CHAPTER 3: BRETTON WOODS

The Bretton Woods conference was not important because of what was negotiated there; basic decisions had been negotiated beforehand. Bretton Woods is famous as a symbol of international collaboration for dealing with postwar problems, in contrast with the economic chaos following World War I. While the representatives of the participating countries disagreed on many details, they agreed on the kind of postwar economic system they wanted to foster. And they created a framework for the world economy that has lasted for more than half a century.

The conference began in July 1944. Its purpose was to prepare the charters for the International Monetary Fund and the International Bank for Reconstruction and Development (the charters came to be called the Articles of Agreement). Representatives from most of the forty-five countries assembled had met in Washington, D.C., at various times during the period 1942–44 and were familiar with the White plan for the Fund and the Bank, the Keynes plan, and the Joint Statement. If documents representing agreement between the U.S. and Britain, plus acceptance by Canada, had not been agreed upon ahead of time, it is my view that a conference with this number of countries dealing with the multitude of postwar financial issues would not have gotten anywhere. Virtually all the issues that were debated prior to the conference were discussed again by three major commissions during the conference. But no fundamental changes were made in the Joint Statement, which was essentially the plan for the Fund, or in the Bank plan, which had been substantially modified by Keynes from the original White plan. Perhaps if there had been a substantial independent group with an agreed upon agenda, significant changes might have been made. But the U.S. delegation, which kept an eye on what it believed would be acceptable to the U.S. Congress, was unlikely to agree to fundamental changes. Representatives
were free to criticize elements of the plans, but the conference was carefully managed by the British and the Americans.

The U.S. delegation was composed of twelve members, including officials of several government agencies and Representatives and Senators. Other delegations had delegates and advisers. In addition, the secretariat of the conference, of which Morgenthau was chair, had four vice presidents, a secretary-general, and technical and clerical personnel, for a total of more than thirty. There was no conference secretariat independent of the country representatives, and the secretariat consisted mainly of U.S. government employees who reflected the positions of the agencies with which they were associated. I was officially listed as a technical adviser to the secretariat rather than as a member of the U.S. delegation. Technical advisers came from the Treasury Department, Federal Reserve Board, State Department, and other U.S. government agencies. I was assigned to the Quota Committee, but how people were officially listed bore little relation to their participation in the conference. All of the advisers spoke freely in the three commissions where most of the discussion at the conference took place. Commission I negotiated the IMF agreement, Commission II the World Bank agreement, and Commission III discussed other international economic issues. For example, Bernstein, who was listed as a U.S. technical adviser, probably spoke more at the sessions of the conference than anyone else and certainly more than anyone on the U.S. delegation. Informality and disregard for rank characterized the conference, perhaps due to the vacation atmosphere of the hotel and environs.

Debate was limited. Where there was a “significant issue,” such as the rules on changing par values or on exchange restrictions, the British and American delegates were able to influence enough votes for their own agreed upon positions. The British Commonwealth countries were heavily influenced by Britain, and the Latin American delegates tended to support U.S. positions. There were problems in dealing with the Soviet Union delegates, but many of the technical details relating to changes in exchange rates and currency convertibility were not regarded as relevant for a nation whose government controlled virtually all international transactions.
In some cases the Joint Statement was not clear or an important function of the Fund was not covered. For example, the Joint Statement made no provision for charges on the Fund’s loans to members, but it was generally agreed that borrowers should pay interest. The conference had to formulate specific provisions for levying charges, and the U.S. delegation took the position that charges should increase with the ratio of the Fund’s holdings of a currency to the country’s quota. (The Fund’s holdings of a currency increase when a member uses its own currency to acquire foreign currency.) After considerable debate, the U.S. position was adopted. Another question not dealt with in the Joint Statement was the convertibility of the large sterling balances that had been accumulated during the war by sterling area countries such as India and Egypt. White had wanted to make specific arrangements for converting these sterling balances, but Keynes would not go along. The British Commonwealth countries holding substantial amounts of sterling wanted the Fund agreement to provide for convertibility of these balances, but the British insisted that sterling convertibility should be limited to currently acquired sterling needed for making current payments—not applied to long-standing balances. The reason was that the British wanted to limit the drain on their gold and dollar reserves that would occur if the balances were converted into dollars. In this case, the British position prevailed.

White regarded the Bank as somewhat less important than the Fund, since he was mainly concerned with the postwar exchange system. Nevertheless, the Bank was expected to provide funds both for rebuilding the world after six years of war and for making an important contribution to the economic development of nonindustrial countries. White, however, greatly underestimated the financing that nations would need before it was possible to have the sort of world trading and foreign exchange system that the Fund was designed to promote.

Much of the conference dealt with issues relating to the organization and management of the Fund—such as the functions of the executive directors, the appointment of a managing director, and the location of the Fund. These were largely resolved in accordance with U.S. positions. Most of the delegates did not want the Fund to be located in Washington, D.C., but preferred New York or London because they felt that an institution in Washington would be
under too much U.S. governmental influence. However, White and Morgenthau argued that the Fund should be independent of private financial centers and that locating the Fund in Washington, D.C., would help persuade Congress to approve U.S. membership in them.

None of the delegates challenged the par value system. There was dissatisfaction with both freely fluctuating exchange rates and controlled rates which could be changed for any reason, including providing a country with a competitive advantage in trade. The gold standard of the prewar period, which required that currencies be convertible into a fixed amount of gold, was not popular either, as it was associated with depressions and the sacrifice of economic policy to maintaining convertibility of the currency into gold. All the delegates recognized, however, that since the dollar had a fixed value in terms of gold, maintaining the value of a currency in terms of dollars was much the same as maintaining its value in terms of gold. Under the plan, members were given the option of defining their currencies in terms of units of gold or of dollars.

What concerned the delegates was their ability to change the par value of their currencies; in accordance with the Joint Statement, a change in the par value of more than 10 percent required the permission of the Fund. Some delegates wanted greater freedom to change the par value of their currencies, but neither the American nor the British delegation was willing to consider further changes in the provisions agreed upon in the Joint Statement.

A member's freedom to change its par value was never a problem after the Fund was established, and the par value system itself was the first of the major canons of the postwar international monetary system to be abandoned. Today the major issue is whether the value of currencies should fluctuate freely in the exchange markets or be stabilized in some way. Where countries have stabilized their currencies, they have usually been stabilized in terms of dollars.

IMF Lending Operations

The conference renewed the debate between the U.S. and British delegations over whether members had an unconditional right to obtain credits from the Fund up to the limit established by the quota, or whether all drawings from the Fund would be subject to conditions that the Fund might
prescribe. Most countries favored Keynes's position that there should be a substantial amount of unconditional credit available for each country, and that the operations of the Fund should be delegated to an international secretariat that would provide credits in accordance with general rules. The conference eventually adopted the U.S. delegation's position that, before providing loan funds, the Fund's executive board would make sure the borrower adopted policies that promoted balance of payments equilibrium. But the British and most other delegations were not satisfied.

Even White might have been surprised at the Fund's subsequent history of prescribing changes in members' fiscal, monetary, and other policies as conditions for loans. The Fund has required applicant nations to alter their social welfare policies and implement administrative and legal reforms that were certainly not contemplated at the time of Bretton Woods.

The original limitations on the amount of credits available to individual Fund members have been breached in favor of credits equal to several times a country's quota, with the additional credits designed to achieve structural changes in the country's economy. The loan terms, rather than being standardized in accordance with the provision in the Articles of Agreement, have been considerably liberalized and there are special subsidized-loan programs for poor countries.

Would the history of the Fund have been different if Keynes's position on unconditional drawings within quota limits been adopted? Probably not, because the Fund has applied conditions mainly when the drawings have exceeded the normal limits provided in the Fund agreement. These conditions, which take the form of "standby" agreements, enable the Fund to influence a member's financial and other economic policies. Since the Fund has frequently allowed members to draw well beyond the normal limit (125 percent of the quota), it would have imposed conditions in such cases even if Keynes had won the argument.

**Capital Transactions**

Another issue revived at Bretton Woods concerned the control of capital movements. The discussion of capital movements revealed two visions of the financial structure of the postwar world: one in which all nations would
exercise controls over capital coming into the country and capital going abroad, and another in which all capital transactions were free of government control. The U.S. delegation looked forward to a world in which private capital would flow freely and play an important role in the development of poor countries. Since most countries had employed capital controls throughout the 1930s and during the war, most delegates visualized a continuation of capital controls indefinitely. White hoped to see completely free markets for both capital and currencies, while Keynes believed that all countries should maintain at least some control over capital movements. One of the reasons Keynes favored controls on capital movements was that he wanted to see the sterling area maintained in the postwar period. Although he knew that sterling must become convertible for current transactions, he believed it would be a long time before Britain could permit convertibility into dollars of the billions of sterling balances accumulated in the past. In addition, the sterling area was a system within which a group of countries could allow free capital movements without creating a demand for dollars that the U.K. treasury would be required to supply. He undoubtedly saw advantages in this wide single-currency area within which trade and capital movements could take place freely.

Despite White's vision of completely free markets for foreign exchange and capital, he was opposed to having the resources of the Fund used for financing capital exports. He wanted the Fund's resources used almost entirely for financing imports required for consumption and productive domestic investment. This required that members be obligated to impose controls on capital exports if they were obtaining assistance from the Fund. This position was reflected in the Joint Statement and in Article VI of the Articles of Agreement adopted at Bretton Woods. The proscription on financing capital exports was inconsistent with the Fund's practice of assisting a member when its balance of payments disequilibrium arises from a financial crisis in the capital markets leading to substantial capital exports accompanied by pressure on the foreign exchange market. Under these conditions the Fund has at times provided assistance to members to stabilize their capital and foreign exchange markets, which in effect has meant that the Fund was financing capital exports. For example, in 1956 Britain called on the Fund for assistance
in dealing with capital exports resulting from the Suez crisis, despite the fact that Britain's exports were maintained and there was no increase in the current account deficit. More recently, the financial crisis in East Asia brought several countries to request assistance from the Fund, mainly for capital market and currency stabilization. This question was not seriously debated at Bretton Woods, especially since Keynes also believed that the Fund should not finance capital exports of members. However, some delegates wanted to give the Fund the right to provide unrestricted assistance to any member experiencing a financial crisis.

The World Bank at Bretton Woods

Relatively little attention was paid to the Bank during the conference. Most delegates regarded it simply as a source of loans at interest rates lower than the relatively higher rates on private loans to developing countries. Under the charter, a major purpose of the Bank was to "promote private foreign investment by means of guarantees or participation in loans and other investments." Initially, White envisaged the Bank as dealing only with governments, central banks, UN agencies, and international banks owned jointly by member governments. Later, when a provision was added for Bank loans or guarantees to private enterprise, a requirement was added that governments must guarantee loans to private entities in these countries. Under this condition, the Bank could not play a significant role in promoting the international flow of private capital. Private enterprises did not want government guarantees because they almost inevitably involved government controls on the investments.

There was some debate at Bretton Woods, as well as in the pre-Bretton Woods discussions, about whether the Bank's loans and guarantees should be confined to specific projects, as favored by White, or whether it could make nonproject loans, a position favored by the British. A compromise position became Article III, section iv: "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purposes of specific projects of reconstruction or development." In recent years more than one-third of the Bank's loans have been for nonproject or general balance of payments purposes.

Raymond E. Miksell
The Quotas at Bretton Woods

My chief function at the Bretton Woods conference was to serve as an adviser to the committee on quotas chaired by Fred M. Vinson (who later became Secretary of the Treasury and still later Chief Justice of the Supreme Court). I was not favorably impressed by Vinson personally or intellectually. I found him to be formal, stuffy, and lacking in ideas or initiative. I believed that the Democratic administration appointed him to high offices because of his influence on the Southern states whose support the Democrats needed. At the first meeting of the committee, attended by the representatives of fifteen countries, Vinson distributed a Treasury Department list of quotas in which a number of changes had been made from the list I originally prepared. White had negotiated some of the changes, and I made others based on new information on the variables in the formula I had used to prepare the original list. Vinson stated that the list was only a basis for discussion, and he implied that the quotas were determined by a scientific method. White had instructed me not to mention the quota formula or show it to any of the delegates, but some were aware of its existence. This created a problem: if the quotas on the list had not been negotiated or based on some formula, then on what were they based? It suggested that the quotas were simply arbitrary. White defended the quotas as being based on a scientific assessment of country data, but he refused to reveal the formula.

The reaction of most committee members to the Treasury Department list at the first meeting was strongly negative, and several demanded to know how the quotas had been calculated. Most delegates wanted a higher quota because it determined the normal amount of credit available from the Fund. The size of the quota was also regarded as a measure of a country’s importance. Vinson, who had not been well briefed on the history of quota determination, was unable to defend the list, and asked me to do so. I spoke for about twenty minutes and, without revealing the formula itself, discussed the significance of the various elements in the formula and why each was taken into account in setting the quotas. After my presentation there was a long silence during which I waited for a harsh examination. The silence was broken by Louis Rasminski of Canada (later president of the Canadian Central Bank), who said he was well satisfied with my explanation and moved to
accept the list. To my surprise and relief, his motion was approved. Rasminski, it turned out, had discussed the quota issue with the U.S. delegation prior to the meeting and had agreed to support the Treasury Department list. I had said in my presentation that I would be very glad to discuss their individual quotas with any of the delegates, and I particularly wanted to know any recent official figures for the variables I had used to determine the quota for their countries. Several of them came to me with the most recent estimates of national income, which I then compared with what I had used. I did make changes on several of the quotas, subject to final approval by White.

The Quota Committee unanimously approved the quotas, but China, Egypt, France, India, and New Zealand did not agree to their quotas when the report was presented to Commission I for approval. Other countries not represented on the Quota Committee—including Australia, Greece, Iran, and Yugoslavia—also objected. By the time the conference ended, China, Egypt, Greece, New Zealand, and Yugoslavia had withdrawn their reservations, leaving only the objections of the delegates from Australia, France, India, and Iran entered on the record.

The Treasury Department list gave the French quota at $450 million, which I and other staff members thought was ridiculously low, particularly given the size of Britain's quota. Following the final meeting of the Quota Committee, Pierre Mendes-France, chief of the French delegation (and later premier of France), caught me in the main hall of the Bretton Woods Hotel, where he asked about the method of quota determination and specifically how France could possibly be allocated a quota only one-third the size of the U.K. I repeated my litany on the scientific nature of the quota-calculation process and showed him the data used for France, but I did not reveal the formula. He was not prepared to dispute my data but showed anger and disgust at a process that could give France such a low quota. The French delegation represented the Charles DeGaulle government-in-exile, and it was well known that President Roosevelt and the U.S. administration were not on good terms with DeGaulle. I believe Mendes-France regarded the decision on the French quota as a deliberate insult. Because I also believed the quota was too low, I was greatly embarrassed during the confrontation and wished some senior member of the U.S. delegation would come along to rescue me.
Mendes-France’s raised voice and gestures caught the attention of Secretary Morgenthau, who happened to be passing through the hotel lobby, and asked me what the problem was. Mendes-France repeated his objection to France’s quota. Morgenthau then explained that President Roosevelt had wanted China’s quota to rank fourth because it was a member of the Big Four. Thereupon, Mendes-France went into a rage, speaking unintelligibly, half in French and half in English. Morgenthau calmed Mendes-France by agreeing that he and other members of the U.S. delegation would meet with him. I quietly withdrew and went for a walk on the lawn and continued to shake for much of the rest of the day! France’s quota was not raised in the final agreement of the conference.

Most of the controversy on the quotas could have been avoided if White had not insisted that the quotas serve three purposes: (a) subscriptions, (b) drawing rights, and (c) voting power. A number of delegates at the conference pointed out that this combination was illogical. The subscription quota should have been related to a country’s reserves, balance of payments position, and national income. Its ability to draw on the Fund might have been related to the size of its international trade and the variation in its exports and imports. Voting power might have reflected the size of its economy. But White believed that the quotas should serve all three purposes.

I have no explanation for White’s behavior. The lack of candor regarding quotas at Bretton Woods was unfortunate because it created considerable controversy and mistrust. White 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, while insisting that the suggested quotas were determined by some scientific procedure. White also wanted the quotas in the Bank to equal those in the Fund. In particular, he wanted the total quotas to be the same for both organizations. Many delegates objected. Latin American delegations argued that developing countries should contribute less capital to the Bank since they were the ones most likely to borrow from it. The Soviet delegation refused to subscribe more than $900 million to the Bank’s capital but without reducing its (already agreed upon) $1,200 million quota in the Fund. Some countries, including Venezuela, actually wanted a
lower quota in the Fund. Venezuela did not expect to use the Fund’s resources because of its large monetary reserves, and it did not want a quota of $15 million, 25 percent of which was to be paid in gold. In the final agreement on the Fund, countries could substitute notes for their actual currencies in making subscriptions to the Fund, and the gold subscription was set at 25 percent of the quota or 10 percent of the member’s net official holdings of gold and U.S. dollars, whichever was smaller.

The Soviet delegation maintained its opposition to the $1,200 million subscription to the Bank until the last day of the conference because the government in Moscow refused to accept a subscription higher than $900 million, thereby preventing the Soviet delegation from signing the final agreement. White obtained permission from Morgenthau to raise the U.S. Bank quota from $2,750 million to $3,175 million. This, along with Canadian and Chinese increases, made it possible to meet the proposed total of $8.8 billion in subscriptions to the Bank equal to the total Fund subscriptions, while reducing the Soviet quota to $900 million. However, at the closing plenary session, Morgenthau announced that he had just received word from Moscow that the Soviet Union would accept a quota of $1,200 million, which raised the total Bank quotas to $9.1 billion as contrasted with an $8.8 billion total for the Fund. As a result, White’s unexplained objective to make the subscriptions to the two organizations equal in amount was not realized.

The Soviet Union

Despite the fact that free and nondiscriminatory trade and free foreign exchange transactions were not practiced under Soviet Communism, White and Morgenthau sought the participation of the Soviet government in the Fund and the Bank and were very solicitous of Soviet views. 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 the Bank charters that affected their national interests, such as the amount and composition of subscriptions, the amount of credit a member could obtain, and the obligation of members to supply information. The Russians regarded
I not expect to use the Fund’s resources and it did not want a quota of $15 million paid in gold. In the final agreement on the gold subscription, which was set at 25% of member’s net official holdings of gold, opposition to the $1,200 million proposal of the conference because the U.S. Treasury wanted a subscription higher than $900 million. The delegation from Morgenthau to raise the U.S. 175 million. This, along with Cananda’s objection to meet the proposed total of $900 million. However, at the nounced that he had just received on would accept a quota of $1,200 otas to $9.1 billion as contrasted with result, White’s unexplained objective ganizations equal in amount was

At Bretton Woods, however, the Soviet delegates were quite friendly. I recall being recruited by White on two occasions for a Treasury Department volleyball game with the Russians, who soundly defeated our team. They also entered into the spirit of what was called Commission IV, the Bretton Woods Hotel nightclub, where late at night we all tried to sing one another’s songs. White usually led off with what came to be called “the Bretton Woods Song”:

And when I die don’t bury me at all,
Just cover my bones with alcohol.
Put a bottle of booze at my head and feet,
And pray the Lord my soul to keep.

White led the song many times in my presence, not only at Bretton Woods but on other occasions after he had a fair amount to drink.

Liquidating the Bank for International Settlements

An interesting side show at the Bretton Woods conference was a resolution proposed by the Norwegian delegation that the Bank for International Settlements (BIS) be liquidated at the earliest possible date. The BIS was created in 1931 to assist Germany in making its World War I reparation payments to the Allies. Although the Germans stopped paying reparations,
the BIS continued to operate as a kind of regional central bank for European banks where European bankers could meet to discuss their common problems. The reason for the resolution, which most delegations supported, was that the BIS was alleged to have cooperated with the Germans in transferring looted assets from occupied countries, including gold taken from the watches and teeth of the Holocaust victims. The U.S. delegation was split between the Treasury Department, which favored abolition, and the State Department, which regarded the resolution as a political matter that should not be decided at the conference. Morgenthau persuaded Keynes to agree to the resolution, but 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 “liquidation of the BIS at the earliest possible moment.”

Despite the Bretton Woods resolution, the BIS has continued to operate and prosper throughout the postwar period. Some of us at the conference, while condemning any assistance that the BIS may have given to the German government both before and during World War II, felt the resolution was rather empty since it did not specify who would liquidate the BIS and how it could be carried out. Also, no credible evidence had been provided that the BIS had in fact helped the Germans dispose of stolen property.

A Note on Personalities

Harry White

Personalities played an important role in the Bretton Woods debates and in the final outcome. I saw White in numerous meetings and on dozens of other occasions when we talked alone in his Treasury Department office. His Monetary Research staff was largely composed of former academicians, and many of us returned to universities after the war. 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’s embarrassing any staff member by dressing him down, but he showed another side when he was involved in negotiations outside the Treasury Department. He was often brusque, even crude, in his meetings with Keynes and the British delegation.
When annoyed, he sometimes cynically addressed Keynes as “Your Royal Highness” or “Your Lordship.” Lord Robbins, who participated in many of the pre-Bretton Woods meetings but was not close to White, described White well in his book *Autobiography of an Economist*.

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 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 [Britain’s] position of weakness will not stand up to examination for a moment. (Robbins, 1971).

White often expressed to his staff his hostility toward the State Department, with which he frequently struggled for power within the U.S. government. Like Morgenthau, he wanted the Treasury Department to be the center of postwar economic policy and planning. This helps to explain the comprehensive nature of the original White plan. International financial institutions were not a high priority in the State Department; without White’s zeal, there probably would not have been a Fund or a Bank. The Bretton Woods institutions might not have come into being if they had not been well advanced before the end of the war, since 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 in American embassies in Allied countries, including myself, secretly reported directly to White without going through their embassies. White sometimes used the press to promote his policies that were 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 statement to a reporter. I do not know the reasons for White’s antipathy toward the State Department, but it was

Raymond F. Mikesell

*Breton Woods*
not directed at individuals since he had close relations with some of them. I believe it was a reaction to the State Department's traditional insistence that it have commanding responsibility over foreign policy.

White believed that the U.S. government should have sought closer cooperation with the Russians. Through certain members of his staff, he provided information to and discussed policy with Soviet embassy officials. These relations were later discovered by the FBI and led to White's dismissal from the government, but they were not known to most of us in Monetary Research.

Many people have asked me if White was a Communist. I am convinced 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, 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 the Bank proposals. He did not share the pervasive fear that the Communist ideology would spread to the rest 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, abiding by the trade and exchange obligations of his plan.

White's associates who were later accused of being spies for the Soviet Union—Sol Adler, Frank Coe, and Harold Glasser—never 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 personally that it is difficult for me to believe they could have concealed communist ideology from me. Although they may have had some association with the American Communist movement in their youth, as did many of my college acquaintances in the 1930s, I believe that the accusations directed against them arose from White's propensity to carry on direct relations with the Soviet government outside regular diplomatic channels. If these same activities had been carried on with the British or Canadians, they would have been acceptable. White and his closest associates simply ran their own foreign ministry.

A few weeks before White's death, he and I were speakers at a conference of the American Academy of Political and Social Science in Philadelphia.
Relations with some of them.

In his traditional insistence on foreign policy.

...have sought closer cooperation with his staff, he provided... at embassy officials. These led to White's dismissal from... of us in Monetary Research.

a Communist. I am convinced... and capitalism and devoted... with free and nondiscriminatory illing to deal with Communist... tion shared his political... believed that Soviet officials... ds. He did not share the...uld spread to the rest of the... te the world by military... could operate under a system... trade and exchange obli-

f being spies for the Soviet...ser—never indicated to me... ed States or that they did not... them so well personally that... concealed communist ideology... sociation with the American... ny of my college acquaintan... directed against them arose... ions with the Soviet govern... same activities had been... would have been acceptable.

t own foreign ministry.

were speakers at a conference... Science in Philadelphia.

After the evening meeting on April 19, 1947, I spent a couple of hours with... 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 been compelled to give up his position as the U.S. 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 charged with providing confidential information to the Soviet Union, but I have never believed he gave any information that was harmful to... national interests. White did speak of his heart condition and, when we parted, he apologized for taking the elevator rather than walking the two flights to where both of our rooms were located. Some say he committed suicide to avoid testifying before the House committee. I do not believe it.

John Maynard Keynes

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 academic and dispassionate. Keynes could accept philosophically the economic advantages of multilateral trade while continuing to defend a discriminatory sterling area in terms of Britain's national interest.

There was a sharp contrast between the literary quality of Keynes's ICU proposal and the legalistic formulation of the July 1943 version of the White plan. Keynes displayed arrogance in the elegant language of an educated British lord. He 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. Keynes frequently complained that Americans were too dependent on attorneys, and once suggested that "when the Mayflower sailed from Plymouth, it must have been entirely filled with lawyers."

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.
always had an air of dignity and did not join in the revelry at the Bretton Woods nightclub. I never saw him in sport clothes. Nevertheless, he was approachable. Junior members, such as myself, were able to talk privately with him, and I always found him willing 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 a light heart attack were left with the memory of saying farewell to a truly noble man.

What Bretton Woods Accomplished

While, Keynes, and their colleagues were planning for a postwar world economy that they could not project but hoped to influence by the institutions they wanted to establish. How much influence have these institutions had, and how different would the world economy have been if they had never been created? The following paragraphs present my personal views in answering these questions.

Neither the Fund nor the Bank has functioned as expected. White’s expectation that the Fund would create an environment for stable exchange rates and convertibility among the major currencies shortly following the war was not realized, mainly because of the immense problems the Fund and the Bank could not manage or finance. However, multilateralism for the European economies was partly achieved by the European Payments Union (EPU) operated by the BIS, and European reconstruction was financed mainly by the Marshall Plan rather than by the World Bank.

Most of the changes that have occurred in the functions of the Fund and the Bank that differ from those contemplated at Bretton Woods are the consequence of a world economic system that differs significantly from that expected when the Bretton Woods Agreements were drafted. Perhaps the most monumental change has been that both institutions now operate mainly as sources of financing for developing and former Soviet bloc countries. Not only did the developed countries not need financing from these institutions over the past three decades, but the Fund has played only a minor role in supervising and financing the world’s payment system. Given that, it is perhaps remarkable that these institutions have not only survived but that
in the revelry at the Bretton woods. Nevertheless, he was self, were able to talk privately with my questions. If we took too proe over to protect him from privileged to shake his limp hand following a light heart attack were truly noble man.

Accomplished re planning for a postwar world hoped to influence by the institution have these institutions ony have been if they had never sent my personal views in answer- tioned as expected. White’s environment for stable exchange currencies shortly following the warm nese problems the Fund and the re, multilateralism for the Euro-European Payments Union (EPU) ruction was financed mainly by the nk. l in the functions of the Fund and ted at Bretton Woods are the hat differs significantly from that ents were drafted. Perhaps the most tutions now operate mainly as mer Soviet bloc countries. Not financing from these institutions as played only a minor role in ent system. Given that, it is have not only survived but that their resources have increased substantially.

Most Western nations did not accept the obligations of the IMF agreement with regard to exchange practices and discrimination until the 1960s. After postwar reconstruction was largely achieved, developed countries found it to be in their interest to abandon exchange controls on current transactions and to stabilize their currencies, but they may well have adopted these policies even if the Fund had not existed. The Bretton Woods Agreements committed the major Western countries to long-run policies of both convertibility and exchange rate stability. By the end of the 1960s, Western currencies were intraconvertible and exchange rates were maintained in accordance with the par value system. Ironically, it was the U.S. balance of payments deficits and the concern of the Nixon administration over the drain on U.S. gold reserves that brought an end to the par value system, but currency convertibility has remained.

The history of the Fund’s lending operations has contrasted sharply with Keynes’s efforts to delegate the operations of the Fund to an international secretariat that would provide credits in accordance with general rules. The Fund’s conditions for loans have dealt with social welfare, tax administration, legal reforms, and other subjects that were not contemplated at the time of Bretton Woods. Political factors have certainly entered into the Fund’s decisions to make credits available. A good example has been the credits to Russia. Despite failure to adopt policies for promoting equilibrium and even a viable economy, Russia has received credits at the insistence of the United States because of Russia’s strong military power.

Following the breakup of the Soviet Union, virtually all of the former Soviet states and countries under Soviet control (such as Czechoslovakia, Hungary, and Poland) joined the Fund and the Bank, not as Communist countries but as countries making the transition to free market and private enterprise economies. Providing for the needs of these countries greatly increased the demand for credit from the Fund and the Bank and presented them with new problems. Most of these countries were not developing in the sense that there was little industrialization or infrastructure, but they lacked the market structure and institutions for operating market economies. This situation has created a challenge for the advisory services of the Fund and the Bank, and it has required new forms of conditionality for loans. But none of the

Raymond F. Mikesell

Bretton Woods 59
traditional policies of these institutions have been fully applicable to a country such as Russia, whose administrative system virtually broke down in 1998.

What would have been most surprising to the Bretton Woods delegates would have been the freeing of external markets for currencies and capital in the developing countries. Many of the middle-income developing countries (such as South Korea, Thailand, Malaysia, and Indonesia) have attracted foreign capital either through their securities markets or through foreign bank loans made directly to banks and industrial firms. The major problem some of these countries faced in the late 1990s has been the loss of confidence in their capital markets, with the result that foreign investors have withdrawn capital and there has been a sharp fall in the value of their currencies. They have sought assistance from the Fund, not for the purpose of covering their current account deficits as provided for in the Articles of Agreement but for financing capital exports and supporting the value of their currencies. Such assistance, which characterized the Fund’s credits to the East Asian countries in 1997 and 1998, appears to violate Article VI, which forbids the IMF from making loans to finance capital exports and, in fact, requires that countries making substantial use of the Fund’s resources adopt controls over capital movements. The Fund has been reluctant to ask developing countries to impose foreign exchange controls or direct controls on their capital markets, because for some years the Fund has encouraged all of its members to establish free markets. In making credits available to promote confidence in the foreign exchange and capital markets, the Fund has allowed its resources to be used for purposes that do not directly promote production and growth.

I, along with certain other economists, have opposed this trend. It is currently a subject of considerable debate among economists and public officials, and it is sometimes used as an argument against increasing the resources of the IMF. I believe the Fund should have adequate resources to perform its proper functions, but that its resources should not be used to finance capital movements to restore confidence and equilibrium for two reasons. First, loans made to support currency values and capital markets do not finance the real investments necessary to produce income for financing the loans. And second, loans to support capital markets tend to bail out foreign lenders who have taken risks for which they have expected to receive
higher than normal rates of return. Bailing them out encourages risky and often unproductive investment.

Recent Policies of the World Bank

The Bank has not made a loan to any country other than a developing or former Communist country for decades. A high proportion of its loans are made for general balance of payment purposes rather than for specific projects, and the loans are conditional on the borrowing country's taking a number of measures affecting the structure of the economy. Through its affiliate, the International Development Association, the Bank makes loans to its poorest members at rates of interest well below those in private international markets. One of the original purposes of the Bank was to promote the flow of private portfolio capital, but it has not directly promoted much private investment. Its subsidiary, the IFC, has been making a significant volume of loans and loan guarantees to private enterprises in developing countries.

Given the changes in the functions of the Fund and the Bank from those envisaged at Bretton Woods, have these institutions made a contribution to expanding world trade and to the welfare of poor countries? Overall, I believe they have. However, in my view the Bank has made a much greater contribution than the Fund. The Bank has made a significant contribution to development, particularly for those middle-income countries that have adopted the policies required to achieve per capita incomes approaching those of the older developed countries. I am in accord with those critics who charge that the Fund has often prescribed the wrong medicine for its patients and, in recent years, allowed its capital to be used for bailing out debtors and supporting overvalued currencies, rather than for promoting production and social development. On the other hand, the Fund has provided vital assistance to developing countries that have experienced short-term current account deficits, and it has contributed to the adoption of liberal economic policies by the countries it has assisted. Despite a number of failures, the developing world has benefited from the Fund. I believe, however, that it might have contributed more to development by better allocation of its resources.

Raymond F. Mikesell

Bretton Woods