# The International Monetary Fund:

# A Study of Policy and Economic Knowledge

**Abstract**

The honors thesis analyzes the role of economic knowledge on the policy formation of the International Monetary Fund. The International Monetary Fund, in the 1940s through today, has been an important institution dealing with the stabilization of the global economy. The central investigation of the paper is on the influence of economist Harry Dexter White in devising a proposal for a global monetary order, in influencing officials within the United States government, and in negotiating with representatives of other countries, particularly Great Britain. White was instrumental in formulating the International Monetary Fund on the basis of his ideas. The more general aim of the thesis is to reflect on the relationship between economic knowledge and policy formation.

# Contents

**Introduction**

The International Monetary Fund, an institution created by the Bretton Woods Agreement in 1944, has played a significant role in the global monetary order. The policy formation involved the collaboration of various U.S. government departments, and the cooperation of numerous countries. To the leaders entering the Second World War, the memory of interwar economic mistakes, such as the collapse of commodity prices leading to nationalistic economic controls and tariffs, provided a vivid reminder of how previous leaders had tried and failed to create a sound monetary order. As hostilities broke out in Europe in 1939, the debate over the postwar economic order produced ideas of full employment, liberalized trade, and economic stabilization. These circumstances highlighted the need for new thinking and influence, especially for economists within the United States Government. A successful monetary order, in contrast to the interwar period of economic confusion, relied on a process of planning and negotiation by expert economists.

Within the Treasury Department, economist Harry Dexter White played a major role in devising a proposal for a global monetary order, in influencing officials within the United States government, and in negotiating with representatives of other countries, particularly Great Britain. White proposed the initial plan for an International Stabilization Fund and led the discussions of an interdepartmental committee, overall formulating the policy in accordance with his ideas of an internationally supervised world economy. While the Treasury

Department promoted a controlled international monetary order, the State Department pushed for free trade policy. Like White, the British also proposed a plan for monetary stabilization. Clashing with the State Department's approach, the British government and the Treasury Department, led by White, ultimately devised a joint proposal for a stabilization institution.

In a larger context, the relationship between the role of the state in formulating policy and the influence of economic knowledge over policy is pertinent to the study of the formation of the International Monetary Fund. The three types of economic knowledge introduced by Furner and Supple are used in the policy-making process.[1] The first type of economic knowledge is professional or disciplinary knowledge. It refers to knowledge based on organized inquiry or research. Disciplinary knowledge includes the collection of data and the formulation of theories and models. This type of knowledge is driven by internal logic and mainly used by professional economists.

The second type of economic knowledge is informed opinion or practical knowledge. This type of knowledge is derived from direct experience of the performance of the economic system. Unlike disciplinary knowledge it is not based on direct logical analysis, but is more related to social and cultural values. People that are not directly involved in formulating disciplinary knowledge, such as administrators, politicians, business people and others, are still involved in assessing economic performance and dealing with economic consequences. They use practical knowledge for situations that can not simply be dealt with in a

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[1] The discussion of economic knowledge is from the introduction in Furner and Supple's The State and Economic Knowledge pp. 1-39

technical manner. They apply informed opinion to situations that affect the interests of many constituencies. Therefore, the formulation and application of practical knowledge is highly influenced by individuals and groups.

The third category of economic knowledge is cultural beliefs and values. This type of knowledge, derived from a wide range of experiences, embraces moral precepts, political convictions, and social expectations. While based on more than economic experiences, it is drawn on to make judgements regarding economic questions. Cultural beliefs and values lead to assumptions of what is right or wrong and beneficial or dangerous to the public good. The category also includes opinions and expectations relevant to particular cultures. Although this type of knowledge is the most general and unscientific of the three categories, it operates concurrently with the other types of economic knowledge. While involving large culturally based visions of the economic order, this type of knowledge relates economic processes and institutions to desirable political and social ends. This category of economic knowledge is a contributing factor in the judgements made by professional economists and policy makers, but is not addressed in the analysis of the policy formation of the International Monetary Fund.

According to many schools of thought, the effectiveness with which the state discharges its responsibility for the economic well being of its citizens and the country's competitive position in the international economy depends on the government's utilization of economic knowledge. Throughout the interwar period, fluctuations and problems in the economy led the state to address the new economic environment and challenge existing theories and policies. According to Furner and Supple, a relationship exists between a crisis (in this case the Great Depression with its social consequences and challenge to authoritative systems), and the development of new directions in economic theory, professional organization, and education. Also, when an abrupt threat occurs, such as the outbreak of war, new or neglected knowledge becomes especially important. In 1941, both the tension of war and the historical experiences of the interwar period influenced the new economic innovations during the early 1940s. The experiences during the period and the tension of war led economists and policy-makers to reevaluate the theoretical justification of the self-regulating market. Interpreting the developments of the interwar period, leaders were able to focus attention on alternative theories and change the political priorities to improve economic performance.

Not only did the crises influence the formulation of new economic knowledge and policy formation, but according to Nelson, the economic crisis of the 1930s and the need for economic expertise during World War II caused a major increase in the number of economists in the federal government.[2] The demand for economists and their resulting influx into government positions led to the transformation of economics as an intellectual discipline and as a policy profession.[3] Economists formed a major role in the new institutions, such as committees of inquiry, and in already existing ones, such as the Treasury Department. The institutions and the expert economists themselves have

[2] Nelson 80
[3] Coats 109

reshaped the nature and capacities of government. The new institutions as well as the existing state capacities affect the structure of economic knowledge. According to Furner and Supple, the institutions perform three distinctive and related functions. "They serve as contexts for "social learning," as mechanisms for state building, and as vehicles for the mediation of ideas."[4] Not only do the agencies gather information and explain events in existing theories, but they also offer predictions. During this process of politicizing knowledge, the three forms of knowledge are utilized, often testing cultural beliefs and values against disciplinary and practical knowledge. Economists held the capacity to decide on which problems to focus on, to assess the problems, and to form policy alternatives. These new responsibilities made economists active participants in policy formation.

Within the state conflicting currents of opinion often occur. When using disciplinary knowledge and informed opinion to evaluate economic questions, competing and clashing viewpoints can emerge including opportunistic (both deliberate and unintended) distortion of technical doctrine, within the "public domain" of ideas. Agencies within the government provide an arena in which to articulate, debate, and test ideas. The ability of the United States to allow for conflicting opinions enhances the use of economic knowledge. Disciplinary knowledge becomes relevant when the government is undecided about a course of action in the face of a pressing problem, but informed opinion can also be swayed by the use of disciplinary knowledge by economists. Although conflicting

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[4] Furner and Supple 27

viewpoints might exist between different agencies, the state's ultimate tool is its bargaining capacity, or its ability to win cooperation, extract concessions, and make deals in order to control situations and implement policies. This ability to persuade politicizes policies derived from the utilization of economic knowledge. According to Nelson, political considerations are often an overriding factor in the implementation of an economic policy proposal.[5] Therefore, the state's capacity to bargain and the political circumstances surrounding a policy often determine whether the policy will be successful.

Essentially, the need for a stabilized global economy drove the economist Harry Dexter White to formulate and apply economic knowledge to the policy formation of the International Monetary Fund. Analysis of this the policy formation from the initial idea phase to the development of the Joint Statement of Experts, will demonstrate that the capacity of the individual experts, the politicization of the negotiations, and the bargaining capacity within the state all contributed to the policy's successful implementation.

**Interwar Lessons**

"Those who cannot remember the past are condemned to repeat it."[6] For the Allied leaders at the start of the Second World War, this statement held complete relevance. To the economic planners entering World War II, the memory of interwar economic mistakes provided a vivid reminder of how

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[5] Nelson 69
[6] Quote by Santayana, George (1863-1952) in Life of Reason.

previous leaders had tried and failed to create a sound monetary order. Between WWI and WWII, the international economy experienced changes and fluctuations that led countries to devise various economic institutions. The interwar period brought a new gold standard system after the first war that ended during the Great Depression stimulating various international conferences and lessons about global interdependence.

Dislocated domestic markets, heavy war reparations, and war-loan repayments by the allies disrupted trading patterns and undermined Europe's world market competitiveness and leading position in world trade. The United States, on the other hand, transitioned from a debtor nation into a creditor nation and became a major source of capital. The United States encouraged the payment of foreign balances in gold, but it also advocated the return of the debtor nations to the gold standard. The push for repayments resulted in an increase of private investment by Americans in other countries. Direct investments by American businesses added to the outflow of American capital. In many countries new loans exceeded repayments, but countries did begin to adopt the gold standard. Uncontrolled hyperinflation and the breakdown of the monetary economy led Germany to issue new currency governed by the gold-standard provisions.[7] In 1924, the Dawes Plan reduced German war reparations and instituted an international loan of $200 million to the country. With the United States' booming stock market, Americans were willing to buy foreign debt. The international capital markets gained new confidence and American investors

[7] Eichengreen, 47

extended large loans to Germany. Germany fulfilled its payments to the Allies, but in reality with the money from United States investors.

Countries with moderate inflation restored the prewar price of gold and the traditional dollar exchange rate. Britain returned to the prewar rate in 1925 and many countries followed. The stabilization of France in 1926 marked the reestablishment of the global gold standard system, but the operation had problems. The overvaluation of sterling made it hard for English manufactures to compete in world markets. Great Britain experienced balance-of-payment deficits and depleted gold reserves because of its weak currency. France, on the other hand, experienced similar difficulty with an undervalued franc. Its strong currency remained in persistent surplus. However, a stabilized international system allowed for expanded trade, increased investments, and temporary prosperity until 1929.

The Great Depression marked another turning point in international economic history. Countries gave up international interdependence to help their national economies; deflation disrupted trade and destroyed the gold-exchange system. In 1931 the inadequate supply of global reserves quickly declined as central banks converted foreign reserves into gold. Great Britain suspended convertibility in September 1931 to protect its balance of payments. Within weeks many other countries followed, changing the quantity and distribution of gold. In the United States the Federal Reserve's policies were to protect the gold standard and international trade. The English devaluation produced fear throughout the world that the United States would go off the standard. People began to trade dollars for gold, contributing to the decline in the money supply. The Federal Reserve did not consider the short-term implications, and the United States stayed on the standard until 1933. France's stabilization in 1926 until the time of Britain's devaluation of sterling in 1931 marked the short period that the gold standard system functioned internationally.[8] Over this period many countries found the global system unsatisfactory and each country held individual viewpoints resulting from their distinct experiences.

These varied experiences within national economies contributed to the contrasting viewpoints brought forth during international meetings. Throughout the interwar period, many attempts were made for international cooperation. Even before the stock market crash of 1929, international negotiations were initiated. In 1927, the World Economic Conference took place. At the conference, 50 nations declared that trade barriers were already too high and that they should be reduced.[9] However, nations were unable to make substantial progress on the recommendations even before the depression hit. Furthermore, during the depression decade countries reversed these recommendations and increased protectionist measures for the benefit of their individual domestic economies.

In 1932 the Lausanne Agreements settled the issue of war debts and reparation payments, but more significantly the conference leaders recognized the need for an international session on the problems arising from the Great Depression. In the summer of 1933, sixty nations met in London for the World

[8] Eichengreen, 48
[9] Hill, 94

Monetary and Economic Conference. The main purpose of the conference was to lower trade barriers, but currency stabilization needed to occur first. The United States under President Franklin D. Roosevelt refused to fix the dollar value. The United States had only recently devalued its currency, and the dollar had not yet stabilized in international markets.[10] Roosevelt's position destroyed any hope of international progress during the conference. The President also demonstrated the "nationalistic over international" view of the United States.

In 1936, the Tripartite Monetary Agreement involved the United States, Great Britain, and France. After France devalued its currency, the three countries agreed to cooperate in stabilizing their currencies against one another and in establishing a gold market among them. The Agreement stemmed from the need for stability and adjustment in the international economy. Conflicting views among the negotiators grew from the experiences of the three countries during the preceding decade. British authorities in the mid-1930s attributed the stabilization of sterling in 1925 to difficulties in their domestic economy, while they associated the departure from gold in 1931with recovery. This experience conveyed to the British that "currency exchange commitments must not undermine expansionary domestic policies."[11] On the other hand, the United States viewed the gold standard in the 1920s as a source of prosperity, but in the 1930s the standard brought "savage deflation" and a "large depreciation of the dollar."[12] Authorities in the United States held a more mixed view of the gold standard, but during the New Deal they also put more emphasis on domestic

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[10] Hill, 95
[11] Ikenberry, 302

over external aims. France associated the gold standard with restoring French power and prosperity in 1926-28. Positions during the Agreement reflected these contrasting experiences of the interwar period, just as the experiences were to affect post World War II planning.

The Agreement of 1936 is significant because it allowed governments to intervene in private currency markets to stabilize values, thus reconstructing the global monetary system. It also demonstrated that monetary experts and treasury ministers, who were more responsive to national interests than central and commercial bankers were, would control the international economic scene. The interwar period provided many lessons about the global economy. The economic revival after WWI, the hardships of the Great Depression, and another subsequent economic revival were lessons that guided monetary relations in the future. Governments must devise a mutually beneficial global system, but still retain their independent sovereignty.

**The Economist's Role**

According to Edwin Nourse, a former member of the Economic Advisory Board, the extent to which professionals within the government guide policy depends on each individual cabinet officer or agency head.[13] Speaking specifically about economists, he states that the character and significance of an economic advisory post depends on the personality of the Secretary. The

[12] Clarke, 376
[13] Nourse, 79

training and temperament of the man occupying the subordinate post also affects his ability to gain influence within the department.[14] In the case of the Treasury Department, the personality of Secretary Henry Morgenthau, Jr. and the relationship that developed between Morgenthau and the economist Harry Dexter White, fostered an ideal environment for expert influence over policy.

Henry Morgenthau owed his appointment as Secretary of the Treasury to the fact that he was President Roosevelt's old friend. Morgenthau knew little about economics, as he was a gentleman farmer, but he was loyal and devoted; he "stood ready to implement the President's programs as he understood them."[15] Since Morgenthau lacked financial experience and economic insight, he recruited a staff of expert technicians from universities "who were capable of applying abstract theories to practical problems in research and analysis."[16] However, expert economists in government cannot limit their role to that as neutral technicians. They serve as active proponents for ideologies derived from the three types of knowledge and apply their training to policy conclusions. While applying economic expertise, they develop and exercise skills in bureaucratic and political tactics.[17] With the Secretary lacking both the inclination and the training to assimilate the complexities of international finance, Morgenthau definitely left the door open for influence in his department.

With a doctorate degree in economics from Harvard, Harry Dexter White arrived in Washington, D.C. in 1934 to participate in a Treasury currency study.

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[14] Nourse, 86
[15] Eckes 25
[16] Eckes, 25
[17] Nelson 50

After impressing senior officials with his reliability and administrative skill, White was invited by them to remain in Washington. He became an Assistant Director in the Division of Research and Statistics in 1936, the Director of the Division of Monetary Research in1938, Assistant to the Secretary by 1941, and eventually Assistant Secretary in 1945. Over the years, White ultimately became indispensable to Secretary Morgenthau. According to Coats, policy is not simply formulated at the "top of the office" or the cabinet level, but originates within the bureaucratic system. It is modified, refined and reshaped repeatedly as it moves up to the highest decision making levels.[18] In the formation of the postwar policy, White not only executed his economic expertise in formulating the plans, but played a part in the decisions and negotiations as the policy "moved up" the ladder.

As a Treasury economist, White expressed liberal-minded views that reflected both the personal lessons learned from recent historical experience and the ongoing evolution in professional economic thought. Although he favored an open world economy, he also felt it was "to be a managed world economy with new levels of international supervision over national and monetary trade policies."[19] This contrasted with the State Department's free trade position. In 1942, White articulated these different views:

> The theoretical basis for the belief still so widely held, that interference with trade and capital movements, etc., are harmful, are hangovers from a nineteenth century creed, which held that international economic adjustments, if left alone, would work themselves out toward an

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[18] Colander and Coats, 111
[19] Ikenberry 298

> 'equilibrium' with a minimum of harm to world trade and prosperity. It is doubtful whether that belief was ever sound.[20]

White wanted to manipulate the market system to make it more responsive to the public interest. He and other experts agreed that international investment, capital movements, exchange rate parities, and commodity prices were all potentially legitimate means for solving economic problems.[21] Applying these technical ideas at this critical turning point in history, and with Morgenthau providing openings for rethinking, Harry White, along with other experts, defined government conceptions of postwar interests, built support for the postwar settlement, and legitimized the exercise of Treasury Department and American power.

**Ideology and Inactivity, The State Department Story**

Despite the lessons of the interwar period, Secretary of State Cordell Hull believed an open world economy and unhampered trade "dovetailed with peace," while "high tariffs, trade barriers, and unfair economic competition, with war."[22] In December 1939, the State Department initiated studies regarding international economic problems. As the hostilities continued in Europe, Hull appointed officials from the State Department to the Advisory Committee on Problems of Foreign Relations. The Department also created a subcommittee on economic

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[20] Harry Dexter White, March 1942 draft of the White Plan (Ikenberry 298)
[21] Ikenberry 299
[22] Hull, Cordell (81)

problems to deal with postwar financial and monetary matters.[23] Hull's enthusiasm for liberal economic principles stimulated the subcommittee's research into restoring the postwar world to an open multilateral trading system. Hull felt that extensive trading links would heighten the interdependence of the French and German economies, suppress political and diplomatic conflicts, and thereby prevent another European war. Therefore, trade would fuel recovery and allow Europe to import raw materials and capital goods. Hull then concluded that with an open trading system, exports could control the dollar shortage and help with postwar reconstruction while maintaining a system of convertible currencies.[24] Members of the subcommittee shared these views along with American industry and some members of Congress.

In May 1940, the State Department renamed the subcommittee the Interdepartmental Group to Consider International Economic Problems and Policies, and expanded to include representatives from the Treasury, Agriculture, and Commerce Departments. To undercut the Axis powers' detrimental economic order, the subcommittee advised the administration to announce its support of liberal economic principles and to establish the direction of America's postwar preparations.

The Roosevelt Administration asked Great Britain to work jointly with the United States toward a multilateral economic solution to the predicted postwar economic problems. The Atlantic Charter, created in August 1941, underscored the two countries' war aims, but it also revealed aspects of economic

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[23] Young, 788
[24] Eichengreen 99

neighborliness. President Roosevelt and Prime Minister Churchill "promised with due respect of existing obligations, to promote access on equal terms for all nations to the trade and raw materials of the world." They also announced a desire to bring about the fullest collaboration in the economic field "with the object of securing for all, improved labor standards, economic advancement, and social security." The "due respect of existing obligations" clause that Churchill insisted on including acted as an escape for Britain to continue its imperial preference system. Through the system, Great Britain gave trading preference to countries within its empire hindering market access to other countries, including the United States.

Unsatisfied with this ambiguous commitment by Churchill, Hull pushed for a more precise pledge to nondiscrimination in the lend-lease agreement. Eight months later the countries reached a consensus through Article VII of the Mutual Aid Agreement. It defined both governments' concern for post-war reconstruction and domestic full employment. The Agreement also reaffirmed the decision of the two governments to collaborate in the reconstruction of the world economy along multilateral lines. By abandoning imperial preferences, Great Britain compromised itself to American economic strength, but through Article VII the United States also committed itself to cooperate with Britain and other countries to promote a high level of employment and production. Satisfied with the Anglo-American commitment, Hull stated that "the foundation was now laid for all our later postwar planning in the economic field."[25]

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[25] Hull, 1153

After the attack on Pearl Harbor, the making and executing of economic plans became ever more important for the State Department. According to the Assistant Secretary of State, Dean Acheson, the State Department officers were neither trained nor fitted for the economic operations that lay ahead, "though they reeked of foreign policy."[26] In recollection, he described the State Department as "standing breathless and bewildered like an old lady at a busy intersection during rush hour."[27] Although Hull had instructed the previously created interdepartmental subcommittee to formulate postwar plans, the functions of the committee were disorderly and ineffective. Acheson realized that "the State Department should not be cut off from making a contribution to the foreign policy aspects of the economic dealings," but as other departments initiated their own plans, "more and more the State Department fought desperately for a shrinking place."[28] The agency lacked technical personnel to frame concrete recommendations and to advance the State Department's position against other bureaucratic empires determined to press their points of view.[29] According to Acheson, other departments, namely the Treasury, seemed impatient with the State Department's "fussiness and diplomatic obstruction."[30] The State Department's incompetence enabled Henry Morgenthau, Jr. to maneuver responsibility for financial planning away from Hull and into the hands of the Treasury Department.

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[26] Acheson 39
[27] Ibid.
[28] Ibid.
[29] Eckes 41
[30] Acheson 38

**Formulating the Fund**

As early as the summer of 1941, Harry Dexter White of the Treasury Department envisioned a plan to stabilize exchange rates and to provide long-term capital for the post war period. Drawing on the economic experiences of the interwar period, White predicted that monetary problems, such as balance of payments deficits, would emerge after the war. According to Frank Coe, a former colleague of White's, White prepared a plan for an Inter-Allied Bank to supply the allied countries with necessary capital for postwar reconstruction.[31] His thoughts were also geared towards a permanent stabilizing institution, but a critical historical turning point was necessary to open the political leadership to new ideas. Exactly what White needed to pursue the development of new directions in economic theory and organization occurred in December of 1941.

After the attack on Pearl Harbor, Secretary Morgenthau's attention turned towards international monetary arrangements. The State Department planned the Third Meeting of Ministers of Foreign Affairs of the American Republics for the latter half of January 1942 in Rio de Janeiro. Morgenthau planned to send a representative from the Treasury Department to the conference to present ideas on an international financial institution. On Sunday, December 14, 1941, Morgenthau telephoned Harry White and directed him to prepare a memorandum and plan for setting up an Inter-Allied Stabilization Fund. The Secretary wanted the Fund to be used during the war to give monetary aid to allies, to provide the basis for postwar international monetary stabilization arrangements, and to provide a postwar "international currency."[32] By the end of December, White incorporated his previous visualizations into a finished draft titled a "Suggested Program for Inter-Allied Monetary and Bank Action."

White intended the program to provide the means and the procedure to stabilize exchange rates and to strengthen the monetary systems of the allied countries. The second objective included an agency to provide the necessary capital to aid in economic reconstruction, facilitate a smooth transition into a peacetime economy, and to supply short-term capital to increase the volume of foreign trade. These objectives resulted in the proposal of two institutions: an Inter-Allied Stabilization Fund and an Inter-Allied Bank. White's initial draft of the Stabilization Fund, dated December 30, 1941, contained almost all of the features of the developed plan. His plan for rebuilding the economy consisted of two parts that were distinct, yet in many ways also interdependent.

The first institution, a United Nations Stabilization Fund, was an extension of the Tripartite Agreement. Like the Agreement, it was an international agency designed to supply emergency reserves to its members with balance of payments deficits. By intervening in the foreign exchange markets, the members would be able to support currency values at official levels. The fund would supply reserves through a currency pool of at least $5 billion developed from member subscriptions. Each member would contribute to the pool in gold and national currency; twenty-five percent of each nation's quota was payable in cash (at least half in gold) and another twenty-five percent consisted of interest

[31] Horsefield, 12
[32]MD 473:16

bearing securities redeemable in gold. The plan required countries to define their currencies in gold and "to maintain exchange rates within a range of one percent above and below such a parity."[33] White's proposal gave authority to the fund to determine whether a member had a legitimate reason for drawing on the pool of currency. This made transactions with the international agency a privilege, not simply a right.[34]

Primarily, the fund supplied currency to save members whose expenditures exceeded their earnings through multinational support. This outside support would help countries avoid deflating their domestic economies or introducing exchange regulations. Therefore, national sovereignty over some economic matters would be in the hands of a world authority controlled by a board of economists, and ultimately the United States.

White also proposed membership conditions that surrendered a country's autonomy to the international agency. Countries had to abandon all exchange controls within one year of joining and initiate a program of gradual tariff reductions. Members also had to agree not to adopt internal monetary policies that would cause serious balance-of-payment disequilibrium, and they had to have the fund's permission to alter exchange rates. If accepted, these practices would vary significantly from the protectionist measures instilled by countries after World War I and in effect throughout the interwar period. White's proposal initiated a new international code for monetary conduct: "no modern state had

[33] White 198
[34] MD 526:111-312

ever voluntarily surrendered authority over trade, currency, and internal economic policies to outside authorities."[35]

The second program in White's plan was even more ambitious; it consisted of an agency to provide capital for economic reconstruction, relief, and economic recovery, and it was designed to increase the volume of foreign trade through a supply of short-term capital. The agency, the Bank for Reconstruction and Development, would be used as a depository for gold and as a clearinghouse for intergovernmental transactions. The bank resembled the fund in membership, management, and organization. White's goals for the bank were to provide cheap, long-term loans without restrictions on disbursements. Interest rates would be kept low and a New International Unit backed with gold would be established.[36] The bank would be required to hold a 50 percent gold reserve against the notes while lending to governments. This requirement would expand the lending capacity leading to long-term development and reconstruction. White's proposal was not only "an extension of government regulation and organization to international finance," but it also allowed for governments to move "beyond the usual boundaries of money and finance to take charge of relief, to stabilize commodities, and to assure access to raw materials."[37]

### The Plans Press Forward

Morgenthau cabled a revised draft resolution for a Stabilization Fund of the United and Associated Nations to Sumner Welles, the Undersecretary of

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[35] Eckes 48
[36] FR, 186

State, and other members of the American delegation for review before the Rio Conference. The State Department officials, including D.V. Bell, Jacob Viner, Bernard Bernstein, Frank Coe, and Frank Southard, discussed the draft resolution at a meeting prior to the conference. They agreed that the "draft resolution was acceptable to those present, that some sort of presentation of the idea should be made at least to the British, and that the idea should be presented to the President." The delegation then passed their opinion on to Cordell Hull. Interested in White's Stabilization Fund, the Secretary approved informal exploratory discussions at the Rio Conference. However, he "strongly felt that before any formal presentation of such a proposal was made to any group of nations that it should first be discussed at least with the British, the Russians, and the Chinese."[38] Hull's action to delay the introduction of the resolution possibly reflected his belief that the proposed financial institutions conflicted with his push for a foreign economic policy based on concepts of trade liberalization. The leaders of the Rio Conference informally recommended that the Ministers of Finance formulate a proposal on a Hemispheric Stabilization Fund at a special conference in the near future.[39]

Meanwhile, the State Department still had control over foreign economic policy, while the Treasury was limited to purely financial matters. Hull and his concepts of trade liberalization and Anglo-American cooperation dominated the policies of the United States. In late January 1942, the State Department sponsored Alvin Hansen, a Harvard economist who at the time was advising the

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[37] Eckes 55
[38] NA 1-15-42

Federal Reserve Board, to consult with British officials in London on future economic matters. After this consultation, Hansen produced a pamphlet entitled "After the War—Full Employment." He suggested that the Governments of the United Kingdom and the United States pursue polices to promote full employment, increased production, a higher standard of living, economic stability and world trade. To achieve these policies, Hansen further stated, the governments should establish an International Economic Board to advise the collaborating governments on economic policy, undertake an international resources survey, and create an International Development Corporation to help with development expenditures.[40] After Hansen's return, the State Department continued correspondence with Britain concerning postwar economic arrangements. In April 1942, the British requested discussions to "take preliminary and informal steps toward an ultimate Anglo-American understanding on the economic basis of post-war reconstruction."[41] At this point the British expressed to the State Department the need to begin discussions on postwar economic matters, but according to Acheson, the American economists in the State Department needed 6 weeks to prepare for the conversations.[42]

Meanwhile, White continued to refine his proposals for the Fund and the Bank despite Hull's bias against the planned international financial institutions. Colleagues of White's in the Division of Monetary Research, a group within the Treasury Department of which White was the director, helped him revise his

[39] NA 1-24-42
[40] NA 2-27-42
[41] FR, 165
[42] FR 166

plans. These economists, such as Edward M. Bernstein, were of high academic qualifications and provided exceptional technical assistance to White and his plans. With a Ph.D. in economics from Harvard, Bernstein entered the U.S. Treasury in 1940. As Assistant Director in the Treasury's Division of Monetary Research, Bernstein held responsibility over the research into the balance of payments, Foreign Funds control, and wartime inflation. He supervised five other economists in the technical studies of White's draft. Bernstein also played a role in the negotiations and overall was White's right-hand man.[43]

**The Treasury Department Takes Charge**

In April 1942, White submitted to Morgenthau the *Preliminary Draft Proposal for a United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations*. On May 8, 1942, White recommended to Secretary Morgenthau that he call a conference with the Finance Ministers of the United and Associate Nations to discuss the postwar monetary plans. He realized that "at least a couple of months" of preliminary work before the conference were still necessary, but White wanted a general outline of the plan to be informally available. He advised Morgenthau to either approach the President directly, or to submit the idea to other Departments. However, White felt strongly that if the Treasury didn't "initiate a conference on the subject, it most certainly will be initiated elsewhere, and it should be

[43] Black, preface

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preeminently Treasury responsibility."[44] Although White knew that the Treasury Department needed the State Department to deal with the foreign affairs aspect of the conference, he wanted the Treasury Department's economic ideas to dominate it. He also wanted the United States to lead the way in the discussions before the British had a chance to initiate a conference.

Secretary Morgenthau acted on White's suggestions and on May 15, 1942, Morgenthau sent a memorandum to the President suggesting White's proposal for a Fund and plans for a conference. President Roosevelt told Morgenthau to "continue the study of the proposal in conjunction with the State Department, Board of Economic Warfare and the Export-Import Bank."[45] Morgenthau scheduled a meeting with representatives from these other departments. All questions prior to the meeting Morgenthau directed to White.[46] Although not directly involved in formulating disciplinary knowledge, Morgenthau still needed to assess economic performance, and therefore to utilize practical knowledge. Not fully understanding the technical aspects of the proposal, but understanding the importance of the proposed institutions, he allowed White tremendous discretion in developing the policy ideas.

At the meeting, White briefly outlined his suggestions for the new international institutions and explained that in-depth study, and thereafter, international conferences were necessary to prepare for the post-war period. He also wanted "the best available minds in Washington" to "join in attack on these

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[44] MD 526:11
[45] The abolition of the Board of Economic Warfare occurred in 1943 and it was replaced by the Foreign Economic Administration later that year. The Export-Import Bank was established in 1933 to facilitate foreign trade. Notter, *Postwar Foreign Policy Preparation 1939-1945.*
[46] FR, 171

problems of tremendous difficulty."[47] Jesse Jones, the Secretary of Commerce, suggested that Harry White head a technical subcommittee to continue the studies and to evaluate other proposed suggestions. Morgenthau appointed him the head of the committee, thereby increasing White's authority over the ideas embodied in the postwar plans. White planned for his committee to work out the specific details of the proposals. The opinions and expectations of the economists would inevitably shape the plans, reflecting their moral precepts, political convictions, and social expectations. Therefore, the technical committee possessed great influence over the final outcome of the policy.

Also at the meeting were Leo Pasvolsky and Herbert Feis, the State Department representatives who reported to Secretary Hull. Hull wanted the State Department to be involved with the international meeting, if one developed, because of the "political implications" of the time. Clearly, the State Department did not want to relinguish all responsibility to the Treasury Department concerning international finance. While the Treasury presented the proposal to other departments within the U.S. government, the State Department continued its correspondence with Great Britain. The British again requested that preliminary, informal talks be initiated concerning post-war financial and commercial problems. The U.S. Ambassador to the United Kingdom, John G. Winant, contacted Hull about sending State Department representatives to Great Britain. As of May 15, 1942, the ideas of the British had been "on a lower Government level," but also "involved the thinking of the ablest economists in

[47] NA 5-26-42

England, and many outstanding Government Experts."[48] Winant believed that if the State Department's group of experts were shut out of informal discussions, postwar plans and the standing of the American embassy in Britain would be adversely affected. Both the United States and Great Britain were relying on expert economists to formulate postwar monetary plans.

Over the next few weeks, the subcommittee headed by White gathered to review the proposals and discuss the technical aspects of postwar stabilization. After two meetings, attended by sixteen economic experts from various departments, the technical subcommittee presented a report to Secretary Morgenthau. The subcommittee, with the exception of the State Department representatives, agreed on the need for an international stabilization institution. The representatives from the State Department had not received instructions from Secretary Hull and were unable to express an official opinion. Although the State Department representatives were part of the subcommittee led by White, it seemed as though they were still holding on to Hull's notion of trade liberalization for the postwar policy. However, the rest of the subcommittee believed that the agencies should be established before the end of the war and "that all friendly nations should be accorded simultaneous opportunity for discussion of these proposals."[49] They realized that adequate preparation before any formal meeting was necessary, and they therefore requested that an exchange of views at the

[48] FR, 171
[49] NA 6-15-42

technical level be established to provide "careful advance planning for a conference of Finance Ministers."[50]

Morgenthau scheduled another meeting with the interdepartmental representatives to present the findings of the subcommittee. The Secretary realized that there was a difference of opinion about the suggested procedure between the Treasury and State Departments, and he wanted to inform other representatives of the Treasury motives. Before the meeting, on July 1, 1942, Morgenthau telephoned Lauchlin Currie, an assistant to President Roosevelt, and informed him about the State Department's opposition to the Treasury's initiation of a meeting with technicians to discuss the International Stabilization Fund. Currie replied that he was "always prepared to gang up with the Treasury against the State" and that he would attend the meeting to express his backing of the Treasury Department.[51] Currie's reservations about the State Department probably stemmed from the Department's obvious attempts to control all decisions involving foreign policy during the war. The State Department had also contacted other non-Departmental officials, such as Secretary Jones of the Commerce Department, to win their support against a formal international conference. In the same phone call, Morgenthau explained his feelings about the situation to Currie; "the Treasury has an idea, and the State hasn't, and they don't want anybody else to have ideas." [52] Morgenthau predicted that there would be tension between the Departments during the meeting on the following day.

[50] NA 6-15-42
[51] MD 542: 35-38
[52] MD 542:35-38

At the interdepartmental committee meeting, White explained the findings of the subcommittee of experts to the men in attendance. They planned to invite the Finance Ministers of all friendly nations to send technical experts to an informal meeting in Washington to consider any proposals for an international stabilization fund and bank. The meeting of experts would provide both the agenda and the technical documents for a formal conference. The subcommittee also predicted that the meeting would provide an "invaluable exchange of views at the technical level and a clear indication of the degree of agreement existing among the technical advisors of the various governments."[53] If it turned out that the experts from various nations held greatly contrasting opinions, the subcommittee suggested postponing the conference for purposes of conducting further research and preventing adverse international repercussions. White wanted expert economists to have the main influence over postwar monetary arrangements. He did not want to present a formal plan at the informal meeting,· rather, the discussions would consist of various points "that are in the minds of most technical men."[54] White planned for disciplinary knowledge to be the driving force behind the policy formation. If the technical experts came to an agreement, Morgenthau could then call the policy-making representatives together for further negotiations.

After White finished explaining the proposed procedures, the committee addressed the State Department's opposition to an international conference. Dean Acheson presented the State Department's position, which was that "no

[53] NA 7-2-42
[54] Ibid

formal international conference to establish either the stabilization fund or the bank should be convened until the main elements in the postwar settlement are determined upon, and that preliminary conversations should be confined to a few major powers." The State Department wanted to first conduct bilateral discussions, and Acheson suggested starting with the British "because they have at the present time a larger stake in this matter." He explained that the British did not want the United States to present a plan at a meeting without giving them an opportunity to review the plan first. Morgenthau interpreted this request as an effort on the part of the British to repeat their earlier actions regarding the League of Nations; "anything that they don't like they just want to be able to kill it." Acheson insisted that the British just wanted to talk over Morgenthau's plan before a general meeting. The State Department also wanted to negotiate with the Russians and the Chinese, followed by other smaller powers, such as the Dutch and the Belgians. The Department wanted to proceed with private bilateral talks primarily "to get further faster." Acheson frankly expressed his views by saying "you can't start out perfectly cold by discussions in a broad meeting of experts." Acheson wanted it done "very quietly and very informally with the British."[55]

The other representatives outside of the State Department felt, however, that while preliminary discussions with the major powers might have some advantages, it also had three offsetting disadvantages. First, an adverse reaction from even one of the powers might cause abandonment of the entire

55 Quotes from the committee meeting on 7-2-42 in MD 542: 98-100.

project, even though they predicted a favorable reaction from the majority of countries. Second, the countries excluded from preliminary conversations might be suspicious of any prearranged plan. Finally, the American Republics had already expressed their desire to participate in the planning of an International Stabilization Fund at the Rio conference.[56] White intended for the meeting of experts to be truly international in character.

Morgenthau suspected that the argument about procedure masked the State Department's opposition to the Fund and the Bank. "I would like a straightforward answer from the State Department. Does Mr. Hull feel sympathetic towards the plans, or doesn't he?" He wanted to know where the Secretary of State stood on the matter; "I think before we take it up with any other countries we had better find out what our own official family thinks." Morgenthau wanted to have Hull's "complete backing" of the procedures because he didn't "have enough energy…to get into an interdepartmental fight." Morgenthau admitted that the issue of international currency stabilization was in the realm of foreign affairs and under the State Department: "it is [Hull's] responsibility and I will take my cue from him." White, on the other hand, did not want to give up responsibility that easily. The economist suggested that the technicians of the sub-committee draft another point-by-point proposal of the various procedural possibilities and present it to Hull.[57]

[56] MD 542:117
[57] MD 542:103-114

**Compromise Between the Departments**

White and his subcommittee of experts drew up a point by point plan to present to Secretary Hull. First, the State Department would advise various friendly governments that a group of technical advisors in the United States Government was examining the economic and financial problems relating to the establishment of an international stabilization fund, bank, and related organizations. Second, representatives from the Treasury, with help from the State Department, would initiate informal exploratory discussions with representatives from the United Kingdom, the Soviet Union, China, Canada, Australia, Brazil and Mexico. If the response from the nations was sufficiently promising and if President Roosevelt approved, Secretary Morgenthau would then call a preliminary meeting of the technical advisors of all of the United and Associated Nations. They would formulate a meeting date, an agenda, and "any other documents necessary for a formal international conference."[58] Prior to the preliminary meeting, the interdepartmental subcommittee of experts would prepare appropriate studies for the United States. By July 21, 1942, Secretary Hull approved the procedures for negotiations and Morgenthau submitted the recommendation to the President for adoption. With the President's approval, the Americans sent a draft of the White Plan to London for review by the economists in the British Government.

The Treasury had accepted the State Department's advice to postpone an international gathering until preliminary talks had been carried out with the British

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[58] MD 576:142

and a few other Allies. Although White compromised his procedures for the negotiations, the policy forming meetings now fell primarily in his hands. The State Department began to open up to White's vision of a managed world economy, but Secretary Hull still held on to his unrestricted trade position.

The British were also preparing for postwar financial problems. On July 30, 1942, the British Ambassador, Winant, cabled Secretary Hull about the United States forming an informal subcommittee with the Finance Ministers of the Allied Governments, representatives of the Dominions, and with authorities from the United Kingdom. The Finance Ministers had agreed, on the basis of previous talks in London, that post-war currency situations needed attention prior to the end of the war. The Allied Governments were looking to the British Government for technical advice on currency issues, and so, recognizing the importance of the matter, the British asked the Allied Finance Ministers to submit memoranda from their respective countries. As in the case of the United States, the need for policy drove the knowledge process. Realizing the potential postwar economic problems, leaders called on economists to focus attention on alternative theories and to utilize economic knowledge to formulate new policies.

The British then inquired whether the United states "wished to be associated in any way with the work of the informal subcommittee."[59] Before White and the United States could act on their proposed informal talks, the British seized the initiative. On the other hand, Great Britain relied on the United States' economic strength and also American support. "On the international aspects of currency problems," Keynes the British economist, said "the wise thing would be for the British first of all to discuss this with their American friends, who would be so greatly concerned with the matter."[60] The British did not want to proceed with international negotiations without American support. The British government had contacted the United States numerous times about post-war monetary problems, including the setting up of informal discussions on Article VII of the Lend-Lease Agreement. In August Secretary Hull responded and informed the British Minister, Sir Ronald Campbell, "that there would be nothing kept from an economist or official of any of the twenty-eight United Nations."[61] Secretary Hull also mentioned that he would be engaging in individual and informal talks from time to time with different countries.

**Great Britain's Global Monetary Design**

John Maynard Keynes, the advisor to the Chancellor of the Exchequer and author of the famous *General Theory of Employment, Interest, and Money* (1936), utilized his influence over other British Treasury officials in order to make his views known on a wide variety of current problems.[62] After participating in the 1941 Lend-Lease discussions with the U.S. State Department, Keynes returned to Great Britain and drafted a proposal for the International Clearing Union. In late August 1942, after they received the White Plan, but before any informal talks had taken place, the British sent the United States a paper prepared by

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[59] FR 195
[60] FR 195
[61] FR, 198
[62] Gardner 77

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[59] FR 195
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[61] FR, 198
[62] Gardner 77

Lord Keynes on the postwar international financial problem. Like White's plan, Keynes' Clearing Union was a mechanism of international finance to promote Britain's participation in a multilateral world. The British sent the prepared draft of the Clearing Union to the United States for informal consideration by the expert technicians; "the document is put forward for discussion and amendment by experts...and should not be shown to anyone outside the United States Government Departments."[63]

Keynes wanted a monetary system that would allow Britain and other countries with insufficient reserves to remove balance-of-payments deficits. His institution would create and manage a new international currency, the bancor, to settle inter-country balances. This currency would gradually replace gold and reserve currencies for international settlements. Unlike White's proposal consisting of a pool of gold and national currencies, the bancor would exist only on the Clearing Union's books and would merely shift from one account to another within the Union. For instance, if a member nation needed foreign exchange to meet a deficit in its current account balance of payments, it would arrange with the Union for a specific sum of bancor to be debited from its account and credited to the country whose currency was needed. The creditor country would then pay out the debiting nation with its own currency.[64] The Union resembled a closed banking system and therefore, the total quantity of bancor could not escape from the Union. The Union itself would never be in difficulties. It would allocate $26 billion of bancor to countries according to their prewar

[63] FR, 203
[64] Rasminsky,152

position in world trade.[65] This distribution of new assets would allow members to remove restriction on all but capital movements, maintain stable exchange rates, and pursue stimulative domestic policies without fear of an external payments crisis.

Since the prewar system heavily depended on the availability of gold to maintain liquidity, Keynes' plan proposed to de-emphasize gold. He recognized that gold still provided an uncontroversial standard of value and still possessed a psychological value, so he favored an elimination of gold that would be gradual in nature. The bancor would be fixed in terms of gold, but national currencies would be stated in terms of the bancor. A member could only exchange gold for bancors, thus creating a one-way convertibility standard. Keynes considered the secondary role of gold essential for avoiding monetary crisis, while White's Stabilization Fund proposed to correct the maldistribution of gold.

Another distinction from the White plan was Keynes' emphasis on deficit and surplus nations to remove payment imbalances. Keynes predicted that these imbalances resulted not only from tainted domestic policies, but also from external global circumstances. He planned to bring about equilibrium through the taxation of individual countries. The Union would advise countries with excessive credit balances to adopt policies to restore payments equilibrium.

Keynes' proposal also devoted less attention to exchange-rate alterations than did White's plan. He still emphasized the expansion of world trade, but since the Union would recycle the bancor, there was less need for changing rates. Countries could not alter the value of their currency in terms of bancor

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[65] FR 209

without permission from the governing board. Members were also asked to exclude all future trade restrictions, but existing preferences could prevail.

Unlike the White Plan's determination of voting power in accordance with each member's monetary subscription and economic strength, Keynes wanted the management of the global monetary organization to be supervised by the two great powers; the United States and Great Britain. He felt that the countries with the greatest financial resources, according to the volume of trade, should control voting power over membership qualifications and have complete management of the institution. Britain would benefit from the organization in several ways. The Clearing Union would stimulate demand for exports and allow Britain to achieve multilateral clearing and equilibrium without depending on the United States through bilateral agreements. Britain would also be able to devalue its currency without competitive depreciations and escape the weight of foreign debts. The plan depended on the United States as the other major player, but still favored Great Britain considering the country's economic weakness from the war. Keynes wanted Britain to obtain voting power and ultimately with the help of the United States, gain a leadership role in world finance through the Clearing Union. Overall, the Keynes plan, like the White plan, favored internationalism through a monetary institution and standards of economic conduct that promoted payments equilibrium and global prosperity. [66]

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[66] The plan is reprinted in FR 203-220

**Overcoming Barriers in Policy Formation**

Members from the Interdepartmental Committee discussed the Keynes plan in early September. The representatives concluded that it was unwise to "give any impression that the British and American Governments were making up a plan and then requiring everyone else to take it or leave it." [67] White sought to avoid this situation by refraining from conducting specific talks with certain nations first. Since the document remained a British-American matter and other similar documents were circulating, White also felt that the ideas and not simply the specific documents should be intellectually explored.

Despite White's views, the Interdepartmental Committee and the Treasury Department reviewed the Keynes Plan and developed a list of specific technical and political questions for the British. The first group of questions involved clarification of the meaning of certain provisions of the Clearing Union. The second group of questions focussed on issues more pertinent to the interests of the United States. The committee wanted information about the total currency amount of quotas for the Clearing Union, the potential liability of the United States within the total, and the rights of creditors who might have a minority of votes. It also inquired about how the Clearing Union could prevent members from quickly exhausting their allotted quotas and in the event that inflationary conditions arose, or what the Union could do to contract the total amount of credit.[68]

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[67] FR, 223
[68] FR 225-226

After reviewing the Keynes Plan and preparing questions for the British, the Interdepartmental committee and the technical subcommittee felt that the White Plan held superior attractiveness for the United States in areas of major political importance. First, the new monetary institution needed to limit the liability of the United States, which was likely to become the largest creditor in the postwar world. Next, the main creditors needed to have sufficient power to prevent their being outvoted on major issues by the collective votes of debtor countries. Finally, Congress would be less likely to approve of the Clearing Union, with its unfamiliar concepts of a new international currency and overdrafts, than it would be of the Stabilization Fund. The members of the committees had these important considerations in mind as they reviewed the Keynes Plan and other proposals for postwar stabilization. The ideas behind the proposals and the plans themselves reflected the economic and political standing of the countries. Although White and Keynes intended to design institutions for the benefit of the global economy, their policy proposals reflected the views and the immediate best interests of their respective countries.

In October of 1942, White visited London for a conference with Keynes and Phillips, the British Treasury Representative to the United States. After returning to the United States, White reported to the technical committee Keynes' three main points regarding the post war plans. First, Keynes felt that quotas should be in proportion to trade. Second, even though it would be preferable to avoid the use of gold, Keynes thought that gold might be necessary because of the widespread popular feeling in favor of it. Finally, Keynes preferred for the

Americans and the English to agree on a plan before approaching any other country.[69] White explained to the Interdepartmental Committee that the American technical experts still favored the quotas related to assets rather than to volume of trade since it would put adequate power over the institution in the hands of the country with the greatest gold holdings, the United States. White also expressed his views on the advantages of limiting the duties of the Fund to the "functions it is capable of performing," since it would be only one of several means to deal with the postwar economic problems.[70] With this, as well as with Keynes' three points in mind, the technical committee examined and redrafted the Stabilization Fund proposal throughout the next few months.

Although the Treasury Department's proposal under White's direction still held unofficial status at this point, it emerged as the main competing proposal to Keynes' plan. As the Department carried out discussions with the British, it still had to deal with conflicting views held in the State Department. Assistant Secretary of State Berle recorded the conversations of the meeting on September 10, 1942. In this memorandum, he notes:

> We [The State Department] had been very firm in advocating the principle of open trade, and this had been accepted. We recognize that rendered desirable methods and processes of international finance so handled during the two or three years immediately following the war—if not longer—that they would permit certain other nations, including Britain, to secure raw materials, get their plants going, and commence re-exporting.[71]

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[69] NA 12-1-42
[70] NA 12-1-42 pg. 2
[71] FR, 224

It is ironic that in the very same memorandum in which State and Treasury Department representatives and a British Treasury representative were discussing the Keynes Plan (a scheme that included international supervision of national monetary and trade policies), the Assistant Secretary of State referred to the accepted "principle of free trade." The postwar proposals that the representatives reviewed did not promote "the accepted principle of free trade," but rather a managed world economy. At this point, the proposals of Keynes, White and the Treasury Department focused on monetary policy. Secretary Hull authorized the Treasury Department to negotiate a primary part of the postwar financial arrangements, but simultaneously he and his Assistant still tried to promote an open world economy focusing on trade policy.

As the British and the American officials continued their discussions, it became clear that the British wanted to find for postwar financial arrangements a middle ground between the imperial preference bilateral system and free trade. A cable from Lord Halifax, the British Ambassador, to the United States demonstrates this position in October 1942. Halifax explained his conversation with John Foster Dulles, a corporation lawyer in New York at the time: "the most interesting point on the economic side of the discussion was Mr. Dulles' exposition of the Cordell Hull school of free trade" and its emphasis within the State Department. Halifax explained that he did not understand the significance of the Hull policies and felt that the British were faced with two options. They could either "revert to a completely 19th century system of laissez-faire," or develop a bilateral trading system to "safeguard our balance of payments system." Halifax thought that the first possibility would be impossible, while the second "might be disastrous." Halifax wanted to find a middle ground between the extremes that would satisfy Hull's need for free trade and also restore the balance of payments without bilateral agreements.[72] His statement demonstrates how at this critical period in history, the British were open to new ideas and policy suggestions. White, Keynes and other experts utilized this opportunity to promote new policy proposals. The British shifted their negotiation partners from the State Department, which focused on trade policy, to the Treasury Department, which offered monetary policy and the means to find a sound "middle ground." As Keynes defined the British Government's postwar interests along the same lines as White's definitions, the Treasury's jurisdiction over foreign economic policy grew. White pushed for the necessity of an international stabilization institution rather than Cordell Hull's position of free trade calling for the elimination of discrimination and preferences.

The situation demonstrates how within the state clashes of opinion can occur, especially ones involving economic knowledge. Since both Secretary Morgenthau and Hull were not expert economists, they mainly utilized informed opinion to make economic policy decisions. Competing and clashing viewpoints can emerge based on one's own education and experiences. White's background in economic research differed with Hull's knowledge of foreign policy, yet they both had to make decisions regarding postwar policy. However, the ability of the United States government to allow for conflicting viewpoints

[72] Dispatch from Ambassador Halifax to the British Foreign Office, October 1942. Ikenberry 316

enhances the use of economic knowledge. In this case White, was able to use disciplinary knowledge to sway the other leaders' informed opinion. Even with other governments, the state's ability to win cooperation, extract concessions, and make deals in order to control situations is its primary tool in implementing policies. White enabled the Treasury Department to cooperate with the British to push forward his proposal for monetary stabilization.

**The Plans Go Public**

In December, the technical experts made some changes in the White Plan to increase its flexibility regarding the "adverse current balance of payments" that some countries faced. The draft contained a "scarce currency" clause that actually curbed the power of creditor countries that were predicted to accumulate continuing favorable balances of payments in the postwar years. According to the clause, debtor nations that increased their indebtedness beyond a stipulated point would lose their right to draw from the Fund. More importantly, if creditor countries increased their credit beyond a certain level, the Fund would authorize debtor nations to discriminate against the creditor's exports to establish a more suitable balance. The technical experts predicted that this clause would prevent unfavorable balances throughout the Fund's existence.[73] The "scarce currency" clause devised by the technical experts and instituted by the Interdepartmental Committee demonstrated that the United States would allow other countries to discriminate against the purchase of American goods. They would accept responsibility as a creditor country if a fundamental disequilibrium of trade arose, thus placing the stabilization of the international monetary scene above the particular trading benefits of the United States. After recreating stabilization, White, by adding the scarce currency clause, wanted to prevent a severe drop in the supply of dollars if the United States happened to mismanage its foreign investment or domestic economy (as it had during the interwar period).

White and the technicians also added a monetary unit called the "Unitas" to the December draft. The Unitas equaled ten dollars worth of fine grains of gold at the time of its addition to the plan.[74] White added this monetary term to more or less rival Keynes' bancor and to provide a way to state the accounts of the Fund and the currency value of each member country. White also liberalized the drawing rights after meeting with Keynes. Countries were allowed to draw over their total contribution of currency, but the country needed to provide collateral against large drawings. These changes reflect how Keynes' ideas swayed White's informed opinion. White added these new provisions to make the White Plan more politically appealing not only to the United States, but also to the British. White reasoned that if he adopted some aspects of the Keynes Plan, that the British would be more likely to accept the plans for the Fund. This demonstrates how political considerations are often overriding factors in the implementation of an economic policy proposal.

As the technical experts redrafted the Stabilization Fund proposal, they also agreed to open up "exploratory discussions with other interested

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[73] MD 596:181-187
[74] MD 596:186

Governments of the United and Associated Nations."[75] White stated that the technical committee agreed that "the proposal was in sufficiently good shape to become the basis for discussion." However in early January, Assistant Secretary of State Berle told the British that the U.S. did not yet want to "lay down an American plan."[76] After consulting with Secretary Hull, Berle instead wanted to call a conference with the British, Russians, Chinese and Americans to present and discuss the American draft. However, White thought that it would be necessary for Secretary Morgenthau to see the President before arranging any formal conference. He then suggested that the Treasury Department send a letter with the draft attached to various governments while Secretary Morgenthau met with President Roosevelt. In the letter, White emphasized that the documents were "not an expression of the official views of this Government, but rather an indication of the views widely held by the technical experts of this Government." He also advised that the documents be "submitted for critical study by the technical experts" of the various governments and that the governments send one or more technical experts to Washington to discuss preliminary reactions of the draft proposal with the technical experts of the United States.[77] This letter, signed by Secretary Morgenthau and drafted by White, clearly indicates the major role played by the technical experts of the United States. Not only did they formulate the proposal for the International Stabilization Fund under the direction of White, but also they held a major role in the policy negotiations with other nations.

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[75] NA 10-21-42
[76] White's Statement, NA 12-15-42; Berle's Memo, FR 1054

As Pasvolsky and Berle from the State Department had advised, the British, Russians and Chinese were the first to receive the letter with the attached draft proposal. Berle also informed the British of the plan to send the letter and draft to 37 United and Associated Nations later in the week. He also advised them to send technical experts for discussion on the feasibility of international monetary cooperation along the lines suggested in the documents.[78] This plan upset the British and they cabled back to Berle insisting that the U.S. document "should not be communicated to the United and Associated Nations other than the USSR and China until the documents have been seen in London and agreed plans for future procedure have been formulated." Concerned about the fate of the Keynes Plan, the British felt that the White Plan and Clearing Union Plan had a "great deal in common and are not so far apart as to preclude the usefulness of trying to conflate them."[79] The British proposed to continue the bilateral agreements between the United States and themselves until they could review and comment on the American draft. The British did not want to loose their hold over planning for postwar stabilization, but at the same time they recognized the power of the United States to pursue the negotiations. The political circumstances surrounding the postwar proposals, above all the Unites States' economic strength, played a most important role in the negotiations.

The United States waited a few weeks to send the letter and draft proposal for a Stabilization Fund of the United and Associated Nations. At the request of the British Treasury officials, the U.S. included a reference to the

[77] MD 605:144
[78] FR 1055

British study of the problem in the letter that it sent to the other nations.[80] By March 1, 1943, Secretary Morgenthau notified the President of the progress on the plans for the International Stabilization Fund. After discussions among the technicians from various countries took place, Morgenthau planned to evaluate the discussions of the technicians. First to "decide whether there is enough agreement to warrant pursuing the matter further," and second, if need be, to call a "conference of Finance Ministers to discuss the matter formally."[81]

Up to this point, the negotiations progressed smoothly within government circles, but on March 14th, the British leaked the news of the Keynes Plan to an American correspondent in London, possibly to initiate discussions on their terms. Earlier in February, the British Treasury held a conference of Finance Ministers in London and the press obtained news of this conference, information about the draft proposal for an International Clearing Union, and word that the United States also had a proposal. Morgenthau notified the President about the situation, stating that the British wanted to issue a press release and publish the text of the proposal. This posed problems for the United States. Assistant Secretary of State Berle predicted that the number of leaks would increase, but printing of an early draft by the United States would make subsequent modifications and agreement on the proposal difficult. However, if the United States did not print a draft or even issue a press release, the United States might look secretive or the British might appear to have control over postwar stabilization. White definitely did not want either of these situations to

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[79] FR 1056
[80] MD 613:73

materialize. To avoid troublesome and unnecessary rumors, he advised the President to inform congressional leaders of the studies and to issue a press release. However, the President declined to take action until further notice.

At this point in the negotiations, the British relied heavily on the actions of the United States. Representatives from the United States attended only as observers at the postwar currency conference held on February 26, 1943 in London. After Keynes mentioned the White Plan at the conference, the leaders of the meeting requested the American observers to provide the American paper to the governments represented at the conference, but they declined. As outlined above, the United States proceeded with sending a letter and the draft to the Allied and Associated Nations and called for exploratory discussions with experts from the various nations. The press leak about the conference and the plans helped get the issue out in the open, but the United States still proceeded as they wished. After informing White about the leak, Phillips, the British Treasury Representative in the United States, proposed to issue a draft copy of a joint statement between the United States and Great Britain that he had produced. White had no desire in "formalizing the proposal to that extent" and doubted that either Morgenthau or the President would approve.[82] White also did not indicate to the British whether the United States would in fact print the American plan after the leak. At this point, White wanted the United States to take primary responsibility on the basis of his plan and the negotiations on postwar stability, even if the British felt "in a position of some embarrassment"

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[81] NA 3-1-43
[82] NA 3-15-43

about being uninformed.[83] After distributing the draft to the Allied and Associated Nations, Great Britain called for another meeting of the Finance Ministers of the Allied Governments in London. At the meeting, to be held on March 26th, the British planned to discuss not only the Clearing Union Plan, but also the American plan. White did not provide copies of the Stabilization Fund proposal for the conference and confirmed that any discussion of the American plan, "at least the initial explanatory discussion, should be directly with us."[84] White definitely wanted the United States to have control over the explanatory discussions on the American plan, and he did not oppose the British conducting separate talks regarding their own plan. Even though the plans had similar purposes, White wanted to keep them distinct at this stage.

On April 5, 1943, Great Britain's *Financial News* printed the text of the White Plan that it had received from one of the Allied Governments. This forced the President to okay the official publication of the proposal in the United States and to hold a press conference regarding the plans. Secretary Morgenthau addressed the Senate Committees the following day, officially announcing the Treasury Department's research and proposal for cooperative postwar currency stabilization. The newspapers also published Keynes' *Proposals for an International Clearing Union.* As the news became public to the world, the negotiations proceeded.

Eventually, as the clout of the White Plan within the Interdepartmental Committee grew, the State Department recognized the Treasury responsibility in

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[83] FR 1061
[84] FR, 1063

the matter. The State Department initiated contacts and responded to countries regarding the proposal, but referred the correspondence to the Treasury Department. At the same time, the Treasury Department refrained from dealing with individual countries. When Assistant Secretary of State Berle asked White about finding one expert representative from North Africa to explore international monetary problems with the United States, White replied "that he had no view on that matter—it was exclusively a State Department question."[85] When Governor Eccles of the Federal Reserve Board asked Assistant Secretary of State Berle specific questions on the proposal, he replied that the State Department had "no primary function in the matter" and felt that the Federal Reserve needed to take the issue up with Secretary Morgenthau directly. He continued by saying the State Department "naturally had ideas about the foreign affairs aspect of stabilization, and individual views as to possible plans, but we could not take primary responsibility in a technical matter in which other bodies were given primary responsibility by law."[86] At this point, in May of 1943, it is clear that the State Department and the Treasury Department determined each of their duties in the plans for stabilization and were able to work together. While the Treasury Department worked on the technical and policy aspects, the State Department helped it proceed with negotiations and contacts with other countries. The departments respected and worked with each other to pursue their common goal of stabilization.

[85] NA 3-15-43
[86] FR 1076-1077

## Politicization and Promotion of the Plans

After the countries published the two proposals, the comments on the plans and the negotiations themselves turned very political. The press published various articles and pamphlets on the plans and on the subject of postwar stabilization in general. While the articles mainly summarized the plans, they also attempted to draw numerous conclusions. Publications originating in the United States tended to support the White Plan while criticizing the Keynes Plan. British commentators, on the other hand, favored the Keynes Plan over the American proposal. The American press criticized the Keynes Plan for not giving limited liability on the extension of credit for the United States. It also criticized the Keynes Plan for not requiring enough discipline by the deficit countries. Their deficits could run on and on financed by credit from the Fund or Union without correcting their balance of payments. The British press, on the other hand, criticized the White Plan for not having a unit of account, like the bancor in the Keynes Plan. It also opposed the White Plan's provision for subscribing gold to increase the liquidity of the Fund. The British press did not want Britain to surrender any gold. Overall, neither the American nor the British press was overly hostile to the rival plan.[87]

This political polarization also occurred in the bilateral explanatory conferences between the United States and the individual countries. China, for instance, viewed the plans as fundamentally similar in technical detail, while differing politically. It felt that United States and Great Britain were both attempting to strengthen their respective political positions. While realizing that the plans of both countries sought to give Russia "a greater role in scheme than her economic and financial strength alone would justify," China planned to "use her political bargaining power to get [the] same advantageous treatment as Russia."[88] Like other countries during the explanatory phase of negotiations, China wanted to commit to postwar stabilization, but at the same time to support the plan that benefited it the most. The ambassador from China advised the Chinese Government in late April to treat the "technical explanatory discussions" as essentially diplomatic and political in character and "to take this factor into consideration in appointing [the] head of delegation."[89] At this point, China preferred the British plan and its flexibility, but within two weeks it favored the American plan since British merchants competed for Chinese trade.[90] This shift demonstrates that even though technicalities still needed to evolve within the two plans, the political aspect of the policies played a major role in their formation.

Other countries also strove for political position during the explanatory discussions with technical experts. By early May, Canada and the Netherlands sent technical experts to discuss the White Plan. In its careful study of both plans, Canada perceived a number of points of common ground and prepared a compromise draft using material from both plans. Canada requested a meeting with the Treasury Department to discuss its plan, but Morgenthau declined, stating that "although he appreciated Canada's interest and desire to be helpful,

[87] Black 37-40
[88] FR 1070
[89] FR 1070
[90] FR 1074

this suggestion did not attract him."[91] The Treasury Department only desired to discuss its own plan in the explanatory talks. This incident demonstrates the change from White's initial interest in exploring a range of ideas to his interest in soliciting support only for his own plan.

After conversing with Great Britain over the Keynes plan but before talking with the United States, the Netherlands and other European countries agreed to initiate private discussions between themselves. The countries intended to critique and agree on a common approach to the plans without representatives from the U.S. or Britain present, but both the U.S. and Great Britain sent observers and the meeting proved pointless.[92] As countries sent technical experts to meet with the United States' technicians over the economic proposals, the negotiations became political.

**Towards a Joint Statement**

Throughout May the United States continued to meet with representatives to discuss the White Plan while the British continued to revise the Keynes Plan. The American technicians utilized many of the suggestions from the representatives and also held small informal gatherings of experts from several countries to address the different views from the bilateral meetings. Simultaneously, many economists and bankers submitted their detailed

[91] FR 1068
[92] FR 1072

comments and suggestions for review by the Treasury Department. The changes in the Stabilization Fund draft made by White and the other Treasury Department experts resulted from opinions shared by many countries. White wanted to use the exploratory discussions to find general agreement, and as a result the technicians altered certain aspects of his plan. Many countries disagreed about the total quota amount and the voting strength of the creditor nations. Another area of contention involved the establishment of a fixed exchange rate: whether to fix it or not, when to fix it, and whether a rate could be reestablished after a period of time. In addition to these aspects of disagreement, there were also other proposals introduced by the French, the Canadians, and the United States Federal Reserve Board.

By July 30, 1943, the technicians had considerably revised the preliminary draft proposal of the Stabilization Fund of the United and Associated Nations. The Treasury Department provided drafts for the House and Senate Committees, sent the draft to Great Britain, and made the evolved draft available for publication. Morgenthau and Keynes then planned bilateral discussions of the two drafts for early September. A drafting committee with representatives from both countries would devise a joint project before the official conference of Finance Ministers. From September 15 through October 9, 1943, representatives from the United States met with a British delegation headed by Keynes in Washington. Highly qualified officials from various governmental departments attended the meetings, but Keynes and White dominated the talks. The discussions covered fourteen areas of contention between the two countries and all but one of these unresolved issues were settled before the major international conference in July of 1944. The meetings led to the first draft of the Joint Statement by Experts on the Establishment of an International Stabilization Fund.

**Conclusion**

Tracing the policy formation of the International Monetary Fund from the initial idea phase to the bilateral Joint Statement of Experts suggests several conclusions. First of all, timing played an important role in the evolution of an international monetary organization. Leaders within the government interpreted the economic problems of the interwar period and realized the need for alternative policies. During the interwar period, the gold standard structure was the sum of national monetary arrangements, none of which had been selected for its implications for the operation of the global system as a whole.[93] For the postwar monetary system, the economists needed to formulate a policy that incorporated the entire global system. This drove economists within government to focus attention on alternative theories and to utilize economic knowledge to explore new policies. The outbreak of World War II also enhanced this process and allowed the economists of the United States and Great Britain to gather

[93] Eichengreen 63

support from the other allied countries. The need for an economically sound postwar environment opened the door for new knowledge to emerge into policy.

The next conclusion drawn from the analysis relates to the significance of individuals. White played a major role in not only transforming new economic ideas into policy, but also negotiating and promoting his plan before economists and leaders of other countries. Although White possessed the knowledge and ability to use economic ideas and techniques, he also held other qualities that allowed him to succeed as a policymaker. He had patience, adaptability, the capacity to work quickly under pressure, the ability to communicate with non-specialists, a grasp of bureaucratic procedures, skill in the art of persuasion, and sheer stamina. White's combination of capabilities allowed him to successfully formulate his ideas and promote them within his government and before other nations.

Policy formation does not end at the technical level, but over time, the ideas and proposals become politicized. When assessing the formation of the International Monetary Fund, one recognizes that the process became highly political. The White plan and the Keynes plan reflected the views of their respective countries. Both plans not only demonstrated a need for international stabilization, but also illustrated the economic and political standing of the two countries. White used to his advantage the economic strength of the United States. On the other hand, Keynes tried to retain Great Britain's previous economic power by aligning with the United States, while knowing that Great Britain would face large balance of payment deficits after the war. While White wanted to keep debtor countries in check, Keynes also wanted creditor countries to share in the responsibility of stabilization. The negotiations up to the Joint Statement of Experts reflected the utilization of economic knowledge in policymaking, but also demonstrated the inevitability of the politicization of the process.

The politicization of the process leads to the final conclusion: The success of passing a policy relies on the persuasion and the bargaining capacity of individuals and governments. First, White and Morgenthau had to take authority over the postwar monetary plans away from the State Department. After gaining respect from the British and working with the State Department, White pushed for his ideas and his proposal. Initially he stressed the need to explore a range of ideas with experts from various nations. However, by 1943 White only wanted acceptance of his plan and was closed to proposals advanced by other countries or even by other departments within the United States government. During the period White formulated his plan, he constantly had to keep Congress in mind. Congress was the ultimate approver of any policy. White knew that Congress would not approve certain aspects of the Fund that the British wanted to include, but he also realized the status of the Keynes plan in Britain. The persuasive powers of White and his committee led to the establishment of the Joint Statement of Experts, which ultimately included the main points of the White Plan, followed by the Bretton Woods Agreement and the establishment of the International Monetary Fund.

The International Monetary Fund still plays an important role in the present global monetary order. Recent developments, which include the still unfolding effects of the Asian crisis, the more recent turmoil in Russia, and their spillover to other markets, have shown that global financial markets pose difficult challenges. This past September at the IMF Annual Meeting, the Managing Director of the IMF introduced an agenda to address these challenges and to strengthen the architecture of the international monetary system. The agenda plans to bring together three aspects of the responses to the crisis: first, responses by individual countries in crisis; second, policies aimed at keeping the world economy on a more even level in the near term; and third, system-wide reforms at the global level. By the end of April, the reforms became a reality with the approval of procedural changes. The IMF will now be able to make available billions of dollars in resources to countries in the hopes of adverting global financial crises.

Since the founding of the IMF, the world economy has become significantly globalized, and many of the policy problems of today are similar to the challenges that the devisers of the Fund faced over fifty years ago. Although the International Monetary Fund has gone through many changes over the years, the analysis of its policy formation helps explain the past and also underscores the lasting importance of its policy implications.

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