The negotiations leading to the establishment of the International Monetary Fund (IMF) and the World Bank were important because they determined what kind of a trading system the world would have after World War II. Before the war the dollar was fully convertible into all currencies and had a stable value in gold. The world payment system of the 1930s disadvantaged both U.S. exporters and domestic producers competing with imports; the trade controls used by other countries discriminated against U.S. exports, and the competitive devaluations of other countries rendered U.S. exports less competitive in foreign markets. One form of trade control was the bilateral trade agreement in which countries agreed on how much each country would buy from the other and forced their traders to comply with these agreements—rather than buying and selling competitively in world markets. These arrangements discriminated against U.S. exports since this country did not use them. Most countries, including the United States, also maintained high tariffs and import quotas on some imports to protect their domestic producers from world competition. These conditions were also disadvantageous to U.S. exports, since U.S. import restrictions tended to be lower than those of most other countries.

For these reasons, an important objective of U.S. postwar planners was the establishment of a world system of convertible currencies, stable exchange rates, a substantial reduction of tariffs, and the elimination of import quotas. The U.S. government took the initiative of calling international conferences for reaching agreements on foreign currency practices and trade restrictions. The IMF Agreement on rules governing international monetary practices was negotiated at the international conference in Bretton Woods, New Hampshire, in 1944. An agreement on trade restrictions was embodied in the General Agreement on Tariffs and Trade (GATT), negotiated by a number of countries at a conference in London in 1947.
Free trade is not possible unless traders are able to exchange their own currencies for foreign currencies without restrictions. In other words, currencies must be convertible into one another for purposes of financing trade. During the 1930s, most international trade (other than that of the United States and Canada) was conducted under bilateral agreements that the national currency paid to exporters by the trading partner could only be used to pay for imports from the country whose currency was paid. This meant that when France received sterling from a trade surplus with Britain, it could use that sterling only to buy goods from Britain or from other countries that were members of the sterling area. France could not use this sterling to make payments to Belgium or to buy goods from the United States. France gave preference to imports from sterling-area countries, thereby discriminating against the United States and other non-sterling countries.

Besides requiring nations to allow their currencies to be convertible into one another for financing trade, the Bretton Woods Agreements established a system of fixed rates of exchange between currencies, subject to adjustment in accordance with rules administered by the IMF. This system differed from both the gold standard in operation before World War I, in which most national currencies were convertible into a fixed amount of gold, and the government-controlled exchange rates of the 1930s. The IMF system also differed from the freely fluctuating exchange rate system used by some countries during the 1920s. Under the government-control system, nations frequently depreciated the foreign exchange value of their currencies as a means of improving their competitive trade position with other countries. When a country depreciates its currency, the prices of its exports decline in terms of currencies of its trading partners, while the prices of its imports rise in terms of its own currency.

The White Plan

According to Treasury Department legend, the ideas embodied in the Bretton Woods Agreements arose in late December 1941 from a dream Treasury Department Secretary Morgenthau had of a world in which all countries used the same currency. The following morning, Morgenthau called Harry White and asked him to prepare a post-World War II plan for a single
world currency. White, however, believed a single world currency was impractical. He favored a plan for interconvertible national currencies stable in value in relation to one another. White wrote Morgenthau a memorandum in which he explained the difficulties in achieving a single world currency and showed that most of the advantages for world trade could be achieved by world currency interconvertibility and stable exchange rates. White provided Morgenthau with a rough outline of what later became the White plan for an International Stabilization Fund (ISF). It was reported that White’s initial outline for an ISF was formulated in the summer of 1941. I believe he had been thinking about an international financial agreement well before he prepared the memorandum to Morgenthau.

The first definitive draft for establishing both an ISF and a World Bank was dated April 1942. This mimeographed document was presented to me for study and comments on the day I arrived for duty at the Treasury Department in August 1942. Bernstein asked me to prepare for him any comments I had on the White plan. I recall being astounded at the many functions the plan assigned to the two new institutions, which went well beyond stabilizing exchange rates and providing rules for foreign exchange practices of its members. However, at that time I was too new in the field of foreign exchange and international financial relations to realize that many of the powers given to the institutions were well beyond what would be acceptable to other U.S. government agencies or to foreign governments. It was only after I became well acquainted with the background of the plan that I could make useful suggestions for amendments.

The basic components of the White plan for an ISF were (1) currency convertibility, (2) exchange rate stability, (3) elimination of exchange controls on current transactions, and (4) assistance to countries experiencing balance of payments deficits that threatened their ability to maintain their exchange rates or currency convertibility. The concept of a World Bank was included in the original White plan as a source of loan funds for both post–World War II reconstruction and financing the development of poor and middle-income countries. White looked upon the World Bank as an inducement to countries for accepting membership in the ISF, and he made membership in the Bank conditional on membership in the ISF.
Most other countries were dissatisfied with the motley foreign exchange system of the 1930s, but they did not want to return to the gold standard system of pre–World War I in which the par value of each currency was fixed in terms of gold. This system was regarded as a cause of recession when a country was forced to impose monetary and fiscal restrictions in order to maintain the convertibility of its currency into gold at the fixed parity. Countries needed to adjust their exchange rates in accordance with international monetary rules. However, there was considerable disagreement over what kind of a world currency system should be established and over the way in which the system might be administered so that all countries would adhere to the same rules. Although the White proposal provided a specific blueprint for both the rules and the means for administering them, some aspects engendered substantial criticism within the United States and in other countries. Each country wanted a plan that would establish rules but would at the same time be compatible with its own special economic interests.

The plan’s principal objectives were firmly rooted in U.S. monetary policy of the 1930s, when the U.S. government opposed what was called “competitive exchange depreciation,” and bilateral currency agreements and exchange controls that discriminated against U.S. exports. The concept of assisting other countries to stabilize their exchange rates at agreed levels is found in the Tripartite Agreement of 1936 with Britain and France. According to this agreement the three nations, later joined by three others, agreed to consult one another before changing their rates and to assist each other in stabilizing their rates.

Accepting the White plan enthusiastically, Morgenthau believed the first job was to sell the ideas to other agencies in the government and, of course, to President Roosevelt. White wanted Morgenthau to send a draft of the plan to Roosevelt immediately with a recommendation that he call a United Nations conference to consider it. However, Roosevelt did not learn of the plan until the late spring of 1942, and Morgenthau did not want the plan circulated among officials of other countries until it had been studied and found acceptable within the U.S. administration.

In May 1942, a Cabinet-level committee was established that consisted of the Secretaries of State, the Treasury, and Commerce, the chair of the Board
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Commerce, the chair of the Board
of Governors of the Federal Reserve System, and the chair of the Board of
Economic Warfare. At the initial meeting in Morgenthau's office on May
25th, the committee established a subcommittee, the American Technical
Committee (ATC), under White's chairmanship. The ATC conducted
negotiations on the ISF and the World Bank within the U.S. government,
and later with foreign governments, prior to the Bretton Woods conference.

Individuals involved in the ATC varied from meeting to meeting, but
those attending most frequently were Lauchlin Currie and Benjamin Cohen
from the White House; Undersecretary Dean Acheson, Adolf Berle, Herbert
Feis, Frederick Livesey, Leo Passolsky, 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 Department; Will Clayton and August Maffrey
from the Commerce Department; Mariner Eccles, Walter Gardner, and
Emmanuel Goldenweiser from the Federal Reserve Board; Walter Lockheim
from the Securities and Exchange Commission; Hawthorn 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. Hansen was a leading economist on leave from Harvard
University.

Many meetings of the ATC consisted largely of questions to White, which
he and Bernstein answered in considerable detail. Technical questions were
directed to those of us on the staff, and all of us supplied information relating
to foreign trade and payment practices. My interventions were largely limited
to technical information, such as the contributions to the Fund's capital from
major donor countries. Most of the questions and critical comments came
from representatives of the Department of State and the Federal Reserve
Board. By and large, members of the ATC knew one another well and the
meetings were cordial. Only occasionally did White pound on the table or
express anger at some of the questions, but he knew he had to be responsive
and persuasive if he was to obtain the endorsements of other government
agencies for his plan. Later on in the meetings, some ATC members intro-
duced proposals for major changes in the ISF and World Bank plans, but
only a few minor changes were acceptable to White.

Raymond F. Mikesell
U.S. Government Criticism of the White Plan

In the course of the ATC meetings, two main areas of criticism of the White plan emerged. First, the plan gave the ISF and the World Bank powers and responsibilities that went beyond foreign exchange and balance of payments issues to include international trade policy, commodity price stabilization, expansion of the world's supply of foodstuffs, and a requirement that members of the World Bank subscribe to a "magna carta" of the United Nations setting forth human rights and freedoms. Their inclusion in the White plan reflected White's and Morgenthau's desire to enhance the role of the Treasury Department in postwar planning. The State Department was already planning an international trade organization, and both the State and the Agriculture Departments were planning international commodity agreements and food relief. The "magna carta" was obviously a concern of the United Nations itself. White readily accepted the deletion of these matters from the responsibilities of the ISF and the World Bank.

The second main area of criticism had to do with the relationship between the immediate postwar problems of world reconstruction and White's international financial plan. State Department representatives worried about the balance of payments problems Britain would face immediately after the war. They questioned whether the ISF could meet Britain's financial needs, since the original White plan provided only $3 billion as the U.S. subscription to a fund that might need to provide assistance to a large number of countries. To address this concern, Goldenweiser suggested a plan developed by the Board's staff; he proposed increasing 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 Board plan also gave members greater freedom to revalue their currency parities than White's plan did, and it gave the ISF authority to require a country to devalue its currency when its deficit reached half of its quota. Alvin Hansen suggested that international cooperation in preventing depression should receive more attention in the ISF than the establishment of international monetary rules, and that exchange rate flexibility was desirable for all but the largest countries. White, backed by Morgenthau, rejected these and other proposals to basically change the ISF.
The State Department differed with White on the timing of an international conference for negotiating the charters of the ISF and the World Bank, which White wanted to call immediately so that the two institutions could be operating at the end of the war. The State Department’s position was that the U.S. government should discuss the plan with a few major countries before calling a conference. This was also Morgenthau’s position when he discussed the possibility of a conference with Roosevelt. Other ATC members had views on the proposed World Bank plan that differed from the White draft, and the State Department had its own bank proposal, which was prepared by John Parke Young. However, relatively little attention was paid to the Bank in the course of the ATC meetings, in part because the Bank was less controversial. The White plan went through a number of drafts using suggestions from the ATC meetings. The plan was not formally made public until April 1943, but a number of unofficial reports were published on it.

The White plan was only one of several proposals for postwar international financial institutions—including a Canadian plan; a French plan; a plan formulated by Harvard Professor John H. Williams and known as the “key currency” approach, which had the support of the U.S. banking community; and John Maynard Keynes’s International Clearing Union (ICU) plan. Only Keynes’s ICU plan was considered at any length by the ATC. It was this plan that was the principal rival of the ISF in the course of the international discussions between the ATC and representatives of forty-six countries that Morgenthau invited to meetings in Washington during the summer of 1943. Some of the meetings were bilateral, while others were attended by representatives from several countries. By far the most important meetings were those with Keynes and other British officials.

1943 Meetings with Keynes and the British Delegation

The meetings between the ATC and the British delegation headed by Keynes occurred from time to time during the period May to October 1943. They were very important in shaping the International Monetary Fund agreement that was approved at Bretton Woods in July 1944. The meetings were dominated by Keynes, White, and Bernstein, but I spoke occasionally, largely to supply information. My main work came after the meetings, when
I wrote memoranda for White on some of the points made by the foreign representatives and provided quantitative information relating to the issues discussed.

Much of the early discussions with the British delegation concerned the relative advantages and disadvantages of the White and Keynes plans. Both plans were made public in April 1943, but officials of both countries had been aware of the plans since late 1942. These were not simply academic discussions between two economists. The two plans, each of which had the support of the author’s government, contained provisions that reflected the sometimes divergent national interests of the governments.

The major objectives of the ICU were the same as those of the ISF; otherwise, a compromise would never have been reached. Keynes favored exchange-rate stabilization and elimination of exchange controls that involved discrimination against imports from particular countries. Actually, Keynes was bound to this proposal because Article VII of the Lend-Lease Agreement of 1942 provided for elimination of trade discrimination such as that associated with the operation of the sterling area.

Both plans included temporary financial assistance to countries experiencing balance of payments difficulties. However, the administrative arrangements for providing such assistance differed substantially. The ISF proposal provided for subscriptions of gold and domestic currencies to the Fund by its members, and foreign currencies could be drawn from the Fund by countries needing assistance. According to the ISF proposal, each member country was given a quota that determined both its normal right to draw currencies from the Fund and its contribution in gold and currencies to the Fund. Countries requesting assistance “bought” the foreign currencies they needed from the Fund with their own currency, so that the Fund’s holdings of a member’s currency was a measure of that member’s indebtedness to the Fund.

The ICU proposal, on the other hand, would have established a clearing union on the books of which each member’s credits and debits would be recorded. Countries with net balance of payment surpluses would have credit positions with the clearing union, while countries with deficits would have net deficit positions. This process assured multilateral clearing: since all bilateral payment positions were reported to the clearing union, each country
had a net position with the clearing union at the end of the reporting period. Multilateral clearing means that a country can use its bilateral surplus with one country to settle its deficit with another country.

An essential difference in the two plans was the maximum amount of credit each member was obligated to subscribe for lending to other members. Under the ISF plan, the obligation of each member to provide its own currency and gold to the Fund was fixed by its quota. On the other hand, under the ICU proposal, the amount of credit each member was obligated to provide was not limited. Such credits represented the member's willingness to accept credits from the clearing union as payment for amounts owed to the member by other members. In the extreme case in which the United States was the only creditor, and each of the other members ran deficits in the ICU equal to its quota, the U.S. would be obligated to provide credits equal to the sum of the quotas of all the other members. On the basis of Keynes's suggested formula for calculating the quotas in the ICU, I estimated that the U.S. might be obligated to provide credits as much as $470 billion or more during the first decade of operation. By contrast, White suggested the U.S. quota in the ISF should be no more than $3 billion.

It was not surprising that this large potential obligation under the ICU proposal was a major source of U.S. objections. In addition, even if a limit could be placed on the U.S. obligation, ATC officials pointed out that the clearing procedure was unfamiliar to most Americans. The idea of providing credits by having countries run deficits in a clearing union appeared to be creating assets without a tangible contribution. As will be discussed, a decade later the U.S. government did accept the Special Drawing Rights program, which involved much the same principle as a clearing union.

Keynes replied to the criticisms of the ICU by stating that the Treasury Department economists had used "worst case" scenarios that were highly unrealistic. He believed there would be other surplus countries, such as Canada and the oil-producing countries, not just the United States. He pointed out that the U.S. could prevent large surpluses by increasing imports and by more expansionist monetary and fiscal policies. However, midway in the negotiation, the U.S. delegation made it clear to Keynes that the ICU was
not acceptable to the U.S. government. Keynes then fell back to trying to get
some of the aspects of the ICU incorporated into the White plan. He did
this by pointing to various technical difficulties of the White plan, which
were recognized not only by Keynes but by other economists and eventually
by White himself. One was the “multilateral clearing problem” that arose
under the White plan, because members were not required to allow their
own currencies held by other members to be transferred to a third member
to settle a payment deficit. This meant that a country with a surplus with
one country could not use that surplus to discharge a deficit with another.
In addition, currencies drawn from the Fund could only be used for making
payments to the country whose currency was drawn. For example, a country
drawing dollars from the Fund could use the dollars to buy imports only
from the United States. This was a senseless provision, which White
thought would please Congress and make it more likely to approve U.S.
membership in the Fund. The multilateral clearing problem was debated at
length during the negotiations with Britain, and a number of complicated
arrangements for dealing with it were suggested by Keynes and others.
Because of White’s unwillingness to make significant changes in the ISF plan,
the multilateral clearing problem was never satisfactorily dealt with in shaping
the Fund agreement at Bretton Woods. However, it never became a problem
in the course of the Fund’s operation. The United States has never insisted
that dollars drawn from the Fund be used only for making payments to the
United States. After free markets for the major currencies were established in the
1960s, members were free to use the currency of any member for making
payments to any other member.

A second technical flaw, related to the first, was that potential claims on
the Fund for supplying dollars were far in excess of the Fund’s holdings of
dollars. This would not occur in the ICU because there was no limit on a
member’s obligation to accept credits in the clearing union. When Keynes and
others brought up this problem, White’s answer was that a shortage in the
supply of dollars relative to the dollars demanded from the Fund was highly
unlikely to occur, but this did not satisfy anyone. Eventually, White himself
came up with a solution, called the “scarce currency” provision, according to
which the Fund could declare a currency to be scarce and then ration its
available supply. In the event of a scarce currency situation, the Fund could authorize members to limit the use of the scarce currency to pay for imports to the extent that such discrimination against the scarce currency country was warranted by the shortage. This provision, which first appeared in the ISF draft of December 16, 1943, caused considerable embarrassment to White because U.S. critics of his plan saw the provision as approving discrimination against U.S. imports, which the Fund was supposed to avoid. Although the scarce currency clause was included in the final draft of the Bretton Woods Agreement, the Fund has never declared the dollar to be scarce.

Four other issues that involved differences between the Keynes plan and the White plan were debated at the Washington meetings: (1) the right of Fund members to maintain exchange restrictions on capital movements, (2) the conditions for obtaining credits from the Fund, (3) the rules on changes in exchange rates, and (4) freedom to change par values.

**Exchange Restrictions**

During the preconference negotiations, most countries objected to the requirement in the original ISF draft that Fund members abandon all controls over their foreign exchange transactions with other members no later than one year after joining, except with the approval of the Fund. Countries wanted more freedom to control their exchange markets. The ICU provided more time for eliminating exchange restrictions, and members were free to maintain restrictions on all capital transactions if the restrictions did not affect trade in commodities. Since most countries maintained some restrictions on foreign exchange transactions, the foreign delegates argued strongly that the ISF provisions be modified, especially with respect to the control of capital movements. The provision was significantly modified, first by giving every member the right to control capital movements, and second, by giving members considerable time after joining the Fund before they had to abandon exchange controls that restricted the financing of current transactions. An important debate on this issue was whether members could draw foreign exchange from the Fund while they maintained foreign exchange restrictions with other members. This was discussed but never resolved. In any case, in the final agreement at Bretton Woods, the Fund could determine whether a country was eligible to obtain foreign exchange.
Conditions for Obtaining Resources

The ISF plan provided that a member could borrow for a year up to 75 percent of its quota, provided the loan was approved by three-fourths of the members. Moreover, as noted above, the specific currency borrowed must be required by the borrowing country to make a payment to the country whose currency is borrowed. The ICU provided that countries could run deficits in the union up to one-half of their quotas without any conditions. The British delegation at the Washington meeting argued that Fund members ought to be able to obtain some credits from the Fund automatically without the Fund's approval. Otherwise, members could not regard borrowing from the Fund as a supplement to their reserves. A subsequent edition of the White plan provided more liberal drawing conditions, but the question of whether members would be able to borrow without any conditions was never resolved to Keynes's satisfaction.

In both the White and the Keynes plans, credits were to be provided mainly for meeting deficits on current accounts and not for financing capital movements. The latter requirement, which was embodied in the Fund's Articles of Agreement negotiated at Bretton Woods, has not always been enforced and has been a source of some dispute throughout the history of the Fund (International Monetary Fund, 1969, pp. 193–94). For example, in the course of the Asian financial crisis in 1997–98, some of the credits obtained from the Fund were used to finance debt repay-ment or other capital transactions. This question is discussed in later chapters.

In the original White plan, members of the Fund were required to abandon all controls on their foreign exchange transactions with other members no later than one year after joining, except with the approval of the Fund. The ICU plan clearly gave members freedom to maintain restrictions on all capital transactions. In fact, Keynes advocated the use of capital controls for some purposes for all countries, including the United States.

White accepted the right of countries to control capital movements without the permission of the Fund, but the U.S. delegation looked forward to an international monetary system in which there would be no controls on exchange transactions of any kind. Keynes favored controls on capital movements, in part because capital transferred out of the sterling area within which
capital movements were completely free could give rise to a foreign exchange drain on the British treasury. Keynes also believed that large creditor countries such as the United States should use capital import controls to assist countries in preventing a flight of capital. Another issue on exchange restrictions was whether members of the Fund had to abandon exchange controls on the financing of current transactions before they could borrow from it. This issue was never resolved, but members have in fact been able to obtain credits from the Fund while maintaining restrictions on current transactions.

**Conditions for Obtaining Credits**

Both the ISF and the ICU provided normal limits on the amount of credits a member could obtain as determined by its quota, although provision was made for obtaining credits beyond the normal level. According to the White plan, however, any credits provided by the Fund would require approval by three-fourths of the member votes. This meant that the United States could always prevent any member from obtaining credits. Even if the U.S. had only 20 percent of the voting power, it could always obtain support from other members for an additional 5 percent of the votes. The ICU provided that a country could run deficits in the clearing union up to one-half of its quota without the approval of the ICU. Keynes argued that all members should be entitled to a certain amount of unrestricted credit so that they could regard credits available from the Fund or the ICU as a part of their international reserves, and that this would give them confidence to take the measures necessary to eliminate their foreign exchange restrictions on current transactions.

White was adamant in insisting that the Fund should be able to deny its credit to any member. His reasoning was that the Fund must determine whether its credits are being used in accordance with the purposes of the Fund, and that meant that the borrowing member was taking action to restore equilibrium in its balance of payments. Despite various language changes suggested by Keynes and others—to make at least some amount of credits unrestricted—no satisfactory solution to this problem was forthcoming. The issue was brought up again at the Bretton Woods conference and indirectly brought up by Keynes at the inaugural meeting of the Fund’s board in 1946. He was concerned that the United States would have too much power in the Fund if all credits had to be approved.
Despite the intense debates on the issue, the Fund has always been liberal in permitting its members to obtain credits within the normal limits. However, the Fund has established conditions relating to a broad range of a country's economic policies for credits beyond the normal limit.

**Exchange Rates**

White's initial draft gave the ISF power to set the par value of each member's currency in terms of gold at the time operations began, and a member could change its par value only with the approval of three-fourths of the member votes (International Monetary Fund, 1969, p. 60). Members were obligated to keep their exchange rates within a narrow range of their par values. Since each currency's par value was to be fixed in terms of gold, this determined the parity between each currency. As the U.S. was expected to have more than 25 percent of the total vote in the ISF, foreign representatives objected to allowing the U.S. a veto on alterations in par values. The ICU provided much greater freedom for changing parities. In the Articles of Agreement adopted at the Bretton Woods conference, countries could alter their par values up to 10 percent without permission from the Fund, but changes beyond that would require approval by a majority vote. Although Keynes preferred more freedom for countries to change their par values, this was the compromise reached in the Joint Statement discussed below.

**The Fund Quotas**

Much of my own work during the ATC negotiations concerned the question of Fund quotas. According to the White plan, each member of the ISF would be assigned a quota that would determine (a) the maximum amount it could normally draw from the Fund; (b) the amount of its gold and currency subscriptions to the Fund; and (c) the member's voting power in the Fund. Prospective members of the Fund were very interested in what their quotas would be and how they would be determined. In the April 1942 draft of the ISF, White provided some illustrative country quotas and suggested a formula for determining the quotas. Quotas were based on the assumption that the Fund's total assets would be $5.2 billion, a figure later raised to about $10 billion. White did not want to discuss with any individual country the...
the Fund has always been within the normal limits. The criteria for setting the par value of each country's quota were determined by the Articles of Agreement adopted at the International Monetary Fund, 1945, p. 60). The par value was to be fixed in terms of gold, this being the primary commodity that Keynes preferred more freedom in the U.S. was expected to sign representatives object to par values. The ICU provided much of the detail concerning the Articles of Agreement adopted at the International Monetary and Financial Organization. One of the most important decisions was the determination of the maximum quota a member could hold, which was eventually set at 10,000,000,000 SDRs.

Quotas

The negotiations concerning the determination of quotas were complex and involved many considerations. The White plan, for example, was based on a combination of factors such as national income, average annual imports, and maximum variation in annual exports. The formula that satisfied White's desired distribution for the four countries would have yielded quotas completely out of line with the economic importance of a number of other countries. For example, France, which was a major economic power and much more important in international trade and finance than the U.S.S.R. and China combined, should not have a quota less than that of China. When I raised this question with White, he stated he did not care what the French quota turned out to be.

After experimenting with a number of variables for the formula, I used the following variables and the percentage of each variable used for calculating a country's quota:

- National income: 2 percent
- Gold and dollar reserves: 5 percent
- Average annual imports: 10 percent
- Maximum variation in annual exports: 10 percent

For example, if a country's national income were $10 billion, its gold and...
dollar reserves $500 million, its average annual imports $1 billion, and the
maximum variation in its annual exports in recent years $500 million, its
quota according to the formula would be $375 million. I found that, with a
small adjustment, the formula yielded approximately the quotas White had
stipulated for the four countries. This exercise required many calculations
with a 1940s-style calculator, using a number of variables and weights for each
country. If I had had access to a modern computer, I could probably have
come up with a better formula. At the time I developed the formula, there
were data on trade and international reserves but virtually no official data on
national income other than for the U.S. and Britain. My sources for the
national incomes of the thirty-four countries for which I determined quotas
were based on estimates of average consumption found in country studies,
estimates of wage rates and family expenditures, and extrapolations from
budget and tax data. I gave countries at a similar stage of development the
same per capita income. My national income estimate for China was $12
billion, less than one-fifth of U.S. national income in 1940, and my income
estimate for the Soviet Union was $32 billion. I confess to having exercised a
certain amount of freedom in making the national income estimates in order
to achieve the predetermined quotas.

On the basis of my formula, I calculated the U.K. quota at $1.3 billion,
the Soviet quota at $763 million, and China's quota at $350 million.
According to the formula I developed, the French quota would have been
$700–$800 million, which would have violated White's requirement that
it be less than that of China.

The first memorandum on the basis of my formula for internal use by
the Treasury Department, dated June 9, 1943, listed the quotas of only eleven
countries and did not include France. In a much longer list prepared in the
Treasury Department while I was in Egypt, China's quota was arbitrarily
raised to $600 million; France was given a quota of $500 million; and the
Soviet Union was boosted to $900 million. These changes reflected political
rather than economic criteria.

My formula was later used as a basis for determining the quotas in the
World Bank; the numbers bore little or no relation to a country's need to
imports $1 billion, and the next years $500 million, its million. I found that, with nately the quotas White had required many calculations of variables and weights for each utter, I could probably have developed the formula, there ut virtually no official data on Britain. My sources for the or which I determined quotas on found in country studies, s, and extrapolations from ar stage of development the stimate for China was $12 come in 1940, and my income I confess to having exercised a onal income estimates in order e U.K. quota at $1.3 billion, quota at $350 million. ach quota would have been d White's requirement that formula for internal use by listed the quotas of only eleven ch longer list prepared in the ina's quota was arbitrarily ata of $500 million; and the ese changes reflected political xterminating the quotas in the ution to a country's need to borrow or contribute to the assets of the Bank. A member's ability to borrow from the Bank is not related to its quota, as is the case with the Fund, and the Bank is not dependent on capital subscriptions for making loans. Instead, the subscriptions constitute a guarantee of the Bank's liabilities if it should become insolvent. Most of the Bank's loan resources come from the sale of bonds on the international financial markets.

My formula for the ISF quotas was also later used as a basis for determining each nation's contribution to the United Nations. This occurred because the Treasury Department was asked to come up with a formula for such contributions, and my ISF quota formula was used for this purpose. Since I was overseas in late 1943, one of my colleagues searched my files for details on the formula and the data I had used for calculating the quotas. However, he used some of my preliminary data, which were different from those to prepare the ISF formula and lacked some later refinements. As a result, the U.S. share of the financial support for the UN was somewhat higher than it would have been if my revised data had been used. I think of this story when I read about congressional objection to the size of the U.S. payment to the UN, and I wonder if this error may have contributed to the problem!

My formula was also used as a basis for determining the IMF and World Bank quotas at Bretton Woods for most member countries represented at the conference. Thereafter, it was used in a somewhat revised form for new members joining the Fund. In fact, the formula is still used, but with special adjustments for individual countries. I take no pride in having authored the formula and sometimes apologize for it as my claim to infamy! It has continued to be used in large part because the Fund wanted to apply the same conditions in determining quotas for new members as were applied to the original members.

Negotiating the Joint Statement
In the course of the bilateral meetings with the British in the summer of 1943, the differences between the White and Keynes plans were narrowed, but important controversies remained that had to be reconciled as a condition

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for administrative and legislative approval in both countries. White believed that if both the U.S. and Britain were in agreement on plans for the IMF and the World Bank, most of the other countries would go along. (By this time the ISF was called the IMF.) Intensive bilateral negotiations between the ATC and the British delegation headed by Keynes took place in Washington, D.C., between September 14 and October 9, 1943. I missed most of these meetings because of my mission to Africa, but I was well briefed on them when I returned. The objective of these meetings was to prepare an agreed statement on the major provisions of the IMF and the World Bank (later called the Joint Statement)—a statement to be taken to an international conference organized to prepare the charters of the two institutions.

The negotiations for the preparation of the Joint Statement were in significant measure a repeat of the bilateral meetings held during the summer of 1943. Considerable time was spent on the multilateral clearing problem and on the rights and conditions of members to borrow from the IMF. The basic positions of White and Keynes were not fundamentally changed during the negotiations on these two issues. Language was found that was sufficiently obscure to enable Keynes to agree, although later on each interpreted the language differently. Agreement was reached on the conditions under which members that had borrowed from the IMF would repay their obligation to the Fund when their balance of payments position improved.

Another important issue was the transition period that would occur between the end of the war and the return of normal commercial transactions. Following the transition period, members were obligated to abandon exchange restrictions that limited payments for goods and services or involved discrimination against the products of another country. Keynes wanted the transition period to be long and indefinite, while the White plan provided that the Fund would make representations to individual members that conditions were favorable for the abandonment of its restrictions on foreign exchange transactions. There was an implication in the IMF provision that until the end of the transition period, a country's ability to obtain credits from the Fund would be limited. Keynes did not accept this limitation, but the availability of credits from the Fund during the transition period was not
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resolved in the negotiations. Behind the issue of the transition period was the position of Keynes and the British government generally: Britain was not prepared to join the Fund and accept the obligations on foreign exchange controls until an arrangement for a substantial loan to Britain was made. This was not revealed either in the bilateral negotiations or at Bretton Woods.

After the negotiation of the Joint Statement, a number of issues remained, and the Joint Statement was not signed by both parties until April 1944. The Joint Statement did not deal at all with the Bank proposal, nor did it cover all the issues concerning the Fund itself. However, it provided an agreed framework to take to Bretton Woods. Although Keynes had misgivings about Britain's surrendering the sterling area in favor of full multilateralism as required by the IMF, he realized that Britain was obligated to eliminate all trade discrimination by Article VII of the Lend-Lease Agreement, and this was likely to be a condition for postwar financial aid from the U.S. Therefore, he was prepared to negotiate an agreement for establishing the Fund and the Bank, even though he realized that Britain's willingness to join the Fund depended upon satisfactory financial assistance from the U.S.

One issue on the negotiation of the Joint Statement had to do with the arrangement in the IMF for multilateral clearing. Another concerned the rights and conditions for members to draw foreign exchange from the Fund, including Keynes's insistence that a certain amount be available unconditionally for members to have confidence in their ability to fulfill their obligations on foreign exchange practices. Much of the discussion on these issues was a repeat of earlier discussions. Although language was found to enable the parties to agree on the Joint Statement, the basic issues were never resolved. In retrospect, neither issue involved significant problems in the operations of the Fund. As will be noted in a later chapter, the issue on the unconditional right of members to borrow from the Fund up to a specified amount came up again at the Savannah conference in 1946. Keynes lost the battle.

Another issue was the obligation of a member to repay the Fund; it took the form of a member's repurchasing its own currency held by the Fund with gold or a convertible currency. 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

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official holdings at the time it became a member of the Fund, 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.” Keynes wanted to limit this obligation to surrender any increase in reserves to cases in which a member’s reserves exceeded its quota and the member had drawn on the IMF in the preceding year. He also wanted to define reserves to include only gold and convertible currencies. White agreed to Keynes’s alternative draft, but the obligation to surrender reserves has not been a significant issue in the Fund’s operations.

Evolution of the World Bank

White’s April 1942 plan 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 rather than one. At one of the meetings I attended, Keynes stated that the titles of the two institutions should be reversed! White’s view of their respective roles 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.”

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 without postwar economic recovery. But if the resources of the Bank were to constitute a condition for achieving the fundamental goals of the ISF, why was so little attention paid to the Bank during the inter-departmental discussions in 1942 and 1943?

In April 1943, White issued a new draft of the Bank plan, which raised the authorized capital from $10 to $20 billion, with each participating government subscribing 10 percent of its national income. The Bank plan provided that the currencies loaned by the Bank could be used only for purchases in the country of their origin. In later drafts and in the final Articles of Agreement of the Bank, a clause gave each member a veto over the use of
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its currency loaned 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. I regarded these limitations as inconsistent with the policy of nondiscrimination, which the U.S. government was promoting in both the ISF and the GATT. Again, White’s insistence on such restrictions was based on his belief that Congress would not approve of U.S. dollars being loaned for purposes other than buying U.S. exports. This was a parochial position not shared by officials of other U.S. agencies. So far as I am aware, the United States has never exercised this power, although it has voted against particular loans by the Bank for other reasons.

During the bilateral meetings with Britain in 1943, a draft of the Bank plan, dated September 24, 1943, was submitted, but only one day was devoted 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 because it limited Britain’s obligation to supply capital to the Bank. He recommended that the capital of the Bank serve primarily as backing for loan guarantees and that its capital not exceed $5 billion, rather than $10 billion as 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, 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, because he did not think Britain would borrow from the Bank.

Atlantic City

Following the final approval of the Joint Statement, the Treasury Department made arrangements for an international financial conference; to be held at the Bretton Woods Hotel in New Hampshire, beginning July 1, 1944. The conference was preceded by a meeting in Atlantic City between the U.S. and

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British delegations the last week in June 1944. Several other countries were represented in Atlantic City but did not play a significant role. The stated purpose of the meeting was to set the agenda for the Bretton Woods conference. However, the meetings were mainly occupied with proposed changes in the Joint Statement and with Keynes’s proposal for the Bank.

Keynes wanted changes in the Joint Statement, probably in response to his discussions with Commonwealth representatives. The Treasury Department technicians, including myself, were kept busy writing memoranda, usually in opposition to any changes. Keynes wanted to limit the power of the Fund to set conditions for the use of its resources. He also wanted the voting power of the Fund’s executive directors to reflect the importance of the country rather than being determined by the size of the quota. These and other issues became part of the agenda of the Bretton Woods conference.

The Atlantic City meetings devoted considerable attention to the Bank proposal. Important changes were submitted by Keynes in a draft prepared by the British and other delegations during the trip on the Queen Mary across the Atlantic. This “boat draft” emphasized the function of the Bank as guarantor rather than as a lender of national currencies subscribed to the Bank, and it provided that 80 percent of the subscribed capital could not be called for payment except to make good a default on the Bank’s obligations.

White accepted the fundamental changes made by the boat draft. For the United States it had the advantage of reducing the need for dollars subscribed to the Bank, which according to the White plan had to be used to buy goods in the United States. Some doubts were expressed by the Treasury Department staff as to how important loan guarantees would be in the Bank’s operations. They have not been important, and most of the Bank’s loan funds have come from its borrowings in the world’s capital markets.

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*Explanatory Note*

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 distinguish-
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Sources

The text of both the White and the Keynes plans, together with the background
material on the Bretton Woods conference, is in International Monetary Fund (1969) and in
U.S. Department of State (1948). I have also drawn on Mikesell (1994).