on organizational and administrative matters, including the procedure for electing the executive directors, the duties and salaries of the executive directors, the selection of the managing director of the Fund and the president of the Bank, and the location of the Fund and the Bank.

The chair of the conference, Secretary of the Treasury Vinson, made it clear that the basic decisions had already been made by the American government and implied that it was futile to challenge them. Despite informal agreements between the U.S. and British governments on most of the matters listed above, there was wide disagreement on how the Fund would operate. White 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 concerning the Fund's relations with member governments.

White's position and that of the U.S. administration generally reflected the desire to have the Fund heavily influenced by the United States in order to promote the U.S. objectives of stable exchange rates, nondiscrimination in trade, and international financial equilibrium. This position contrasted sharply with that of Keynes, who wanted the day-to-day operations to be in the hands of an international secretariat with only an occasional executive board meeting on general Fund policies.

The final Articles of Agreement were not wholly clear concerning the Fund's management. It 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 provision had been a compro-

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mise and begged the question of whether the business of the Fund required daily, monthly, or annual meetings. Keynes believed that the executive directors should be high officials of the countries they represented and should meet only occasionally to determine general policies, while the managing director and his staff should carry out the Fund's routine operations.

These two views of the Fund's operations were reflected in the debate over salaries of the executive directors. If the executive directors were going to meet only two or three times per year and were to be high-level government officials, the salaries would not be a significant factor in attracting competent people for the positions. But if they were to serve full time as the U.S. government wanted, compensation was important. The U.S. delegation recommended an annual salary of $30,000 for the managing director, a salary of $17,000 for each executive director, and $11,500 for their alternates.

Considering the fact that the salaries were not subject to income taxes by any government, at that time the recommended salaries were higher than those of U.S. Cabinet members and much higher than salaries of British officials. Keynes expressed the view in the open meeting that the salaries were monstrous, while the Americans argued that high salaries were necessary to attract competent people to such important positions. In Keynes's view, salaries that were out of line with those of top government ministers would create administrative difficulties.

In an effort to settle the issue, a small meeting was arranged involving Keynes, White, E.G. "Pete" Collado, and me. White had been designated the U.S. executive director for the Fund, and Collado the U.S. executive director of the Bank, so each had a personal interest in the salary issue. Therefore, I believe it was a mistake to put White and Collado on the salary committee, although I feel sure that both were guided in their arguments by the principle involved, namely, what should the functions of the executive directors be? At this meeting Keynes behaved rather emotionally 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. I felt considerable embarrassment in the meeting watching two people I admired in an emotionally charged argument.

The U.S. position prevailed, but Keynes was obviously bitter because he saw that the Fund would operate quite differently from what he had hoped. Keynes's desire to have the Fund operated by international civil servants reflected his desire to make drawing rights largely unconditional and in accordance with rules rather than being subject to the judgment of a political body. It is somewhat surprising that Keynes continued to hold this position, since the U.S. position had already been established in the Joint Statement and in the Articles of Agreement. Why, then, did Keynes continue to argue the point at Savannah? In discussing this question, Roy Harrod, in *The Life of John Maynard Keynes,* stated "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 meeting." Keynes evidently believed that the matter was still open for discussion at Savannah.

It was expected that White would be named managing director of the Fund, but two developments prevented this. First, a Federal Bureau of Investigation report alleged that 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 that an American should be president of the Bank and a European managing director of the Fund, and that the U.S. could not properly ask that Americans occupy both positions. It was Keynes's candidate, Camille Gutt, who was elected managing director. It may be noted, however, that before the decision in favor of a European managing director, Keynes had favored White for the position. He believed White would provide competent technical leadership and be able to protect the independence of the Fund from subversion by politicians.

Keynes was also disturbed that both the Fund and the Bank were to have twelve executive directors and twelve alternates. With considerable justification he asked what all these people would do. In practice, the large number has been a boon for retired government officials desiring a high salary with little work in Washington, D.C., or a political plum bestowed by successful prime ministers. The surplus executive directors might have been used by both the Fund and the Bank to reduce the need for staff people. But since few

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of the executive directors possessed the special skills, such as economics, engineering, and accounting, required for loan appraisal and financial advice, the abundance of directors has simply increased the need for clerical personnel to serve the directors rather than reducing staff requirements.

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

The Savannah conference was a triumph of American power but a dismal demonstration of American diplomacy. Vinson angered many of the foreign delegates by forcing through the American positions with little regard for normal conference proprieties. He expressed displeasure at Keynes's opening speech, which invoked the "good fairies" to watch over the "Bretton Woods twins" and expressed hope that a "bad fairy" would not condemn the institutions to become political instruments. Vinson regarded the reference to a bad fairy as an attack on American politicians in general and on the secretary of the Treasury in particular.

The Savannah conference witnessed dissension among the Americans as well as between the Americans and the British. Vinson and White did not get along well, perhaps because Vinson knew of the FBI report on White. Relations between Bernstein and White, who had been very close for years, had become strained, in part because of Bernstein's disagreement with White on the British loan and on the future of Germany.

Perhaps as a reflection of the general atmosphere at the conference, Bernstein had a distressing personal confrontation with my close friend, Roman L. Horne, who had been appointed acting secretary of the Fund pending the election of a managing director. Horne controlled the funds made available by the U.S. government to finance the Savannah conference. Bernstein had asked Horne to authorize the use of these funds to pay for a dinner party Bernstein gave for several delegates, but Horne refused on grounds that he was not authorized to use the funds for this purpose. At a chance meeting between Horne and Bernstein at the conference when

I happened to be present, the two exchanged insults. Horne, who was under great pressure, completely lost his temper and hit Bernstein on the nose, knocking him down and breaking his glasses.

Another source of tension within the U.S. government, which may have had some influence on the Savannah conference, was that White did not get along well with some of the State Department representatives who played leading roles at the conference. Morgenthau and White, for example, had proposed plans for the deindustrialization of Germany in a treaty that would have kept Germany economically weak for a long period. They did not trust the German people and wanted to punish them for the Holocaust. The State Department and the European governments wanted an economically strong Germany that would be closely integrated economically and politically with the rest of Europe. They believed this to be the best way to prevent Germany from starting World War III.

Bernstein and several of us in the Monetary Research Office objected to White's position on Germany, and with Morgenthau's retirement in 1945 there was no one with any influence in the Treasury Department to promote a weak Germany. I embraced the idea of a highly integrated Western Europe in which no one country would have the economic resources for military dominance.

Retrospective on the Savannah Conference

Much of the dissension at the Savannah conference might have been avoided if the delegates had realized that both the Fund and the Bank were to become institutions almost entirely devoted to promoting the development of poor- and middle-income economies. Providing financial assistance and advice to developing countries has required comprehensive involvement of the two institutions in the domestic problems of the aid recipients. Conditional agreements and close monitoring are required rather than rules defining automatic rights to financial assistance. There has been no need for an institution to employ rules on exchange rate stability in order to prevent competitive exchange depreciation, since such tactics have rarely been used since before World War II. As to the issue of whether the operations of the Fund should have been in the hands of international civil servants as Keynes wanted

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or under the control of politically appointed executive directors, the existing system has resulted in substantial control by the managers of both institutions rather than by the executive board. However, the managers have had to conform to the governmental policies of the major industrial countries, especially the U.S.

In recent years the Bank has had more popular approval than the Fund, although the latter has received more publicity. The Fund has been widely criticized by a number of economists as well as politicians for its unsuccessful efforts to deal with the East Asian financial crisis. It has been charged that not only has the IMF wasted public funds by helping countries support their currencies and capital markets, but it has encouraged countries to take monetary and fiscal actions that caused economic recession and hardship on the poorer classes who have been unable to buy food and other essentials. In addition, the Fund has been criticized because its loan activities have duplicated those of the World Bank. It has been suggested that the Fund either be liquidated or merged with the World Bank. Questions have also been raised about the desirability of maintaining the Fund because its original purpose of supervising the international monetary system is no longer relevant.

Recent Experience with Bretton Woods Institutions

My direct relationship with the Bretton Woods institutions has been to serve as a consultant to the World Bank during the summer of 1971 and again in 1992–94. My first work with the Bank was mainly concerned with formulating an index of economic and social development, which included not simply per capita output and trade but indicators of social progress, such as health, education, income distribution, and the reduction of poverty. My more recent work has been with the Bank's Environment Department. My main assignments were preparing memoranda on the environmental assessment of projects and participating in the Bank conferences on environmental issues.

In July 1994 two conferences were held to celebrate the fiftieth anniversary of Bretton Woods, and I participated in both. The more exciting was the conference at Bretton Woods itself, where the few survivors from 1944 could relive the physical as well as the intellectual environment of the conference.

The second conference, held at the State Department, was much more formal. The latter conference was organized by the Bretton Woods Committee, a private Washington, D.C.–based organization headed by Paul A. Volcker, former chair of the Federal Reserve Board. In anticipation of the anniversary, I wrote a monograph titled *The Bretton Woods Debates: A Memoir*, which was published by the Princeton University International Finance Section. This proved to be the most popular document I have ever written, judging from the number of comments I received.

During the Bretton Woods memorial conference at the State Department, Paul Volcker gave a reception for those of us who had been at Bretton Woods. I believe there were only five surviving economists and each of us was given special mention by the secretary. He also provided pen and pencil sets engraved with our names on a gold-colored plate. The next week I received a congratulatory letter on my participation (and survival) from the White House signed "Bill."

My participation in the activities associated with the Bretton Woods Agreements was perhaps the most important in my career. It provided personal contacts with a number of scholars and government officials whom I would otherwise have never met, and it has been the source of a great deal of information for my research and teaching. I continue to receive inquiries from reporters and scholars all over the world regarding the conference. This interest has increased over the past few years as a result of the recent activities of the Fund in dealing with the East Asian crisis.

Sources

Much of the material in this chapter is based on my own memoranda, none of which was circulated in the Treasury Department. The quotation on page 70 is from Harrod (1951). Other sources include Black (1991), Gardner (1969), Harrod (1965), Rees (1973), and Robbins (1971).