
The Political Origins of Bretton Woods

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The Bretton Woods agreements, negotiated largely between Britain and the United States and signed by forty-four nations in 1944, were remarkable in a variety of ways. First, they represented an unprecedented experiment in international rule making and institution building—rules and institutions for post-war monetary and financial relations. Second, the Bretton Woods agreements were the decisive step in the historic reopening of the world economy. Agreement was reached, at least in principle, whereby the world economy would abandon regional currency and trade groupings in favor of a liberal multilateral system. Third, Bretton Woods created an entirely new type of open system—something that the capitalist world had not seen before. The Anglo-American agreements established sophisticated rules that would attempt to reconcile openness and trade expansion with the commitments of national governments to full employment and economic stabilization. At its heart, the Bretton Woods accord was an unprecedented experiment in international economic constitution building. Almost a half century later, as an unwieldy group of formerly Communist states seeks to join the liberal world economy, many look back at this experiment for guidance.

These pathbreaking agreements, however, were not inevitable. Indeed, it remains a puzzle how the entire set of agreements, rules, and institutions was cobbled together. To begin with, the two governments held markedly different views during the initial negotiations over postwar trade and monetary relations. The most important differences were those between the American offi-

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cialists at the State Department, who wanted to reconstruct an open trading system, and British officials in the wartime cabinet, who wanted to ensure full employment and economic stability and were thus contemplating the continuation of the imperial preference system and bilateral trading. One vision was of a nondiscriminatory, multilateral trading system; the other, although not fully articulated, was of preferential economic groupings.

The agreements were all the more surprising given the ravages and dislocations of war. World power balances were changing rapidly—the war had revealed Britain's precarious position, and most of the industrial world lay in ruins. Moreover, the postwar period promised rising economic vulnerabilities for all nations. Despite these obstacles, and the divergent and competing agendas within and between Britain and the United States, an innovative set of postwar arrangements was engineered. Not surprisingly, the leading scholar of Anglo-American economic diplomacy characterized the postwar settlement as a "political miracle" (Gardner 1985–86, 21).

Miracles aside, how do we explain this watershed agreement? Was the postwar settlement a straightforward expression of the prevailing distribution of power and interests at the end of the war, or do we need to look more closely at the forces at work? In its broadest outlines, the postwar settlement does reflect American interests and its overwhelming position after the war. If we are attempting to account for the fact that the postwar system was "open" rather than "closed," the structural variables are probably adequate. The distribution of power and interests within and among the United States, Britain, and continental Europe set the broad limits on the shape of the postwar international economic order.

This structural explanation, however, leaves two issues unresolved. First, there was a range of postwar "orders" that were compatible with an American interest in an open world economy. Indeed, a variety of designs for the postwar order were advanced by officials within the American government. Why did the system take on the features it did rather than a different set? To ask this question is really to ask why interests were defined the way they were by officials at the highest level of government. Why did an American government with a State Department that championed *laissez-faire* and free trade end up backing a system more concerned with safeguarding welfare capitalism?

Second, how did a transatlantic coalition in support of the Anglo-American settlement get cobbled together? The alternative to the postwar settlement might not have been just another trade and monetary order, but it might have been stalemate and disorder—this, after all, was the experience of the last attempt at a postwar settlement after World War I. Agreement at Bretton Woods might have failed or gone the way of the Treaty of Versailles, a well-intentioned international agreement that fell prey to diverging national interests. How was agreement achieved amid the divergent and conflicting national and bureaucratic positions? What was the "glue" that kept the Anglo-American coalition—and the postwar settlement—together?

Answers to these questions will not emerge from an exclusive focus on the underlying conditions of power and interest. I argue that a set of policy ideas inspired by Keynesianism and embraced by a group of well-placed British and American economists and policy specialists was crucial in defining government conceptions of postwar interests, building coalitions in support of the postwar settlement, and legitimating the exercise of American power, particularly as these experts engineered a shift from the contentious trade issues to the monetary issues where there was an emerging “middle ground” created by Keynesian ideas. These experts and their “new thinking” were important in overcoming political stalemate both within and between the two governments. Put simply, this group of British and American experts intervened at a particularly fluid moment in history to help the British and American political establishments identify their interests, thereby creating the bases of postwar economic cooperation. These arguments can be summarized as follows.

1. As deliberations on the postwar order began during the war, divergent views within and between the British and American political establishments posed obstacles to agreement. The most important differences were between the State Department’s unalloyed free trade position and the British wartime cabinet’s search for arrangements to secure postwar full employment and economic stabilization.

2. A community of policy specialists and economists assembled within and outside the British and American governments during the war articulated a set of ideas about monetary order and the organization of the postwar world economy that cut through these differences and moved their governments toward agreement. In effect, these experts identified a set of normative and technical positions that was later embraced by wartime British and American leaders. These experts articulated a more or less coherent governing philosophy of postwar economic order: that it should be a managed multilateral order, with monetary and trade practices subject to international agreement, and that the overall system would work to facilitate Keynesian economic policy and social welfare goals.

3. The British and American policy specialists came to form a loose transatlantic and transgovernmental “alliance” during wartime negotiations. This transatlantic community of experts proved important as it came to alter the *sequence* of Anglo-American negotiations. The initial negotiations on the postwar economic order, led by the State Department, dealt with trade arrangements and deadlocked without agreement. British and American Treasury officials shifted these talks to monetary arrangements, where they shared common views about the postwar order, and agreement was eventually reached, undercutting the State Department’s more conventional, but also controversial, free trade position.

4. In the broader political setting, the ideas articulated by these experts were important as they defined a “middle ground” between old political divisions, opening up new possibilities for coalition building. What ultimately

mattered in the ratification of the Bretton Woods agreement was not that it was based on policy ideas advanced by an expert community but that the policy ideas resonated with the larger political environment. The ideas on monetary order advanced by British and American experts had political virtues: they defined a middle ground between the old and contentious alternatives of *laissez-faire* and interventionism. These ideas ultimately carried the day because they created the conditions for larger political coalitions within and between governments—coalitions that themselves reflected a more general postwar reworking of the sociopolitical order in the Western capitalist democracies.

I begin by sketching the characteristics of the Anglo-American postwar settlement and discuss the range of factors involved in any attempt at explanation. Following this, I identify the group of experts who were active in shaping the monetary agreement, situating the role of these specialists and their policy ideas within the larger structural setting. In the following sections, I trace the course of Anglo-American negotiations—from early stalemate over postwar trade arrangements to the Bretton Woods settlement. Finally, I discuss the central ways that policy expertise mattered in shaping the Anglo-American agreement. I emphasize the way that the community of experts served to articulate a “middle ground” between previously unbridged positions and, as a consequence, provided opportunities for new political coalitions (both within and across nations).

3.1 Explaining the Anglo-American Settlement

The Anglo-American agreement on the international economic order, organized around a set of monetary and trade schemes, amounted to a truly unique historical creation. The agreement embodied a distinctive blend of *laissez-faire* and interventionism. It allowed the operation of a relatively open system of trade and payments as well as arrangements to support domestic full employment and a social welfare provision. This evolving synthesis of liberal economic and social welfare goals is captured in John Ruggie’s notion of “embedded liberalism” (Ruggie 1983). The international economic regimes of the postwar period were built on a historic political compromise: “Unlike the economic nationalism of the thirties, the international economic order would be multilateral in character; but unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism” (Ruggie, 1991, 203).¹

The forces that shaped this postwar settlement were obviously many and complex. A “first cut” would focus on the underlying structures of power

1. For an excellent discussion of these political compromises and the economic lessons that informed them see Cooper (1968).

capabilities.² According to this view, the postwar economic order reflected the efforts of the United States, as an ascending “hegemonic” power and victor in war, to build a system congenial to its interests.³ The most fundamental dynamic at work in the economic diplomacy of the 1940s, therefore, really involved attempts by the United States to break down the barriers to global economic openness, making compromises where necessary. As Charles Maier argues, “The central conflict defining international political economy from World War I until about 1950 was not that between American and Soviet alternatives, between capitalism and communism. . . . Viewed over the whole half century, the American international economic effort of the era of stabilization centered on overcoming British, Japanese, and especially German alternatives to a pluralist, market-economy liberalism” (Maier 1987, 183).

The commanding position of the United States, and the hegemonic resources available to it, did set the basic terms of negotiations. European governments, including Great Britain, as we shall see, had very mixed views about the postwar order. American efforts to overcome European obstacles and induce acceptance of a liberal order required a series of compromises and delays in the implementation of agreements, largely because of the economic and political vulnerabilities of a war-ravaged Britain and continental Europe.⁴ Nonetheless, the United States used its resources to influence the direction of policy change. Moreover, American efforts to recast the political and economic institutions of Japan and Germany after the war reflected perhaps the ultimate exercise of hegemonic power—interventions that in the years to follow had profound consequences for the stable functioning of a liberal multilateral order (see Ikenberry and Kupchan 1990). Hegemonic power, however, has limitations as an explanation for the emergence of liberal multilateralism after the war (see Odell 1989, 294–95). Coercive efforts, such as the British Loan, were less successful than often thought. Moreover, as we shall see, the substantive content of the system was shaped by Great Britain as well as by the United States and in ways that would be unanticipated by simple considerations of power (Ikenberry 1989).

In addition to focusing on hegemonic power, explanations might also trace Anglo-American agreement to convergent shifts in underlying national economic interests. As I will argue in a later section, there were underlying

2. Robert Gilpin (1981) provides perhaps the most powerful and parsimonious explanation for the organization and reworking of the international order. A prevailing international order is the reflection of the underlying distribution of material capabilities of states within the system. Over time, that distribution of power shifts, leading to ruptures in the system, hegemonic war, and an eventual reorganization of the international order that reflects the new underlying power capabilities.

3. *Hegemonic power* is a term used to describe a state that possesses a preponderance of power resources—economic, political, and military—thereby occupying a commanding international position. This concept is discussed in Ikenberry and Kupchan (1990).

4. On the bargain struck between the United States and Europe after World War II over multilateralism and regional integration, see Cohen (1974).

economic interests in both the United States and Britain that pointed in the direction of a relatively open system, particularly if protections and safeguards could be provided. What is missing in this explanation, however, is an account of how these structural conditions manifested themselves. To argue that a particular outcome is economically functional or in the interest of a group or nation is not, in itself, an *explanation* for that outcome. This is particularly important because, in both Britain and the United States, there were, as economic planning and negotiations got under way during the war, substantial obstacles to agreement on even the most general outlines for the postwar economic order.

The argument of this paper is that a transatlantic group of economists and policy specialists, united by a common set of policy ideas and a shared view that past economic failures could be avoided by innovative proposals, led their governments toward agreement by identifying a set of common Anglo-American interests. This argument builds on a body of literature that links international cooperation to the activities of policy experts and evolving economic ideas. One strand of this literature argues that the convergence of conceptual frameworks among economic experts is a necessary precondition for successful cooperation (see Cooper 1989; Eichengreen and Uzan 1990).⁵ Another strand of the literature makes similar arguments but focuses on the role of transnational policy communities (or “epistemic communities”) in fostering cooperation. The argument here is that, under conditions of uncertainty, when government leaders do not know what positions to take in economic, scientific, and other technical policy areas, transnational communities of experts can intervene decisively to shape policy and lead governments toward interstate agreement (Haas 1992). A final strand of this literature has sought to explore the more general relation between evolving bodies of knowledge and political outcomes. Work in this area has emphasized the manner in which ideas help shape the interests of states, groups, and classes, thereby creating possibilities for new political coalitions and outcomes (Hall 1989; Goldstein and Keohane, forthcoming).

Agreement on the postwar monetary order was fostered by a momentary community of experts engaged in negotiations who, despite the many differences between them, did share a view about the desirable organization of monetary relations and the world economic order. In 1945, Alvin Hansen, a leading American economist engaged in postwar planning, argued that “among the many contrasts between World War I and World War II nothing is more remarkable than the profound change in economic thinking.” After World War I, the main purpose of economic policy was to “reconstitute as rapidly as possible the automatic forces in economic life. The drive all around was a return, in the broad essentials, to *laissez faire*” (Hansen 1945, 199). By

5. These authors emphasize convergence of conceptual frameworks as a determinant of cooperation, but they provide different stories of how such convergence does or does not take place.

the late 1930s, Hansen argued, all this had changed. A new social purpose infused postwar planning the second time around. Understanding how this “new thinking” got established and shaped government policy and the Anglo-American agreement is our task.

3.2 The Emergence of an International Policy Community

The Bretton Woods agreement is often seen as the result of the ideas and diplomacy of John Maynard Keynes and Harry Dexter White.⁶ Indeed, these economists, particularly Keynes, were pivotal figures in devising monetary plans, and they led their delegations in the celebrated Anglo-American negotiations during the war. But they were also part of a larger collection of economists and policy specialists who were located in the British and American Treasury Departments, in other government offices, and in universities and policy institutions. While many of the beliefs held by this loose community of specialists reflected the evolving views of professional economists, the community itself was given form by the demands of British and American governments to deliberate on postwar economic matters. The process of postwar planning on both sides of the Atlantic served to organize and stimulate the activities of these policy specialists. We can trace the contours of this assemblage of experts and situate it within the larger institutions of British and American government.

3.2.1 An Emerging Consensus

In both Britain and the United States, most of the ideas that made their way into the Bretton Woods agreement were widely shared among what could be called “liberal minded” international economists, many of whom were Keynesians and whose views, more than anything else, reflected lessons learned from recent historical experience as well as the ongoing evolution in professional economic thought. This consensus among economists and monetary specialists was less the reflection of the common acceptance of a specific economic doctrine or theory than it was a more or less common professional reaction to the recent upheavals and malaise in the world economy. Out of these lessons grew agreement on the broad outlines of a desirable postwar economy and the general policies and institutions that would sustain it.

6. The definitive history of this episode remains Gardner (1980). Gardner’s interpretation of the events places much more emphasis than mine does on the differences between the American and the British plans as they were advanced, respectively, by White and Keynes. While Gardner sees the Anglo-American negotiations more as a clash between officials representing different national interests, I see the expert negotiators as finding common cause in devising a plan that would reflect their economic thinking and that the American Congress would be willing to ratify. A more recent history of this period also stresses British and American differences (see Woods 1990). For a sophisticated political history of the events that also stresses the role of experts in promoting agreement, see Eckes (1975). For a fairly straightforward and detailed history of the negotiations relying primarily on British documents, see Van Dormael (1978).

This policy consensus included rough agreement on three essentials. First, there was a common belief in the desirability of currency stability and the convertibility of currencies. Convertibility would be ensured by the abolition of exchange controls and restrictions. Disagreement could be found on the role of gold and other mechanisms for establishing stability in exchange relations, but currency exchange adjustments, when necessary to correct payments imbalances, were to be subject to international agreement. Behind the thinking of these specialists was the view that monetary arrangements must seek to avoid the political and economic instability of the interwar period. "In the interval between the wars," Keynes argued in an early draft of his monetary proposals, "the world explored in rapid succession almost, as it were, in an intensive laboratory experiment all the alternative false approaches to the solution" (Keynes 1980, 25:22). The painful adjustments of the gold standard ruled out policy ideas of this sort. The currency fluctuations, exchange controls, and discriminatory policies of the 1930s also discredited ideas associated with floating exchange rates (Odell 1989, 299).

Second, the American and British experts agreed that some form of international reserves would need to be available as short-term assistance so as to allow expansionary solutions to balance of payments deficits. American and British experts, as we shall see, disagreed over how generous this fund would be and over the obligations of creditor and deficit nations (disagreements that emerged more from divergent domestic circumstances than professional judgments). But they agreed that international stabilization funds should be available so as to allow governments to pursue multilateral and expansionary solutions to capital and trade imbalances (Eckes 1975).

Third, and most generally, the Anglo-American specialists, some of whom were inspired by Keynes's pioneering work, agreed that new techniques of international economic management should be devised that could reconcile the movement of capital and trade with policies that promote stable and full employment economies. There was need for new levels of international management and supervision of national monetary and trade policies. Thus, although these experts generally favored an open world economy, it was also to be a managed world economy, and in this sense their ideas differed from the policy views found in the State Department favoring free trade. This difference was articulated by Harry Dexter White in 1942: "The theoretical basis for the belief still so widely held, that interference with trade and with capital and gold 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 'equilibrium' with a minimum of harm to world trade and prosperity. It is doubtful whether that belief was ever sound" (White 1942). In contrast to the thinking of Cordell Hull and the State Department, these specialists agreed with White that international investment, capital movements, exchange rate parities, and commodity prices were all potentially legitimate means for solving economic problems. An important

purpose of the international stabilization fund and the other proposed postwar institutions was to separate legitimate from illegitimate economic practices (White 1942).

These views shared by British and American specialists reflected changing economic thinking, largely stimulated by the turmoil of the 1930s. But they also reflected a broader confluence of intellectual and political thought. The Keynesian policy revolution was still spreading in British and American policy circles, but its political consequences had already taken hold: politicians and government officials, equipped with modern tools of economic policy, were increasingly capable of managing national economies. As a consequence, they would need to attend, more than ever before, to policies that promoted full employment and social welfare—a responsibility formally accepted by the British government in May 1944 with the publication of the White Paper on Employment Policy (Beveridge 1944). Innovations in economic and social policy allowed politicians to promise more to the electorate, but they also meant that politicians would need to deliver the socioeconomic goods (Skidelsky 1977). Such new socioeconomic goals of government were at odds with the deflationary discipline of the gold standard: a policy of contraction and unemployment was not a satisfactory solution for deficit nations. “Even if this policy had its advantages,” Keynes wrote in 1944, “it is surely obviously out of the question and might easily mean the downfall of our present system of democratic government” (Keynes 1980, 27:373–74).

The ideas of British and American monetary planners also resonated with the revival of American internationalism in the late 1930s, a process that involved the slow reorientation of American foreign policy. One benchmark of the earlier thinking came in the first year of the Roosevelt administration. When, at the London Economic Conference of 1933, Franklin Roosevelt declared that the “sound internal economic system of a nation is a greater factor in its well-being than the price of its currency,” the message was that the United States would take little responsibility for developments within the world economy (quoted in Kindleberger 1986, 216). By the time the United States joined the war, official thinking had changed, and Roosevelt advanced the claim at the Bretton Woods conference in 1944 that “the economic health of every country is a proper matter of concern to all its neighbors, near and distant” (U.S. Department of State 1948, 71). The change in Roosevelt’s views reflected the renewal of internationalist thinking in American foreign economic policy.

The rise of Keynesianism and American internationalism, still under way as Anglo-American postwar planning began, provided a stimulus to that planning as well as a ready audience. These new attitudes contrasted sharply with those that attended planning after the First World War, changes that were noted by Jacob Viner, a leading American economist and postwar planner, in 1942: “There is wide agreement today that major depressions, mass unemployment, are social evils, and that it is the obligation of governments . . . to prevent

them.” Moreover, Viner held, there is “wide agreement also that it is extraordinarily difficult, if not outright impossible, for any country to cope alone with the problems of cyclical booms and depressions . . . while there is good prospect that with international cooperation . . . the problem of the business cycle and of mass unemployment can be largely solved” (Viner 1942, 168). A remarkable sense of economic possibility and social purpose infused the thinking of Viner and the other American and British planners.

3.2.2 American Policy Experts

The American group of experts was based, during the Roosevelt administration, in the Treasury Department. Under the leadership of Henry Morgenthau, a group of international economists was assembled within the department in the mid-1930s to work on exchange rate stabilization. Jacob Viner and Harry Dexter White were leading members of this group (Rees 1973, 62). The early efforts of the group culminated in the Tripartite Agreement of 1936, which established at least the principle of international monetary cooperation (Blum 1959, 131–34). By 1941, White has risen at the Treasury Department to take overall responsibility for foreign economic policy. Soon thereafter, in December 1941, Morgenthau directed White to prepare a memorandum on the establishment of an inter-Allied stabilization fund—a fund that would “provide the basis for postwar international monetary arrangements” (Blum 1967, 228–29).

The ideas in White’s original plan were ones generally shared by many of White’s professional and departmental colleagues. In the late 1930s, newly trained economists, mostly from Harvard and embracing Keynesian ideas, had begun to find places in the U.S. government (Galbraith 1971). This process of recruitment was set in motion by several key officials in the Roosevelt administration, most important among whom were Marriner Eccles, chairman of the Federal Reserve, and Lauchlin Currie, a Harvard economist whom Eccles had attracted to the Federal Reserve. Currie, in turn, became an important conduit for the recruitment of Keynesian economists into the federal bureaucracy (Salant 1989, 40; Stein 1969; Sweezy 1972, 116–24; May 1981). By the start of the war, Keynesians had come to occupy positions in the Bureau of the Budget, the Department of Commerce, and the Treasury. During the war, they also assumed positions at the Office of Price Administration and the National Resources Planning Board; the latter was also involved in postwar planning (Weir 1989, 56; Clawson 1981). Although Henry Morgenthau was not a Keynesian, key posts within the Treasury Department came to be occupied by those who were (Block 1977, 39). Taken together, when work began at the Treasury on postwar monetary proposals, the experts surrounding White shared his basic views concerning the need for far-reaching and innovative economic proposals. After the White plan was drafted, interdepartmental technical discussions, in which primarily economists and lawyers (not

businessmen or bankers) took part, provided a vehicle for expert deliberations within the government (Eckes 1975, 60).

This community of experts extended outside government as well. Most of the important ideas that found their way into the White proposal were also discussed during the war at a series of expert planning and discussion groups sponsored by the Council on Foreign Relations. This study group, the Economics and Financial Group, which was part of the council's War and Peace Studies Project, was lead by Alvin Hansen and Jacob Viner, and it provided an extraordinary vehicle for the concentration of expertise and planning (Domhoff 1990). The Economics and Financial Group also provided an important forum for discussions with British economists after monetary planning got under way in 1941.⁷

Most of the experts who worked on postwar monetary planning (inside or outside the Treasury Department) were associated in one way or another with the Economics and Financial Group. Viner played a key role in developing the rationale for the White plan, and Hansen, a leading Keynesian economist, was involved in revising the proposals (Domhoff 1990). The group also commissioned its own studies dealing with various dimensions of postwar reconstruction and international economic relations. In both the specific ideas related to monetary stabilization and the broader discussions of postwar economic reconstruction, the planners elaborated a vision of British and American cooperation.

3.2.3 British Policy Experts

The British community of economic experts concerned with postwar monetary planning was overshadowed by John Maynard Keynes. After the First World War, Keynes had written the well-known polemic *The Economic Consequences of the Peace*, which harshly criticized the terms of the postwar settlement and forecast destructive trade and monetary policies and the eventual collapse of the European economy (Keynes 1920). Two decades later, the prophetic nature of Keynes's views, along with the success of his own pioneering theory, left him in a commanding position to influence British postwar policy. During the war, Keynes was given an office at the Treasury Department to work on wartime economic administration and financial negotiations. As postwar planning began at the Treasury, other economists, such as Lionel Robbins and James Meade, were actively involved in the deliberations (Weir 1989, 55; Gardner 1972, 24).

British officials involved in planning shared the views of the American economists at the Treasury Department that currency stability must be anchored in international agreement. "Exchange depreciation," Keynes wrote

7. Interview, William Diebold, Jr., New York, 14 August 1990. (Diebold was research secretary for the Economics and Financial Group in 1941 and 1942.)

Jacob Viner in 1943, "is nothing like as fashionable as it used to be, and experience has taught many countries what a futile expedient it is except in quite special circumstances" (Keynes 1980, 25:323). Yet the single most striking lesson that the British economists working on postwar monetary arrangements shared was the belief that the currency exchange commitments must not undermine expansionary domestic policies. By the mid-1930s, British economists (and many politicians as well) had come to believe that the return to gold in 1925 was a decision that brought economic misery to the domestic economy and that the departure from gold in 1931 was associated with recovery (Clarke 1977; Hall 1986, 49–50). The overriding view of British economists in government during the war was that social welfare and economic management must dictate postwar international economic plans, rather than the other way around.

While planning experts formed independent communities in Britain and the United States, they were also connected as a transnational community. Interaction between British and American experts had several dimensions. First, there were the official discussions (and later negotiations) between White and Keynes and their associates that took place between 1942 and the Bretton Woods conference. Many of these meetings were technical in nature and took place after the British and American plans had been drafted (Eckes 1975, chap. 4). Second, there were also more informal discussions among the relevant British and American economists, several of which took place under the auspices of the Council on Foreign Relations' Economics and Financial Group. In these and other settings, it appears that Viner and Hansen were important in facilitating informal discussion between British and American planners. Viner was a close friend of Lionel Robbins, a British economist who was an associate of Keynes and who was also involved in postwar planning.⁸ Hansen made an important visit to Britain in the fall of 1941, presenting proposals for Anglo-American economic cooperation of a very different sort than those being advanced by the State Department (Harrod 1951, 527–28). The discussions between British economists and members of the Economics and Financial Group, which were carried out in 1941 and 1942, provided useful communication between planners.

There were monetary specialists who were not part of this emerging policy community. The American banking community was supportive of more traditional plans than those being fashioned at the American and British Treasury Departments, such as proposals for ad hoc stabilization agreements tied to gold. Another proposal, advanced by Professor John Williams, involved what amounted to an extension of the 1936 Tripartite Stabilization Agreement (see Horsefield 1969, 16–18). Regardless of their technical merit, specialists wielding proposals of this sort tended to be vulnerable within the Roosevelt administration, whose New Dealers were distrustful of the conservative bank-

8. Interview, Willam Diebold, Jr., New York, 14 August 1990.

ing community. It is revealing that these more conventional policy specialists were not part of the loop. Morgenthau recruited not just specialists to the Treasury but specialists with a New Deal planning orientation. Morgenthau did not like Keynesian fiscal thinking, but he had an even stronger dislike for the banking community. These considerations helped shape the character of the experts who were positioned close to the center of policy-making within the Roosevelt administration.⁹

To sum up, a community of British and American economic planners emerged during the war. The efforts of government officials in Britain and the United States to get postwar planning started helped stimulate the thinking and give organizational form to the experts. The colonizing of parts of the British and American bureaucracies by Keynesian economists also strengthened the sense of community among these experts. Many of the views that these Anglo-American experts held, particularly those concerning past monetary experience, were also shared by a larger international community of economists and policy-makers. As we shall see, there were also differences of view among the British and American monetary planners, but even these differences did not always break along national lines. On the basic issues of the postwar monetary order, the community of economic planners shared a core set of beliefs.

3.3 Situating the Role of the Policy Community

To locate a role for the policy community that guided British and American negotiations during the war, it is important to appreciate the wide-ranging and frequently antithetical views on the postwar order that spilled across the British and American political establishments. In the United States, these views ranged from the free trade proposals of the State Department to the views of New Deal planners who favored expanded government management of the economy over institutions to promote the free flow of trade and capital. Lurking behind American wartime debates was a domestically minded and tight-fisted Congress. In Britain, the splits were even more profound, not least because the virtues of a liberal multilateral system were less apparent. Conservatives were reluctant to abandon the imperial preference system, and many on the left saw an open economy to be a dangerous threat to economic planning and social welfare policies. Situated between these groups were the economic advisers to the wartime government who were not eager to return to bilateral trade and the preference system but who thought that such an option might be necessary to protect Britain's postwar payments balance and, in any event, might be used to extract concessions from the United States (i.e., to agree to a more forgiving and expansionary system—precisely the “new

9. Williams was initially involved in the discussions of the Economics and Financial Group at the Council on Foreign Relations, but, perhaps reflecting his absence of agreement with the “new thinking,” he soon dropped out (interview, William Diebold, New York, 14 August 1990).

thinking” that Keynes and his American counterparts were seeking to develop).

Before we examine those competing views and the initial deadlock in negotiations that they produced, it is important to establish a point made earlier. That point is that the underlying structures of power and interests set the broad parameters around which an agreement could be built, but they were not imperatives that inevitably produced the agreement.

The United States did have a basic and increasingly robust interest in an open system, and key American economic and political elites recognized this fact. In the 1930s, with the apparent collapse of the international economy and the emergence of German and Japanese regional economic blocs, American statesmen and intellectuals debated the plausibility of regional alternatives to an open world economy. These issues grew in importance in the early 1940s, as political elites debated whether the United States should get involved in the war. Could the United States remain a going concern within a Western hemispheric bloc? The academic culmination of this debate came with the work of Nicholas Spykman, who articulated what became the conventional wisdom, that a hemispheric bloc would not be sufficient to protect American economic and geopolitical interests (Spykman 1942). Military planners in the War and Navy Departments during the war also began to conceive of postwar American strategic interests in global terms (Leffler 1984). Beginning in 1941, similar views emerged in discussions among economic and political experts at the Council on Foreign Relations on the nature of the Grand Area, that is, the core regions of the world that the United States depended on for its economic viability (Council on Foreign Relations 1941). The attack on Pearl Harbor only strengthened this evolving view: that the United States would need to work with Great Britain to reintegrate as much of the world economy as possible. Moreover, in the two decades between the world wars, the internationally oriented sectors of the American economy had expanded considerably, increasing the nation’s stakes in a wider liberal world order (Frieden 1988). These economic and national security debates and underlying economic shifts all pointed in the same direction and reinforced liberal international thinking among political elites.

The underlying set of British interests is more difficult to specify. Fred Block argues that British participation in an American-sponsored system was not inevitable. He describes the central alternative to liberal multilateralism as “national capitalism”—a closed system where state intervention and planning would be used to sustain full employment and industrial capacity. Block argues that “there is good reason to believe that after the war, there might have been substantial experiments with national capitalism among the developed capitalist countries.” He goes on to argue that “the reason these controls were not elaborated into full-scale experiments with national capitalism was that it became a central aim of United States foreign policy to prevent the emergence

of national capitalist experiments and to gain widespread cooperation in the restoration of an open world economy" (Block 1977, 9).

This view is invoked by those who argue that the British (and other European nations) had political values and economic interests that might have led to alternative (e.g., regional or bilateral) postwar arrangements if not for the hegemonic power of the United States. There remains a historical dispute on this matter, but the strong version of the argument, that Britain could have remained within its Commonwealth and imperial system, is probably incorrect (see contrasting views in Rowland 1976). The United States did confront considerable resistance to liberal multilateralism in Europe (see Watt 1983). European reservations about a liberal economic order were part of broader differences between the United States and Europe over such matters as empire, spheres of influence, and regionalism.

The United States did meet considerable resistance to its liberal postwar agenda, but it is less clear that Britain (and continental Europe) had viable alternatives to participation in an American-sponsored system. What were the alternatives? It would have been very difficult and costly for the British to have constructed an alternative system organized around bilateral trade and the imperial preference system.

British political elites were of divided opinion; however, they had little choice but to cooperate with the United States. For those British officials who held this view, their task was to use what intellectual and political capacities Britain had to shape the agreement in ways that served their socioeconomic goals and to find ways to secure that agreement within a conflictual and fragmented political landscape.

Underlying structures of power and interest provide enough information to explain the fact that the postwar system was more or less open. But this information is not enough to explain the character of that open system. Nor is it enough to explain how the many conflicting political positions were reconciled in reaching an agreement, even if we agree that Britain and the United States have common "objective" interests in a liberal multilateral system. It is useful to sketch these conflicting positions within and between the British and American governments and then trace the evolution of agreement between Keynes and American negotiators.

3.4 Competing Anglo-American Plans for the Postwar Order

Economic and foreign policy elites in both countries ranged widely in their views about the postwar economic order. The crucial antagonists in these debates were American officials, mostly in the State Department, who were intent on constructing an open and nondiscriminatory trading system and British government officials who, for reasons of political expediency and economic vulnerability, resisted the abandonment of the imperial preference system and

the sterling bloc. The debate during the war was really a continuation of controversies that had emerged in the 1930s when various governments experimented with regional (or, as in the case of Britain, imperial) traded and currency blocs (Rowland 1976, 200).

The most vocal advocates within the Roosevelt administration of a system of free trade and multilateralism came from the State Department, led by Secretary Cordell Hull, his assistant, Leo Pasvolksy, and the Division of Commercial Policy and Trade Agreements, headed by Harry Hawkins (Penrose 1953, 15). There is a consistency in the orientation of Cordell Hull and other State Department officials that runs throughout the Roosevelt period. This was the conviction that an open international trading system was central to American economic and security interests and that such a system was fundamental to the maintenance of peace. These liberal ideas, well anchored in American history, were given expression in the Atlantic Charter, signed by Roosevelt and Churchill during the war.

The consistency of the State Department position could be found in its ongoing opposition to the British imperial preference system. According to Cordell Hull, the 1932 Ottawa Agreements represented "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life" (Van Dormael 1978, 25). Hull believed that the bilateralism and economic blocs of the 1930s, practiced by Britain (but also by Germany and Japan), were a root cause of the instability of the period and the onset of war (Pollard 1985, 11–12). Charged with responsibility for commercial policy, the State Department championed tariff reduction agreements, most prominently in the 1934 Reciprocal Trade Agreement Act and the 1938 U.S.-British trade agreement (see Gardner 1964).

Another camp within the Roosevelt administration was composed of economic planners and New Dealers, and their central concern was the domestic economy. This group, which included Harry Hopkins, Vice-President Wallace, and Keynesian economists within the National Resources Planning Board, was interested in an expanded role for government in the management of the economy in the service of full employment and social welfare. This collection of officials, as Fred Block argues, had little sympathy with the State Department's multilateral vision: "They favored a world system made up of national capitalisms because of the priority they gave to the pursuit of full employment. They believed that the maintenance of high levels of employment and the development of national planning throughout the world should take precedence over the opening of economies to the free flow of investment and trade" (Block 1977, 36–37). At the same time, these officials were not isolationists. They favored international arrangements to foster expansionary domestic economic policies and institutions to channel capital to underdeveloped areas. Thus, in the Roosevelt administration, there were these two competing camps of thought on the postwar order.

Before World War II, British attitudes toward the imperial preference system split largely along party lines (Gardner 1980; Woods 1990). The core of the Conservative party favored the maintenance of empire, and the Ottawa preference system was part of these special relations: "A section of the Conservative Party valued the system of preferential duties on Empire goods as a force making for solidarity within the British Commonwealth of Nations" (Penrose 1953, 19). These individuals stressed the importance of Commonwealth ties: it was a symbol of Great Britain's power status. "In Britain," Roy Harrod writes, "some resented the idea [of dismantling imperial preferences] mainly on sentimental grounds that we should be asked to abrogate this valuable symbol of Commonwealth and Empire unity" (Harrod 1951, 515). Moreover, it was the Commonwealth nations, such as Canada, Australia, and New Zealand, that had risen in support of a beleaguered Britain during the war. These conservatives identified British interests with those of the Commonwealth (Penrose 1953, 20). Others in the Conservative party were less enthusiastic about imperial preferences. Churchill and his followers were sympathetic with the free trade position. According to Penrose, although Churchill "acquiesced in a certain degree of protectionism as a *fait accompli*, he still thought there was a general presumption on the side of free trade and felt no enthusiasm for the system of Empire preferences adopted at Ottawa" (Penrose 1953, 20). His major consideration was to protect the unity of his ruling coalition and to push on with the war.

The forces of support and opposition to the imperial preference system began to change during the war. The deterioration of the country's economic position made preferences more attractive to some British officials who otherwise would not support discriminatory trade practices (Penrose 1953, 14). To some of these officials the preference system might be a way of protecting Britain's payments balance after the war, at least in the short term, particularly if the international economy fell into recession. They realized that turning away from multilateral trade and payments would mean relying on trade restrictions and currency controls. While splitting the world into blocs, a bloc system would insulate Britain from low-cost foreign competition and the deflationary effects of an American recession. Eckes points to the groups that favored this option: "In Britain an unlikely coalition of socialists and conservative imperialists favored this alternative—the socialists to achieve full employment and domestic reform, the imperialists to preserve traditional ties with the Commonwealth. But although these interests were articulate and enjoyed some support in the cabinet, where Churchill and Beaverbrook attached considerable importance to preserving the empire, the rigid restrictionist view had little appeal among official economists" (Eckes 1975, 64–65).

Other officials were more skeptical of bilateral trade and the preference system, even as a fall-back option, but they saw threatening recourse to that option as a way of gaining bargaining leverage with the United States (Harrod

1951). To these officials, the only real option was to cooperate with the United States, but they wanted to do so in a manner that would allow Britain to achieve its economic objectives.¹⁰

To sum up, as discussions began during the war, there were striking divisions between and within the British and American governments. In Washington, the State Department articulated a remarkably stark vision of nineteenth-century free trade. In London, the wartime government, worried about the stability of its political coalition and the fragility of its impending postwar economic position, entertained notions of regional and managed economic arrangements. These differences became apparent in the earliest discussions of the postwar order.

3.5 From Trade Stalemate to Monetary Agreement

The first exchanges on postwar economic questions between the United States and Great Britain were triggered in the summer of 1941 during negotiations over Lend-Lease, and disagreements surfaced immediately. State Department officials wanted to use this occasion to secure a British promise that they would open up the imperial preference system. British officials resisted and sought to tie the dismantling of discriminatory practices to a larger program of postwar reconstruction that assured economic expansion and employment stability. The principles and mechanisms of that larger settlement, however, remained obscure.

Discussions began in the summer of 1941 when John Maynard Keynes, who had been appointed as adviser to the chancellor of the Exchequer, arrived in Washington to negotiate the terms of the Lend-Lease agreement. But the visit only underscored the differences in official British and American thinking (Harrod 1951; Gardner 1964). Disagreement centered on the proposed terms of Article VII, which set forth the framework for the postwar settlement of mutual aid obligations. The article provided that, in meeting these Lend-Lease obligations, no conditions should be laid down to obstruct commerce and that measures should be taken to reduce trade barriers and eliminate preferential duties. In a meeting at the State Department, Keynes asked if this provision “raised the question of imperial preferences and exchange and other trade controls in the post-war period” (*Foreign Relations of the United States, 1941*, 3:11). Assistant Secretary Acheson acknowledged that it did, although it was not meant to impose unilateral obligations on the British Empire. Keynes strongly objected to this provision: “He said that he did not see how the British could make such a commitment in good faith; that it would require an imperial conference and that it saddled upon the future an ironclad formula from the Nineteenth Century. He said that it contemplated the impossible and

10. This was the position of most officials at the British Foreign Office and the Treasury (see the Foreign Office report “Note on Post-War Anglo-American Economic Relations,” 15 October 1941, London, Public Record Office, FO 371/28907.

hopeless task of returning to a gold standard where international trade was controlled by mechanical monetary devices and which had proved completely futile" (*Foreign Relations of the United States, 1941*, 3:12). Keynes argued that, in order to maintain economies in balance without great excesses of imports or exports, countries in the postwar period would need exchange controls, precisely the types of measures that seemed to be prohibited by Article VII (Harrod 1951, 512).

The disagreement was clear and seemingly fundamental, and Keynes left Washington without conceding to the State Department position. The difficulty of Anglo-American negotiations over Article VII led some British officials to reconsider the virtues of bilateral bargaining and imperial preferences. Leading economists in the British government voiced reservations over bilateralism in late 1941. About this time, Keynes was also rethinking his views. An American official who knew Keynes during this period notes the change: "In his own mind, Keynes had dropped, or was on the verge of dropping, the argument that hard bilateral bargaining would have to be resorted to; and he was replacing it by a plan for an international institution to deal with balance-of-payments questions" (Penrose 1953, 18). Throughout his career, of course, Keynes had been of two minds on the virtues of unrestricted trade and monetary arrangements. One mind showed itself after World War I when he argued that free trade was both an economic and a moral imperative. Keynes's other mind argued that goods should be "homespun where it is reasonably and conveniently possible . . . a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may tend to serve the cause of peace rather than otherwise" (Robbins 1971, 194). Keynes was capable of articulating both restrictionist and expansionist positions on the postwar order. In the autumn of 1941, he moved vigorously in the expansionary direction. He came to the view that perhaps an agreement could be reached with the United States for a monetary order that would be expansionary, an order that could keep the trading system open but safeguard against depression (Eckes 1975, 65). The search for a postwar settlement involving both a relatively open trading system and measures to ensure employment stability soon became the preoccupation of Keynes and other British planners.

On the American side, as we have seen, there were conflicts between the Departments of State and Treasury over postwar planning. The stalemate on the postwar economic order, arrived at in the discussions of trade arrangements, did not prevent officials at the Treasury from proceeding with monetary planning, and, in the process, monetary negotiations became the cutting edge of postwar planning. The centrality of monetary planning was due to the initial contentiousness of Anglo-American discussions of trade and to the relative smoothness with which British and American monetary experts were able to find common ground.

A flurry of monetary planning broke out on both sides of the Atlantic. In Britain, Keynes listened to arguments from various quarters and retreated to

the country to produce his famous plan for an International Clearing Union. What emerged was an ambitious plan for far-reaching cooperation in monetary relations, involving mechanisms for both the orderly adjustment of exchange rates and the mobilization of credit that would prevent the resort to deflation as a means of correcting maladjustments.¹¹ The Clearing Union would have the authority to create and manage an international currency that would be used to manage intercountry balances. This overdraft facility would have the authority to create and manage \$25–\$30 billion of a new international currency to settle payments balances (Eckes 1975, 66). A key provision of Keynes's Clearing Union was the pressure it sought to put on both deficit and surplus countries to correct payments imbalances; this would take the form of a tax on the excess reserves of creditor nations as well as other measures to ensure corrective policies in both surplus and deficit countries.

American planning got under way in early 1942 under the direction of Harry Dexter White. The American plan was similar to Keynes's in its attempt to eliminate exchange controls and restrictive financial practices, and it provided rules for alterations in rates of exchange. Although it provided relief for monetary authorities in international difficulties, it differed from Keynes's plan by proposing relatively modest resources for this purpose and severely limiting the obligations of creditor nations to contribute to that relief. The Clearing Union scheme obligated creditor nations to accept a clearing unit (*bancor*) up to the limit of the amount of this medium. The White plan restricted the obligation of creditors to the amount of their subscription with the fund.

These two plans formed the basic framework of negotiations that followed throughout 1943 and up to the Bretton Woods conference. Many of the compromises were made in favor of the less ambitious White plan, but many of the British demands were also met. The capital was to be subscribed under the compromise plan; there would not be a new international currency. Moreover, the primary responsibility for restoring international equilibrium would fall on the deficit countries; it would not, as Keynes has proposed, be shared with surplus countries. The power of member nations to change their exchange rates was increased in the emerging agreement, which addressed the British interest in flexibility. Finally, the attempt in the Keynes scheme to address short-term postwar financial problems was left out of the plan. Wartime debts as well as reconstruction loans would be dealt with in other bilateral agreements and a development bank (Penrose 1953, 55–60).

The crucial breakthrough in Anglo-American negotiations occurred in September 1943 when the British side agreed to abandon the idea of "unlimited liability" of creditor countries contained in the Clearing Union scheme. Lionel Robbins noted later that, "once we had recognized the political unacceptabil-

11. The initial draft and subsequent versions of the Keynes plan are published in Keynes (1980, 25:21–40).

ity of the unlimited liability of the creditor, the rest was a compromise between essentially friendly negotiators” (Robbins 1971, 200). After this concession, much of what followed involved practical adjustments to specific national interests and domestic politics.

3.6 Policy Ideas and Political Coalition Building

The “new thinking” embraced by the Anglo-American planners, with its synthesis of interventionist and liberal goals, has a political resonance within wider and more contentious British and American political circles. The Bretton Woods ideas played a *politically integrating* role—they allowed political leaders and social groups across the political spectrum to envisage a postwar economic order where multiple (and previously competing) objectives could be met simultaneously. The alternatives of the past—of the nineteenth century and of the interwar period—suggested options that were much too politically stark. Outside the narrow transatlantic community of government economists, politicians were looking for options that could steer a middle course. In the end, the ability of policy experts to articulate ideas that spoke to the needs of practical British and American politicians was the most consequential aspect of their work.

Throughout their discussions with American officials, the British were looking for a middle ground between bilateralism (and the imperial preference system) and *laissez-faire*. This was noted in a cable from Ambassador Halifax to the British Foreign Office in October 1942, following a visit from John Foster Dulles (at the time a corporation lawyer in New York):

The most interesting point on the economic side of the discussion was Mr. Dulles’ exposition of the Cordell Hull school of free trade, and the place which it had in the plans of the Administration. I said to him that I thought that we did not clearly understand what the significance of the Hull policies was. There was a feeling in some quarters here that we were faced with two alternatives, either we must revert to a completely 19th century system of *laissez-faire*, or else we must safeguard our balance of payments position by developing a bilateral system of trade with those countries whose natural markets we were. It seemed to me that neither of these courses would work, the first was clearly impossible, the second might be disastrous. I asked Mr. Dulles whether there might not be some middle course which would take account of our special difficulties and which at the same time would satisfy Mr. Cordell Hull on the question of discrimination, preferences, etc.¹²

If we are looking for historical moments when political elites are open to intellectuals and experts bearing new policy ideas, here is one. Later in the year, when Keynes and the British shifted negotiating partners—from the

12. Dispatch from Ambassador Halifax to the Foreign Office, 21 (?) October 1942, London, Public Records Office, FO 371/31513.

State Department (and trade policy) to the Treasury (and monetary policy)—opportunities for finding that middle ground emerged.

In both Britain and the United States, the onset of a major war stimulated and widened political debate on the future of the world economic order. Even before the war, politicians and editorialists on the left and the right had staked out a wide range of positions on the proper direction of world trade and monetary order. In American liberal and progressive circles, as seen, for example, in the pages of the *New Republic* and the *Nation*, wartime views affirmed the goals of full employment and economic planning and included calls for postwar world economic federation and multilateral cooperation. Liberal and progressive spokesmen stressed different goals: some advanced vague commitments to liberals internationalism, others favored the primacy of economic planning, and still others reaffirmed a commitment to free trade. Most commentators agreed that a new economic order must be built; there was little agreement on what that meant.

Once the Bretton Woods proposals were on the table, however, the various liberal and progressive commentators largely fell in line behind the agreement. Keynesian planners saw the agreement as an attempt to bring Keynesian management to the world economy; free traders saw a commitment to trade expansion; internationalists saw few alternatives. Indeed, it is striking how quickly the various alternatives to Bretton Woods disappeared from public debate after 1944. As both a practical and an intellectual matter, few economic planners or internationalists saw any real alternative to Bretton Woods. Moreover, the coalition against Bretton Woods—New York bankers, high-tariff advocates, silverites, and isolationists—were soon seen as an odd bunch, outside the political mainstream (see “Support for Bretton Woods” 1945).

In Britain, the Bretton Woods proposals also played a politically integrating role. This can be seen when tracing editorial commentary during the late-1930s and the war in the *Spectator*, a conservative free trade journal. There is no praise of economic planning and little discussion of British full employment policy. Commentary on the great tools of planning and ending the business cycle are absent. Supported were free trade and a new economic order for Europe (see Sterling 1941). Nonetheless, the Bretton Woods proposals seemed to meet *Spectator*'s needs. Only favorable discussions of the White and Keynes proposals appeared in the two years leading up to the agreement (see “Currency and Trade” 1943). As the war began, the *Economist*, another conservative free trade journal, stressed the need for postwar economic cooperation with the United States. During the war, the editorial voice of the *Economist* was unclear in defining postwar economic problems and solutions.¹³ In the end, the editors supported Bretton Woods, but argued that its success

13. The *Economist* clearly favored multilateralism to blocs and bilateral trade. By the end of the war, its editors argued that the world needed to move toward “managed free trade” (see “The Multilateral Approach” 1944).

would depend on all sorts of other adjustments and changes in the way nations conduct their economic business.

In Britain and the United States, the Bretton Woods proposals represented a “middle way” that generated support from both the conservative free traders and the new prophets of economic planning. Wartime economic “new thinking” helped refine the political mainstream, making possible new coalitions. Like a piece of crystal, the Bretton Woods agreement had many different surfaces—it projected different things to different groups. No other international proposal could command such a broad coalition.

3.7 Conclusion

The question asked here is, How do we explain the Anglo-American settlement? Why did certain proposals become an effective basis for Anglo-American agreement, and how, given the divergent and conflicting national and bureaucratic positions, was agreement achieved within a wider and fragmented political setting? The argument is that agreement was fostered by a community of experts composed of liberally minded British and American economists and policy specialists who shared a set of technical and normative views about the desirable features of the international monetary order and who were given remarkable autonomy to negotiate a deal. This community of experts fostered agreement by altering the political debate about postwar policy: they crystallized areas of common interest between the two governments, and they elaborated a set of politically resonant ideas that served to build larger coalitions within and between governments. These arguments can be examined further.

3.7.1 Shaping Government Conceptions of Interests

All increments of historical time are not equal. There are junctures or “breakpoints” when possibilities for major change are particularly great and the scope of possible outcomes unusually wide. In this century, the several years surrounding 1945 would surely be one such moment. Nobody knew how the world order would be reorganized, but everybody believed that reorganization was inevitable. The ending of a major war or the aftermath of a large-scale economic crisis alters the parameters of policy-making: dissatisfaction with past policy creates a new willingness on the part of political leaders to reevaluate their interests, goals, and doctrines; disruptions and breakdowns of rules and institutions create a need for nonincremental decision making; and the collapse of old political coalitions requires a search for new coalitions. At these moments, the removal of obstacles of change occurs simultaneously with the presence of impulses to change. When this happens on a global scale, fundamental change is possible.

At these critical turning points, the interests and capacities of the dominant groups, states, and classes matter, as they always do, but uncertainties about

power structures and dissatisfactions with prevailing definitions of interests create opportunities for the recasting of interests. At the core of the postwar settlement were British and American political leaders who were open to the redefinition of national economic policy interests. Keynes, White, and the other “new thinkers” were particularly well situated to shape the resolution of these uncertainties: the transgovernmental “alliance” that they formed allowed them to shape the agenda, taking the initiative away from the free trade-oriented State Department; the complexity of the issues gave them a privileged position to advance proposals; and their ideas were particularly well suited to building winning political coalitions.

3.7.2 Building New Political Coalitions

The consensus among British and American monetary experts provided a basis for breaking through various layers of conflicts and deadlocks within and between the British and American governments. Most immediately, the consensus among Anglo-American experts cut through conflicts by shifting the ground of debate from trade to monetary issues. In a more general way, the monetary agreement served the purpose of political compromise by articulating ideas that created possibilities for new political coalitions. The policy ideas embraced by Anglo-American experts, not fully available in an earlier era, provided a solid intellectual foundation for a political middle ground between an unregulated open system and bilateral or regional groupings. This is the point made by Albert Hirschman about Keynesianism: that economic ideas “can supply an entirely new common ground for positions between which there existed no middle ground whatsoever” (Hirschman 1989, 356). It was the British (Keynes in particular) who were most intent on finding a middle ground—something that in the early Anglo-American discussions of postwar trade arrangements seemed so elusive. The Bretton Woods agreement articulated a middle position between a nineteenth-century-style free trade system and regional or national capitalist arrangements. The policy views of the monetary experts were intellectually synthetic and politically robust: they provided a respectable position between extremes and thereby set the stage for political compromise between British and American governments, and they foreshadowed (and perhaps enabled) a broader sociopolitical reordering of coalitions within postwar Western capitalist democracies.

Policy ideas do more than simply “enlighten” political elites. They have a political as well as a cognitive impact. They provide opportunities for new coalitions of interests, or at least they can give intellectual force or inspiration to those groupings. Ideas do change minds, but it is their practical value in solving political dilemmas that gives them a force in history.

3.7.3 Legitimizing American Power

American leaders certainly wanted to promote American interests, and they were willing to use the nation’s power capabilities to do so. But one can also

detect a desire on the part of many officials to promulgate a postwar system that would have a normative appeal to elites in other nations. American officials realized that building the international economic order on a coercive basis would be costly and ultimately counterproductive. This is not to say that the United States did not exercise hegemonic power; it is to say that there were real limits to the coercive pursuit of the American postwar agenda. Historical records do show that American officials wanted to avoid looking as if they were imposing policies on the Europeans. This general observation helps explain why American officials paid more than insignificant attention to the normative bases of the postwar settlement and why they were willing to make adjustments along the way to give the system a certain legitimacy.

3.7.4 A Question of Timing

Finally, it is reasonable to ask why this policy community did not emerge earlier—after World War I or between the wars—and play a role in fostering international economic agreement. There are several reasons. To begin with, in these earlier periods, the range of legitimate policy views on monetary relations was much wider. The experiences of the 1930s were crucial in discrediting monetary ideas associated with floating exchange rates (Odell 1989). The lessons learned by British economists and politicians from the disastrous return to the gold standard in 1925 were also crucial in narrowing the range of expert views. Moreover, the war itself gave economic planners an opportunity for devising international rules and institutions in a way not fully available in the 1930s. The war also served to attract economists into the British and American governments, most of whom were trained in the “new thinking.” The formation of an influential community of Anglo-American monetary experts had to wait for these developments.

Beyond these immediate factors, there were more diffuse shifts in thinking among British and American elites concerning the virtues and necessities of internationalism. Paradoxically, much of this new value attached to international institutions (and, in particular, the perceived necessity of striking a deal between the United States and Britain) sprang from the progressive rise in the social obligations undertaken by the modern welfare state. Full employment, economic stabilization, and social welfare—these were goals that repeatedly found their way into discussions of the postwar economic order during the early 1940s, in popular journals, in Congress and Parliament, and in Anglo-American planning deliberations. Nothing similar was evident in 1918, where the rapid return to *laissez-faire* and the automatic forces of economic life were the order of the day. Between the wars, the sociopolitical underpinnings of the modern state had changed. As a result, the elites who commanded the British and American governments in 1945 had a different set of perceptions of and goals for the postwar order than their predecessors had in 1918. In this sense, the “demand” for new ideas was greater the second time around. At the same time, the size of the potential sociopolitical coalition in Britain and the United

States that might favor internationalist solutions to problems of postwar reconstruction was also larger the second time around. What was needed was an intellectual and political basis for coalition building on a grand scale, and this is what the Keynesian “new thinkers” provided.

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Comment John S. Odell

G. John Ikenberry argues that the Bretton Woods system, rather than some alternative monetary arrangement, emerged at the end of World War II because a transnational group of experts fashioned an idea that was able to attract larger, winning political coalitions inside the United States and Britain, the dominant monetary powers. Political leaders of the time were seeking an

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as yet unspecified “middle ground” between other, flawed approaches, and the expert community responded with an idea that would therefore succeed in domestic politics. Presumably, Ikenberry means that, absent this community and its idea, some alternative monetary arrangement would probably have taken root.

Ikenberry accepts that states and politicians act more or less rationally in their own interests, but he finds that interests are not identified sufficiently in simplified a priori models of public choice. Instead, our models must be enlarged to encompass how people choose one definition of their interests rather than another and how politics works to produce new policies and institutions. Ikenberry shows that actual Americans held more than one conception of their nation’s interests regarding postwar international economic arrangements—contrary to the a priori assumptions of the hegemony theory of economic policy and institutions and other theories. The British were divided as well. Once the plan was publicized, popular opinion tended to gravitate toward it and away from other ideas that had been prominent until then.

Reading this paper led me to ask myself about other cases since 1944 in which experts offered international monetary reform proposals, always in their nation’s interests, of course. Politicians have adopted some of these plans too, but not others. For example, leaders eventually adopted the special drawing right (SDR), the European snake, the European Monetary System, and 1988 banking capital adequacy standards.¹ Among those not adopted (at least not for many years) were Friedman’s early and lonely advocacy of floating, the late 1960s schemes for limited exchange rate flexibility worldwide, Ethier’s reference rate proposal for managing floating, Williamson’s “target zone” system, proposals to retire the dollar from its reserve role and to create a substitution account in the IMF,² and calls to return to the gold standard.

One wonders whether any general hypotheses could help differentiate between governments’ varying responses to monetary reform plans and whether the 1944 case generates any broader lessons in this regard. The balance of this brief Comment is a set of speculations on this issue.

Of course, Ikenberry has noted that 1944 was an unusual historic juncture in which “disruptions and breakdowns of rules and institutions create[d] a need for nonincremental decision making.” In later peacetime periods lacking upheavals as fundamental as world war, it was naturally more difficult to enact sweeping change. This difference might help us understand subsequent negative responses, but not positive ones.

Also limited as a generalization is one of Keynes’s own notions that his plan benefited from being “so damn boring,” compared to more colorful issues

1. On the 1988 banking capital adequacy standards, see Ethan B. Kapstein, “Resolving the Regulator’s Dilemma: International Coordination of Banking Regulations,” *International Organization* 43 (Spring 1989): 323–47.

2. See Joanne Gowa, “Hegemons, IOs, and Markets: The Case of the Substitution Account,” *International Organization* 38 (Autumn 1984): 661–84.

such as trade policy on which much stronger opposing coalitions could be mobilized. To be sure, difficulty in understanding which interests will be affected does change the political process of ratifying technical agreements. In this 1944 case, however, some vested interests in the United States did fight vigorously to block passage of the enabling legislation. Moreover, many later monetary proposals, both those adopted and those overlooked, were surely as boring as Bretton Woods, to the general public. There might be a long-term trend at work, however, whereby at least interest groups and politicians, if not the general public, pay increasingly sustained attention to international monetary and debt reform, for better or worse, than they did fifty years ago. This speculation would require more investigation.

This said, one condition that did make the Keynes-White plan superior politically to its actual rivals was that most of the known alternative policies had been severely discredited by the failure of policy experiments. The same might not be said of all later reform contests. Of course, scientists can and have interpreted the interwar experience differently. But it is quite predictable that future public opinion, too, will crystallize around a particular interpretation of contemporary experience and that it will be biased toward preventing one's own last "war" or debacle rather than reasoning from many other historical analogues available worldwide. While the 1944 weakness of monetary alternatives was probably unusual historically, in both degree and comprehensiveness, generally one of the most favorable *times* to promote any reform plan is soon after an experience that can be construed as disconfirming one or more rival policies.

Second, according to Ikenberry, politicians of the day were looking for a "middle ground," and the content of Bretton Woods was near the middle of the relevant spectrum. Presumably, schemes that address leaders' current demands will always be more influential than any that ignore the customer. This is not to say, of course, that all designers should always disregard issues that are below the top of the current political agenda. Those agendas shift, sometimes quickly, and, when they do, a technically sound proposal ready to be advanced on short notice will enjoy a competitive edge. Keynes, after all, had been preaching for years before his international ideas—spelled out rather clearly in April 1933—were finally implemented politically.

From the study of one case we cannot be sure whether the dominant influence was this match with current political demand or the centrist content of the plan. Spatial models of choice would always imply some survey of the political opinion spectrum and give the nod to the best-located plan. Such an idea might attract sufficient support away from its rivals even if the latter have not been as discredited as the gold standard and floating rates were in 1944. Nevertheless, a similar caveat applies. The actual process is a dynamic one, in which advocates attempt to reshape the opinion curve itself.

On this second point, the paper would be more convincing, in my opinion,

if it included more concrete evidence of the political demand for a middle ground and more evidence of the degree of domestic support for the rival plans. The evidence presented is consistent with the argument, but more thorough comparative research on this central point seems feasible.

Third, for Ikenberry, the Bretton Woods plan was not formulated by a single author; rather, it was influenced by a transnational community of experts, inside and outside the two governments. Research would be needed to investigate whether in general the presence of a transnational expert community is systematically associated with policy success. Such a community seems to have formed, more or less, on behalf of greater but limited exchange rate flexibility in the late 1960s, but was evidently not sufficient. Perhaps a key difference was that the convinced community in that case included too few members inside governments. In any case, Ikenberry has not claimed that this transnational community condition will be sufficient alone.

One special, fourth, condition in 1944 was that the plan was also identified with an increasingly famous prophet. Keynes's 1923 *Tract on Monetary Reform* had probed the weaknesses of the gold standard, and "within a decade," Harrod writes, "Keynes' position had won the allegiance of at least half the world."³ In the 1933 book *The Means to Prosperity*, Keynes proposed international cooperation in a form that foreshadowed the IMF. Likewise, in future competitions among ideas, any plan that enjoys an association with accurate past forecasts of alternative policies' failures will likely have an advantage again.

The Bretton Woods case also hints at a fifth hypothesis, namely, that the idea that prevails politically will be the one supported by the most skillful negotiation strategy. Not all plans promoted by one or another government have produced intergovernmental agreements, even when agreement could benefit both sides. More is involved in the outcome than the negotiators' strategy choices, but this case does seem to suggest the utility of approaching one or two dominant powers first, bringing them to agreement, and only then involving third governments. Most of the negotiating had been completed by the time the delegates arrived at the Mount Washington Hotel.⁴ In 1987, the Federal Reserve and the Bank of England followed the same "bilateral-first" sequence in producing the Group of Ten accord on bank capital. To be sure, multilateral negotiation may often be necessary, both for technical reasons and to reflect adequately the interests of smaller parties. Cases such as the 1985 Plaza agreement indicate that "multilateral first" may also produce agreement. More careful research would be needed to establish any firm generalizations on this question as well.

Finally, Ikenberry's paper ends without discussing the struggle over the

3. R. F. Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1966), 339.

4. Stanley W. Black, *A Levite among the Priests: Edward M. Bernstein and the Origins of the Bretton Woods System* (Boulder, Colo.: Westview, 1991), 42–47.

Bretton Woods agreement's ratification, a stage that was decisive in producing the monetary system we discuss today. This is not a criticism of the paper, but the final act is also instructive. The Roosevelt administration submitted a bill to Congress that would enable the United States to play the role that the executive had designed for itself, but Congress's approval was not at all guaranteed. In March 1945, the chairman of the House Banking Committee told Treasury Secretary Henry Morgenthau that a majority on this key committee opposed the bill, and Winthrop Aldrich of New York's Chase Bank, one of the harshest critics, was certain it would fail. A ratification failure would have duplicated President Wilson's unhappy experience with the Versailles Treaty twenty-six years earlier.

Precisely that historical analogy concentrated the administration's mind, which thus set about to avoid the same mistakes.⁵ In the first place, Roosevelt and Morgenthau personally selected as members of the U.S. delegation strategic figures who, if inspired by diplomatic experience at the foot of Mount Washington, could provide special assistance during the ratification phase. Reversing Wilson's practice, they included members of Congress, including Republican leaders of the committees that would have to consent. After the conference, the Treasury staff retained a public relations specialist and mounted a truly amazing campaign in localities across the land to generate grass-roots support. They helped journalists prepare supportive radio scripts and articles, including one in *Colliers* magazine entitled "Bretton Woods or World War III." Secretary Morgenthau delivered speeches outside Washington touting the local economic benefits that the "boring" reform would bring. The American Federation of Retailers sent mailings to 1.8 million stores urging citizens to contact Congress on behalf of Bretton Woods and an end to war. As a result of this campaign, by mid-May Congress was receiving citizen mail heavily in favor of this technical bill, and Congress responded accordingly. Morgenthau also accepted minor amendments that would permit him to harvest additional favorable votes, in contrast to Wilson's rigidity. The amended bill then passed each house by more than a two-thirds margin.

Advocates of rival policy ideas do not automatically mount equally powerful persuasion campaigns, and these political contests do affect actual outcomes. Politicians and citizens do not necessarily persuade themselves which new idea to adopt or which new coalition to join. Therefore, not only careful design of the reform itself, historical luck, and skillful international bargaining matter. In addition, the more extensive and sophisticated the campaign to "sell" it to constituents, the greater the chances a reform will be implemented.

5. See A. E. Eckes, Jr., *A Search for Solvency: Bretton Woods and the International Monetary System, 1941-1971* (Austin: University of Texas Press, 1975); and John S. Odell, "From London to Bretton Woods: Sources of Change in Bargaining Strategies and Outcomes," *Journal of Public Policy* 8 (July-December 1988): 287-315.

Comment L. S. Pressnell

Shortly before the Bretton Woods conference, a senior lawyer was loaned from the Foreign Office to the small British delegation: just one lawyer. One too many, Keynes thought. The lawyer, an ultimately tragic figure, found the pressure of work “great and the financial stuff very hard to understand” (Beckett 1944, entry for 6 July). Not surprisingly, he was subsequently unsure about the meaning of the Fund’s critical Article VIII that he had helped draft (Pressnell 1987, 176).

Then there was Keynes himself. For several months after Bretton Woods he agitated himself, his colleagues, and the chancellor of the Exchequer over whether, in the apparently uncertain light of that article, the British government should be recommended to adopt the agreements that he had helped formulate (Pressnell 1987, 168–82, 401–8).

These reflections suggest some rejigging of John Ikenberry’s stimulating observations on the undoubtedly remarkable degree of expert Anglo-American involvement in the negotiation of the Bretton Woods agreements. Such rejigging may help explain why the Fund’s early history did not match the hopes at its creation.

Three points may be stressed. First, Anglo-American cooperation was very much less securely based outside the small group of experts than within it. Second, trade policy requires more attention, by the opening of Ikenberry’s elliptical allusion to “stalemate.” *Immobilisme* did indeed threaten after the fierce Keynes-Acheson encounter of July 1941, but it did not fully emerge until some two years or so later, when Americans and British retreated from the high hopes of their experts’ Washington discussions in September–October 1943. Moreover, trade policy was not pushed aside; it remained “a loose cannon,” liable to roll dangerously over a heaving transatlantic deck. Third is the question of alternatives to Bretton Woods. Although Ikenberry’s assertion that they disappeared from public debate seems appropriate in terms of potential competition with the Keynes and White plans, it is less so for the practical realities. As with more recent developments, non-IMF monetary arrangements after 1945 threatened to leave the Fund on the international sidelines.

To begin with the frail underpinning of the intellectual alliance, British experts at Bretton Woods had to hold back discussing trade policy, about which more is said below (Pressnell 1987, 136–37; Robbins 1971, 203–4). Far from least, the British were reluctant to disclose their perplexity about how to deal

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with the massive overseas indebtedness, already some £3 billion (\$12 billion) of “sterling balances”; again, this is discussed more fully below.

No doubt this reticence reflected British unwillingness to admit to the United States its junior partner’s weakness lest the senior exploit that. Certainly, one detects that wariness in Prime Minister Churchill shortly after the enactment of Lend-Lease. Although he no longer nursed his fears of 1927 of a future war with the United States (Gilbert 1979, 1033), he was apprehensive of friction. In a revealing dispatch of April 1941, he considered the “suspicion and recrimination” darkening the informal and undefined association that had evolved between Britain and the United States. If such strains could afflict cooperation in the current danger, he questioned whether they were likely to be diminished when peace came.¹

There were difficulties enough at home, where, in Churchill’s coalition cabinet, there was strong opposition to the trade and monetary plans that evolved from 1941. Indeed, as the time for Bretton Woods approached in 1944, the hostile faction even sought—unsuccessfully—specific representation in the British delegation (Pressnell 1987, 156 n. 67).

In this political sphere, however, Ikenberry suggests that Bretton Woods was to have a unifying role. Was this perhaps more a dampening down of differing negatives than an onrush of shared and positive enthusiasm? The Right was haunted by a concern never to be responsible for repeating the decision of 1925 to adopt an exchange rate apparently too high and too inflexible. The Left endured complementary torment: resistance to exchange arrangements that had as trade-offs large-scale unemployment and repetition of the financial-cum-political crisis of 1931.

There was, indeed, not much enthusiasm in the parliamentary debates of May 1944 on the “Joint Statement by Experts” that preceded Bretton Woods. Keynes was sickened by the fierce anti-Americanism of the House of Commons debate (Keynes 1980, 3, 6). Subsequently, the government was able to avoid parliamentary debate of the Bretton Woods agreements. Approval was to be pushed through with that of the even more strongly disliked, but scarcely escapable, Anglo-American Financial Agreement of December 1945, which was to provide for Britain’s postwar recovery an interest-bearing line of credit of \$3.75 billion.

Even Keynes’s own constructive role must be qualified. At the Atlantic City meetings immediately preceding Bretton Woods, he was under instructions to secure that the Fund agreement would include the essence of “the Catto clause” (Lord Catto, formerly an adviser to the chancellor, had recently become governor of the Bank of England). This was to safeguard a country’s ultimate right over its exchange rate, which Article IV, sections 5(c)(iii), 5(f), and 6, was to recognize (Pressnell 1987, 149–50, 160–61).

1. Dispatch from Mr. Winston Churchill to Viscount Halifax (Washington), 10 April 1941, London, Public Record Office, CAB 117/52.

At Bretton Woods, Keynes similarly struggled, although less successfully, for a country's—that is, Britain's—discretion to restrict convertibility, not only of accumulated balances, but also of current receipts in international trade. Britain's immediate concern was with the substantial sterling balances still accumulating as a result of an inability to export sufficiently against goods and supplies from sterling-using countries (the “sterling area”) and others. There was also concern about future accumulations that might be expected to arise with a reserve currency such as sterling, the expenditure of which in a balance of payments crisis might need to be controlled. The British delegation had been instructed to secure provisions that the release of such balances should be limited to those recently acquired and only if needed for current transactions.

In the event, that is, in Article VIII, section 4, the intended *twin* conditions for the release of balances became *alternative* and therefore weakened restraints. Back in Britain after the conference, Keynes glimpsed unexpected horrors in that article once he was persuaded that it would not allow Fund-approved restrictions on convertibility of balances to apply also to current transactions. Conclusive elucidation and assurances were eventually obtained from Edward M. Bernstein (via the secretary of the treasury, Henry J. Morgenthau). Further, it became apparent that loopholes had been left, pending agreement on an international trade charter, for escape from monetary constraints by the use of trade controls. Only then, in mid-1945, almost a year after Bretton Woods, did he desist from recommending that the British government reject the Fund agreement that he had done so much to produce (Pressnell 1987, 167–82, 401–8). Even so, by that time British officials were doubting whether, for Britain, the IMF had much of a future.

What of the wider British public? Certainly it was emotionally predisposed to international cooperation. In pamphlets and books and discussion groups, many, echoing thoughts at governmental levels, looked back regretfully at the weaknesses of the old League of Nations and hoped for a much stronger replacement to provide some elements of world government.

Such wartime ruminations stressed international political arrangements rather than economic, and in a more general sense than specifically with respect to Anglo-American relations. Indeed, the long-standing and widespread enthusiasm for President Franklin D. Roosevelt was only to a limited extent related to international policies. Although there had undoubtedly been a desperate prewar yearning for his leadership to reverse Europe's drift toward war, admiration was attached rather to the presumed virtues of the New Deal. Away from domestic policy, recollection of the Great Depression fostered determination to be shielded from its source in the American economy.

With high tariffs since 1932 supplemented by wide-ranging controls constructed during the war, the consensus in both major political parties placed ahead of any other economic commitment a determination to prevent a recur-

rence of the mass unemployment of the interwar years. Coupled with that would be greatly extended social services. The greater state intervention involved seemed a limited problem politically. Indeed, in 1946, Churchill, out of power and leader of the Opposition, told senior congressmen that many domestic policies of the Labour government were the same as those of his own Conservative party.²

The British public's postwar vision was predominantly inward looking in economic matters. If the postwar Labour governments of 1945–51 appeared similarly oriented, that reflected not just understandable concern to prevent a recurrence of mass unemployment but also Labour economists' perplexity about applying socialist principles to international economic policy. Traditionally, Labour had accepted orthodoxy until the departure from gold in 1931 and resort to protection and preference in the following year. Pragmatism then evolved (Durbin 1985, 251–54, 256, 262), reinforced after the war by surviving wartime controls in prolonged balance of payments difficulties. Bretton Woods evoked wariness from Labour, as one of its prolix publicists noted, lest domestic policies be compromised, and resentment that adherence to it had been the price of the postwar American credit (Cole 1947, 406–8, 509, 664, 977–88).

A second major reflection on Ikenberry's paper concerns British attitudes toward trade policy. He stresses the near impasse that resulted partly from familiar tension between the U.S. Treasury and State Departments, partly from British resistance to the multilateral implications of Article VII of Lend-Lease. Were there not wider influences? Given inevitable horse-trading among multiple players of multiple trading games, a slower pace in securing agreement on commercial policy could have been expected. Moreover, there was logical priority in concentrating on monetary stabilization, to ensure that constraints on trade restrictions would not be circumvented by resort to equivalent currency restrictions.

Differences over trade policy were nevertheless to cloud prospects for monetary liberalization. Here it may be noted that Keynes's ideas and influence were less sharp, perhaps more devious, than on the monetary proposals. For instance, to deal with balance of payments disequilibrium, he strongly favored intervention rather than dependence on market forces through exchange variation. Notwithstanding his recognition of the ultimate importance of Anglo-American cooperation, he sought to retain scope for direct controls on imports (Keynes 1980, 283–304).

A forward-looking outcome on trade policy had nevertheless seemed possible after the Anglo-American discussions of September–October 1943, with the British-inspired agreement among experts on the "Washington principles."

2. Report from the British Embassy in Washington, D.C., 14 March 1946, London, Public Record Office, CAB 8/197.

Very soon, however, apprehensive politicians on both sides yielded to their respective pressure groups, notably from agriculture. The old suspicions re-emerged: the British of U.S. tariff and subsidy policies, the American of British discrimination in trade under the associated—although in American comment not always clearly distinguished—systems of imperial preference and the sterling area.

John Ikenberry identifies a major element in this clouded cooperation when citing Secretary of State Cordell Hull's view: that imperial preference, stemming largely from the imperial economic conference at Ottawa in 1932, was "the greatest injury, in a commercial way," that had been inflicted on the United States during his public life. We can first substitute for Cordell Hull almost any British politician or economic historian. Then, for condemnation of imperial preference, substitute that dramatic roll call two years earlier of highly protected American industries, the Smoot-Hawley tariff of 1930. Although the Ottawa system, which discriminated against other countries besides the United States, should not be viewed as simply a reaction to Smoot-Hawley (Drummond and Hillmer 1989, 16), that undoubtedly became subsequently a ritualistic justification for Britain's swing toward the general protectionism that made preference possible.

Ikenberry rightly stresses that the likely difficulties in the postwar balance of payments made imperial preference seem more attractive. Except for vociferous zealots for a self-contained empire trading bloc, this was not predominantly imperial preference for its own sake. The underlying constraint in relation to the possibilities of a liberal trading order was the expected inadequacy of dollar earnings and of international reserves after the war; that seemed to require, unavoidably, discrimination in trade as well as through continued exchange controls.

There was, however, more to the matter than all this. *Formal* discrimination by imperial preference seems only partially to explain the prewar advantage of British over American exports to the British Commonwealth (MacDougall 1952, 506–7, 511). To diminish or dispense with it too abruptly would have hazarded a much wider proportion of trade than that explicitly favored. Beyond lay much *unformalized* preference for British goods: from millions of British emigrants or their descendants; from local subsidiaries of leading British businesses; from central and local governments and their purchasing agencies in London as well as the crown agents for the colonies.

One might reasonably ask whether the American crusade against British discrimination in trade and payments took insufficient account of what was involved. Was it pushed too far and too fast for others' comfort and its own success? In the context of Anglo-American cooperation on international economic problems, did it hazard the prospects of the new International Monetary Fund? Such questions arise when considering Britain's first postwar financial crisis of 1947. Conventionally described as "the convertibility crisis," it was at least as much a crisis over discrimination.

What needs first to be brought into account is that, by the outbreak of war in 1939, the formal imperial preference of only a few years previously was already among the walking wounded. Just as the British attempt of 1931–32 at a free-range monetary policy had been capped by the new Roosevelt administration, so was the imperial preference structure from 1935: by U.S. trade agreements with Canada in 1935 and with both Canada and Britain in 1938 (Drummond and Hillmer 1989). Although the war thrust the British agreement into a kind of limbo, efforts to earn dollars for American war supplies were forcing Britain, even before the enactment of Lend-Lease, to contemplate cuts in preference against the easing of U.S. restrictions on their exports (Pressnell 1987, 21).

When Lend-Lease from spring 1941 ended that phase, the “Consideration” required for that dramatic lifeline offered irresistible leverage against British protectionism, specifically the discrimination of imperial preference. The resultant Article VII of the Mutual Aid Agreement in 1942 exacted from a doggedly resistant British war cabinet resentful agreement to work toward postwar reduction of trade barriers and elimination of discrimination. Shortly, however, as Ikenberry has noted, British thinking found possibilities in multilateralism internationally if combined with stable employment domestically.

The eventual proposals for liberalized world trade, inspired largely by James Meade, complemented the imaginative monetary proposals of Keynes (who, however, was intensely skeptical about them) and underlay the Washington principles already mentioned (Pressnell 1987, 100–101). In the retreat from those, American hostility toward imperial preference seemed to intensify, in endeavors to secure virtually its unilateral and uncompensated elimination. American attacks helped promote it to symbolic status as one of Britain’s few bargaining counters, one that should not be yielded lightly.

A fragile compromise was reached during the Anglo-American negotiations of September–December 1945 for a postwar line of credit, which was tied to fulfillment of Article VII. Although the skilled British negotiators of the trade policy aspects had insisted on reciprocity for cuts in preference and withheld commitment on reduction, let alone unilateral elimination, they offered undertakings that there should be no new preferences or increases in existing margins (Pressnell 1987, 277–78, 326–28).

A crunch on the underlying principle of nondiscrimination approached in summer 1947, with the simultaneous culmination of the Geneva trade negotiations (which led to the signing in October of the General Agreement on Tariffs and Trade) and a British balance of payments crisis. As mid-July 1947 approached, when Fund convertibility was required by the Anglo-American Financial Agreement of 1945, discrimination had been envisaged by British officials and ministers as essential: to support that early convertibility and to stem a gathering sterling crisis. In Geneva, however, U.S. representatives pressed hard for acceptance of early constraints on discrimination.

A senior British minister, knowing that they would have to be disregarded

forthwith, flatly refused. He rejected accommodation by some meaningless fudge; that “would be a hoax.” The British signature was secured only by incorporation of clearly relaxed conditions (*Foreign Relations of the United States* 1973, 970, 1022). By then, however, the fierce Geneva struggle over discrimination had turned attention to the alternative of suspending Fund convertibility itself. That dramatic action, effectively immobilizing some 40 percent of the Fund’s main resources, overshadowed the issue of discrimination in which, notwithstanding all that had gone before, the United States acquiesced as a means of returning sterling eventually to convertibility.

My third query concerns the alternatives to Bretton Woods that, Ikenberry remarks, were shunted to one side. Certainly, the “key currency” approach—under which, in a blend of the interwar gold exchange standard and the Tripartite Agreement of 1936, the leading currencies would be stabilized, with lesser currencies flexibly attached to them—seemed to be a nonstarter (Horsefield 1969, 1:17–18). Were there, however, serious miscalculations, stemming partly from the frequently reiterated U.S. belief in a postwar transition much briefer than considered feasible on the British side? Was there a particular miscalculation by the U.S. Treasury, or at least by Harry White, shortly after Bretton Woods?

In rejecting the key currency approach, White drastically understated the significance of the pound sterling when he narrowly assessed its role as an international currency in terms, not of the 50 percent of international trade that it financed, but of the 15 percent represented by strictly British trade. That was to ignore the sterling-based arrangements of over one-third of world trade. By doing that, and by adding America’s 12 percent of world trade to Britain’s 15 percent, White reached the somewhat spurious figure for the 70-odd percent of world trade for which he optimistically declared the new Fund and Bank would provide necessary stability (White 1945, 206).

In practice, Britain was determined to sustain and indeed to extend the use of sterling. Massive sterling balances, in default of significant cancellation or funding or transfer to other and firm holders, might swamp Britain’s exiguous reserves and shrunken export capacity. Accordingly, well before the Bretton Woods agreements were ratified and put into effect, the British Treasury was developing prewar and wartime financial arrangements into a network of payments agreements, with substantial credit swings (Bank for International Settlements 1945, 96–107).

American officials had realized that accumulated sterling balances might tempt Britain to discriminate in favor of sterling rather than dollar trade, underpinning the imperial preference system, and deplored such bilateralism (Pressnell 1987, 84, 202). Why, then, did not Anglo-American proposals seek to stave off that threat to postwar monetary and trade liberalization?

An early draft of the U.S. Stabilization Fund had indeed proposed a scheme to deal with abnormal balances (Horsefield 1969, 1:23, 48, 52–53; 3:91–92).

Britain, however, eventually held off, fearing to replace a sterling debt with one in dollars, and apprehensive that to load the Fund with such debts would immobilize it at the outset. An acceptable alternative solution did not emerge either by the time of the 1944 conference or subsequently. During the conference, two of Britain's biggest creditors, India and Egypt, threatened an acrimonious debate on the issue. Their representatives were somewhat reassured behind the scenes and onstage by the one definite commitment on balances. Conveyed by Keynes on behalf of Britain's chancellor of the Exchequer, and known later in India as "the Keynes pledge," it affirmed that there would be no unilateral repudiation; they were debts to be settled honorably (Pressnell 1987, 162–67; *The Transfer of Power* 1976, 880–81, 917–19).

Intriguing from a British viewpoint was the American tendency to regard cancellation of sterling balances as both appropriate and simple. Such treatment of the desperately poor countries that largely held them would have resembled the alleged exploitative behavior for which imperial Britain was routinely assailed. In India, for instance, that would have invited serious disturbances.

Conceivably, the Keynes pledge explains the near insouciance of Treasury Secretary Morgenthau and Harry White, after Bretton Woods, toward Britain's otherwise alarming overhang of debt (Morgenthau 1945, 189; White 1945, 207). Without that, Britain's balance of payments problem after the war might have been more closely limited to the current account and less one of increased burdens on capital account. Within less than a year, however, in the Anglo-American financial negotiations of 1945, White (Morgenthau had recently handed over to Judge Fred Vinson) was displaying anxiety. He now favored a drastic scheme for "discounting" sterling debt, comparable to proposals aired in recent years for dealing with Third World debt (Pressnell 1987, 288–92; Corden 1988). That proved a nonstarter for the U.S. Treasury and would probably also have been for the British Treasury.

The absence of an acceptable scheme was to underpin the policy of running sterling as a key currency. The convertibility failure of 1947 was to reinforce that stress on using the sterling area to protect Britain's balance of payments.

These developments meant that the Anglo-American experts had failed to sideline effectively a major alternative to Bretton Woods. Like Britain's hesitant support for the new international economic organization and its reluctance to abandon discrimination, that should cause little surprise. The experts who devised the Fund and the Bank not surprisingly had more rapport than the feuding politicians and divided electorates on whom fulfillment depended. Can students of international monetary relations seriously expect more than a few forward steps at any one time, or indeed over a very long period? Bretton Woods was indeed a historic compromise. The Anglo-American experts pointed the way to that in exceptional fashion, as John Ikenberry has so illuminatingly recounted.

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General Discussion

Much of the discussion was over the role of the Soviet Union at Bretton Woods. *Edward M. Bernstein* spoke at length on the subject and we include his remarks.

The Soviet Union and Bretton Woods Edward M. Bernstein

The Keynes and White plans for the international monetary system were proposed in 1943—the midst of the war. It was necessary, therefore, that all the

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allies participate in the discussions that would precede a formal agreement. After the White plan was published, the Treasury asked the Soviet Union to send technical experts to discuss the U.S. proposal. Within a few weeks, the Soviet ambassador, Andrei Gromyko, brought two experts to the Treasury. Their function, he said, was to listen to our explanation of the White plan, but not to offer suggestions of their own.

When the United States and the United Kingdom agreed in April 1944 on the *Joint Statement of Experts on the Establishment of an International Monetary Fund*, the Soviet Union was asked to approve the statement, although it had not taken part in the drafting. It was also asked to publish the statement in Moscow simultaneously with its publication in Washington and London. When the decision was made to hold a United Nations Monetary and Financial Conference at Bretton Woods on 1 July 1944, the Soviet Union was informed of this before President Roosevelt sent invitations to the other countries.

The technical experts of the United States and the United Kingdom met in Atlantic City before the Bretton Woods conference. This was necessary in order to give specific content to the principles of the Joint Statement. Although the United States and the United Kingdom had discussed the proposal for an International Bank for Reconstruction and Development, they had not yet agreed on establishing such a bank. The invitation to the Bretton Woods conference stated that it was "for the purpose of formulating proposals of a definite character for an international monetary fund and possibly a bank for reconstruction and development." At Atlantic City, the United Kingdom informed us that it and the governments-in-exile in London were in favor of establishing the bank, and it was placed on the agenda of the Bretton Woods conference.

In the very early days of the conference, the Soviet delegation confronted us with two problems. The committee on Fund quotas proposed a quota of \$800 million for the Soviet Union. The Soviet delegation claimed that Mr. White had promised them a quota of more than \$1 billion. Apparently, the Soviet delegation was referring to a press conference at the Treasury when the White plan was published. In answer to a question on the size of quotas, Mr. White said that the U.S. quota would be about \$2.5 billion, the British quota about half that, the Soviet quota about \$1 billion, and the Chinese quota about \$800 million. It was a mistake to use these figures. I suggested to White that he qualify his statement by saying that these figures were merely illustrative and that the quotas of all countries would depend on the size of the Fund.

The Soviet delegation also objected to the requirement that 25 percent of the quota be paid in gold. It argued that countries that had suffered destruction in the war ought to be exempt from the gold payment or, at least, have it substantially reduced. We knew that, if the gold subscription were reduced for the Soviet Union, it would have to be reduced for the United Kingdom and the occupied countries. This would be difficult to do, as the gold subscription was necessary for the liquidity of the Fund.

The U.S. delegation considered the Soviet requests. White suggested that we remain firm on the size of the quota, but agree to reduce the gold subscription for countries that had suffered from enemy action. Mr. Acheson said that, if we offered this compromise, the Soviet delegation would thank us for reducing the gold subscription, but it would still insist on having a larger quota. He recommended that we stand firm on the committee recommendations on both the quota and the gold subscription. In the end, no concession was made on the gold subscription, but the quota of the Soviet Union was increased to \$1.2 billion. This was only \$100 million less than the quota for the United Kingdom and all the dependent British territories.

The Soviet Union wanted to be free of the obligation of members on exchange rates. It argued that its exchange rate was merely an accounting unit for stating in rubles the receipts and payments of its foreign trade sector. It wanted freedom to change the exchange rate without the approval of the Fund. The conference accepted this view, and the Articles of Agreement state that "a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of its members." The most important provision to which the Soviet Union agreed was to supply the Fund with an extended list of statistical data.

I had a run-in with a Soviet delegate in the closing days of the conference. The Fund Commission had appointed an ad hoc Committee on Unsettled Questions on which the Soviet Union was represented. The committee agreed on how to deal with the questions that had been referred to it, with the Soviet delegate abstaining. He took the position that the committee could not report on these questions until he had instructions from Moscow. I suggested that the committee recommendations were tentative, to be reconsidered if they were not approved by Moscow. This did not satisfy the Soviet delegate, and he filed a formal protest. In fact, Moscow did not object to the committee report, and it was approved in a plenary session of the Fund Commission.

Although the Soviet Union signed the Final Act of the Conference, some people questioned whether it would cooperate with the United States and other members of the Fund. They noted that, over the past four hundred years, the strongest power on the Continent had usually tried to become the master of Europe. This happened once with Spain, twice with France, and twice with Germany. They thought that the Soviet Union would follow the same path. After invasion in two world wars, the Soviet Union could rationalize such a policy as a search for absolute security. At the Treasury, we thought that, because the Soviet Union had suffered such heavy losses, it would give precedence to reconstruction rather than to establishing dominance in Europe.

Soon after the war ended, the Soviet Union asked the United States for a \$10 billion loan. This was an enormous sum for that time, when the gross national product was only slightly more than \$200 billion. Even if the administration had been willing to make a sizable loan to the Soviet Union, it did not have the means to do it without an appropriation from the Congress. As

the Treasury knew that it would have to extend a loan to Britain, it felt that it could not ask Congress for additional funds for the Soviet Union. As an alternative, the United States offered the Soviet Union a \$1.0 billion loan from the Export-Import Bank. The Soviet Union turned down the offer.

After this, the Soviet Union decided not to ratify the Bretton Woods Agreement. When Secretary Vinson appeared before the Senate Banking Committee in support of the British loan, he was asked whether the loan would divide the world in two. He replied that the world was already divided in two and that the loan to Britain would prevent the world from being further fragmented on trade and finance. Still, when the United States decided to establish the Marshall Plan, the Soviet Union was invited to join the United Kingdom and France in formulating plans for the economic recovery of Europe. The Soviet Union declined to participate in the Marshall Plan, and it prevented Poland and Czechoslovakia from joining the Plan.

The Soviet Union had excluded itself from all the postwar arrangements. It was under pressure, however, to provide similar facilities for Eastern Europe. It formed the Comecon, described as an organization for mutual economic assistance. It proposed to improve the trading arrangements through the use of a so-called transferable ruble. It even considered a plan to establish an International Bank for Economic Cooperation, which would issue an externally convertible ruble based on deposits of gold and hard currencies. These were not the institutions that other Eastern European countries wanted. Instead, some of them became members of the International Monetary Fund and the World Bank. In the Soviet Union itself, before perestroika and glasnost, the economists of the Academy of Sciences asked me what the Soviet Union would have to do to qualify for membership in the International Monetary Fund.

What a costly detour the Soviet Union has traveled since Bretton Woods to seek now the membership in the Fund and Bank that it rejected in 1945!