What Have We Learned about Bretton Woods from Recent Research?

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September 2, 2014

The 70th anniversary year of the 1944 Bretton Woods conference provides an important moment to reflect on what actually took place at that famous meeting. Historical understanding of the origins of the Bretton Woods system has in fact been greatly enhanced in the last few years. Detailed transcripts from the 1944 conference have recently been discovered and issued by the Center for Financial Stability.[4] Three new books have also recently been published about the conference and another will soon appear.[5] What have we learned about Bretton Woods from this new research?

The Long Historical Roots of Bretton Woods

To begin with, it is clear that the ideas and policies that characterized the Bretton Woods agreements have a longer history and a wider scope than is often appreciated. They go back before World War I, and they derive largely from the practical considerations of implementing monetary policy under various real-world constraints, rather than from elegant theoretical considerations.

So far as the theoretical basis of the Bretton Woods system goes, it is right to credit John Maynard Keynes with arriving at the essential elements of modern monetary management. But he arrived at these ideas long before writing his plan for an International Currency Union, and he came to them not by trying to solve theoretical problems, but by observing and trying to improve actual policies.

In 1913, Keynes observed Indian monetary officials maintaining a stable but potentially adjustable exchange rate with the pound sterling by guaranteeing sterling's convertibility to rupees, but not the other way around, thus relieving themselves of the expense of keeping enormous amounts of gold on hand. He argued that this practice was the future of monetary management. In *Indian Currency and Finance*, Keynes observed that the strict gold standard scarcely existed even in advanced European

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[5] Ed Conway, *The Summit* (London: Little, Brown, 2014); Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca, NY: Cornell University Press, 2014); Eric Rauchway, *The Money-Makers: The Invention of Prosperity, from Bullion to Bretton Woods* (forthcoming); Benn Steil, *The Battle of Bretton Woods* (Princeton, NJ: Princeton University, 2013).

countries, and that money could be managed for domestic and international purposes perfectly well without it. Keynes concluded his little volume abruptly, saying his government service on a commission to evaluate the Indian currency prevented him elaborating further on his ideas.[6]

At the Versailles conference in 1919, Keynes proposed a system of international lending for the purposes of reconstruction and development in the aftermath of World War I. Hoping to provide relief both to belligerent nations damaged by the war and to new nations that had no credit history, Keynes proposed that the defeated and newly established powers issue debt to be bought by victorious countries, with the resulting cash to be put into funds for reconstruction and economic development. This "grand scheme for the rehabilitation of Europe," as he called it, failed because the U.S. delegation declared that Congress would never back it.[7]

In 1923, Keynes first systematized his understanding of monetary management in the *Tract on Monetary Reform*. Here he observed that while inflation was indeed an evil inasmuch as it robbed creditors of their profits, deflation was a greater evil because widespread expectation of falling prices could bring an entire economy to a halt. As between inflation and deflation, Keynes wrote, deflation was therefore far worse.

Because expectations played such an important role, monetary authorities could dampen the business cycle by preventing "confident expectation" of either inflation or deflation. He argued that nations should do so by establishing fixed, but adjustable, values of their currencies and cooperating through international arrangements to assure that no one nation could dominate the global economy.

Keynes envisioned these global arrangements preserving gold in a largely symbolic role — as "constitutional monarch," he said, but removing its ability to tie policymakers' hands. He thought the gold standard required immoral policies — attempts "to bring back equilibrium by deliberately causing a 'consequent slackening of employment'." Overall, he placed the employment of workers above stability of currency values: "it is worse, in an impoverished world, to provoke unemployment than to disappoint the *rentier*," he wrote.[8]

In his 1930 *Treatise on Money*, Keynes rehearsed much of the same argument he had already developed, but at greater length and in greater detail. In particular, he now described the need for "management of the value of gold" by a "Supernational Bank" which would, again, retain gold as a "constitutional monarch" — keeping it for symbolic value but robbing it of actual authority. This

[6] *Collected Writings of John Maynard Keynes*, 31 vols. (London: Macmillan, St. Martin's Press, for the Royal Economic Society, 1971-1989), vol. 1. Hereafter cited as CW.
[7] "Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction," marked secret and dated April 1919, John Maynard Keynes Papers, Kings College Cambridge, RT/16; also accompanying memorandum and correspondence in the same folder.
[8] CW, vol. 4: "confident expectation," p. 35; "constitutional monarch," p. 138; "consequent slackening," p. 153; "impoverished world," p. 36.

Supernational Bank would define an international currency, Supernational Bank Money, which would be defined as a sum of gold but regulated in value with respect to national currencies, with a view to "abolishing the credit cycle."[9]

Thus by the start of the Great Depression, Keynes had arrived at what became the major elements of Bretton Woods: (1) an international system of monetary management that pegged currencies in value one to another but with (2) allowance for adjustment to permit domestic policies to promote prosperity on the assumption that (3) expectations must be managed to prevent deflation and (4) all backed by a program of international lending for reconstruction and development.

When Franklin Roosevelt became president in 1933, he pursued a monetary policy along lines similar to those of Keynes, beginning with his inauguration and extended up through the creation of Bretton Woods. Indeed, Roosevelt's own role in establishing Bretton Woods is underappreciated.

Like no other president before or since, Roosevelt enjoyed the authority to manage the value of the U.S. dollar himself. He took the dollar off gold immediately on taking office, and secured for himself the power to regulate the value of the currency in the Thomas Amendment of the Agricultural Adjustment Act, which allowed him to change the gold value of the dollar or issue paper currency at will. This law remained in effect until the adoption of the Bretton Woods agreements by Congress.

Roosevelt told reporters on March 8, 1933, that his first moves in suspending convertibility were part of a deliberate program. "[W]hat you are coming to now really is a managed currency, the adequateness of which will depend on the conditions of the moment. It may expand one week and it may contract another week.… It ought to be part of the permanent system … so we don't run into this thing again."[10]

The president understood Keynes's concerns about runaway expectations, and tried to prevent a confident expectation of his movements from developing. He made his remarks about a permanent system off the record. He expressed concern about creating too much inflation too quickly, saying "I hope the stock market will not go up too fast."[11]

Like Keynes, Roosevelt also hoped to see the establishment of an international currency expressed in terms of gold — an "imaginary coin that would not be coined," he said, regulated in terms of its purchasing power. He scuttled the World Economic Conference because he believed it was aiming at the

[9] CW, vol. 6, pp. 348-363.
[10] Press Conference #1, 3/8/33, *Complete Presidential Press Conferences of Franklin D. Roosevelt*, introduced by Jonathan Daniels, 25 vols. (New York: Da Capo, 1972), vol. 1, pp. 1-13. Hereafter cited as CPPC.
[11] Henry Morgenthau, Jr., Diaries. Book 00, p. 37, for 5/29/33; microfilm series 1, reel 1.

re-establishment of the gold standard, rather than the creation of a new and cooperative system of money management.[12]

Both Roosevelt and Keynes would have to wait until recovery from the Depression was well under way before their ambitions would begin to see realization, but the three-party exchange agreement of 1936, in which France, the United States, and the United Kingdom agreed to fixed-but-adjustable (at a day's notice) exchange rates provided the first instance of these policies' international implementation.[13]

Nevertheless, the essential elements of what became Bretton Woods had already been developed on paper, by Keynes, and implemented in practice, by Roosevelt, long before World War II, and indeed Roosevelt had articulated them by the summer of 1933.

While Keynes would lead the British planning for Bretton Woods in the early 1940s, the lead U.S. official was Harry Dexter White in the U.S. Treasury. Interestingly, his first plans for Bretton Woods in early 1942 also built directly on some other historical roots that have often been neglected.

These roots can be found in the inter-American context, where White had pioneered a number of institutional innovations in U.S. financial relations with Latin America. These innovations arose from Roosevelt's Good Neighbor Policy towards the region, a policy that increasingly focused in the late 1930s on the goal of supporting Latin American initiatives to boosting local living standards.

To serve this goal, White and other U.S. officials began after the mid-1930s to extend official bilateral loans to Latin American countries for the first time to cover short-term balance of payments problems and to promote long-term development projects. White drew directly on this experience when drafting his initial ideas about lending functions of the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) in early 1942.[14]

Even more important was the experience he gained in drafting the convention and by-laws of a proposed Inter-American Bank (IAB) with Latin American officials during 1939-40. In negotiations with Latin American officials, White developed a blueprint for an institution that would place the new U.S. official bilateral lending program in a novel public multilateral framework.

Many of the IAB's functions and features in fact foreshadowed directly those of the International Monetary Fund and International Bank for Reconstruction and Development. The IAB proposal was

[12] Press Conference #27, 6/7/33, CPPC, vol. 1, pp. 353-354; Celeste Jedel Diary, 6/28/33, Raymond Moley Papers, Hoover Institution Archives.
[13] See Stephen V. O. Clarke, *Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement* (Princeton Studies in International Finance no. 41, 1977).
[14] Helleiner, *Forgotten Foundations*, ch. 1-4.

never approved by the U.S. Congress, but it is properly seen as a kind of first draft of White's later Bretton Woods proposals that so heavily shaped the 1944 conference outcome.[15]

The Bretton Woods agreements were thus not just the product of a unique historical moment. They had long historical roots dating back many years before the negotiations ever began and emerged out of practical considerations and policy experimentation. This history provides a useful reminder that significant global financial reform takes time and long preparation.

Appreciating the earlier origins of the policies that became international law at Bretton Woods also reminds us of the priorities the policymakers had long held. Domestic prosperity — economic growth, high employment, rising standards of living — came first, ahead of currency stability. Indeed, as they interpreted the lessons of the decades before World War II, unless there was prosperity, there could be no stability.

The Political Savvy of the Bretton Woods Architects

Recent research also highlights well the political savvy of the Bretton Woods architects. This characteristic is evident in a number of ways that have perhaps not hitherto been appreciated as much as they should have been.

From an early stage in the negotiations that would lead to the Bretton Woods conference, the United States, which would host the conference, understood the need to secure wide international support for the agreements on the IMF and the IBRD. Much attention has been paid to the Anglo-American bilateral discussions that took place in 1943-44 in advance of the conference in an effort to recognize the initial White and Keynes plans that were released publically in the spring of 1943. Recent research highlights how U.S. officials also made extensive efforts to solicit the opinions of other countries.

They worked particularly hard to cultivate the support of Latin American governments. White first discussed his postwar plans with Latin American officials — not British ones — at an inter-American conference in January 1942 where he secured the passage of a resolution calling on Latin American governments to attend a "special conference" to be held "for the purpose of considering the establishment of an international stabilization fund".[16] This was the first official commitment that any government made to attending what would become the Bretton Woods conference.

After detailed internal U.S. discussions refining the content of White's initial plans, U.S. Secretary of the Treasury Henry Morgenthau, Jr. then sent a letter with a draft U.S. proposal for the IMF to finance ministers of 37 countries in 1943 and invited their input. U.S. officials subsequently hosted a three-day multilateral consultation session in Washington in June 1943 with many of these countries to discuss the U.S. proposals. White and other U.S. officials also held a large number of bilateral meetings to hear the

[15] Ibid.
[16] Ibid., p. 107.

concerns and perspectives of officials from many countries between the spring of 1943 and the final conference in July 1944.

The British also recognized the need to solicit support from a wider group of governments. After the publication of Keynes' plan in the spring of 1943, the British government sent a copy to all Latin American officials traveling to the U.S. consultations in Washington and some British officials also traveled across Latin America to promote Keynes' ideas. The British government also held extensive consultations throughout 1943-44 with officials from the British Dominions (Canada, Australia, New Zealand, and South Africa), the Government of India (still a colony at this time), and a number of European countries.[17]

In these various consultations with American and British policymakers, officials from other countries were far from passive. They expressed strong views about the design of the postwar international financial system. In the archives, one can also find their detailed written commentaries on Keynes and White plans. Some governments even presented full-fledged alternative plans, such as Canada, France, Norway and China.[18]

U.S. officials also made sure that the 1944 conference itself was a very inclusive meeting. Forty-four governments were invited to send delegations to Bretton Woods (plus Denmark, an observer). They included almost all independent countries not part of the Axis or firmly neutral. Even though the war was still raging and victory for the Allies was not yet assured, remarks at the conference indicate that the delegates were thinking ahead to the eventual inclusion of the Axis countries after they had been pacified.

The various committees were carefully balanced to include the countries with the greatest financial or other stakes in various issues as well as representatives from various regions or important countries. While Keynes and White served as the chairs of the two of the main bodies (or "commissions") of the conference, the Mexican finance minister, Eduardo Suárez, was the chair of the third. Delegates from what we would now call emerging market countries were active as committee chairmen, other committee officers, and proposers of amendments. The Soviet, Chinese and Indian delegations were active across a wide range of issues.[19]

Latin American countries were also very strongly involved. Of the 44 governments represented at the conference, 19 were from Latin American and their delegates were quite willing to remind other delegates that they represented "practically one-half of the nations here assembled."[20] They worked

[17] Ibid., pp. 158, 243-4.
[18] For the Canadian and French plans, see J. Keith Horsefield, ed., *The International Monetary Fund 1945–1965: Vol. 3* (Washington, DC: IMF, 1969). For the Chinese plan, see Helleiner, *Forgotten Foundations*, pp.186-200.
[19] Schuler and Rosenberg, *The Bretton Woods Transcripts*.
[20] Ibid., p. 228.

quite cohesively as a bloc at the meeting, often in close cooperation with U.S. officials. Indeed, the British sought to avoid formal votes at the meeting because, as one official put it privately, "if the issue comes to the vote every country will count for one with the result that Latin America is almost sufficient to settle any issue in a way the United States wishes."[21]

Building on their experience with the Good Neighbor Policy and the negotiation of the stillborn IAB, Latin American officials pushed successfully for the IBRD's development mandate to be strengthened. Delegates from other poorer regions of the world also sought to strengthen the "development" content of Bretton Woods agreements, such as Indians who made up half of the Government of India's delegation (the other half was British). The Chinese delegation (which was the second largest at the conference after that of the U.S.) also strongly supported the IBRD's creation, seeing it as the realization of Sun Yat-sen's 1918 proposal for the creation of an "international development organization."[22]

The largest economies generally had the largest and best-staffed delegations, but it was possible for capable delegates from small countries to have outsized influence through the force of their intellects, as the conference transcripts indicate.[23] Among those who did were Luis Machado from Cuba, Ervin Hexner from Czechoslovakia, and Wilhelm Keilhau from Norway. Hexner and Keilhau were in a sense not even representing real countries; they were members of governments in exile whose homelands were occupied by German forces until the last days of the war.

The delegates to the conference were a mixture of experienced politicians and technocrats (sometimes both in the same skin), who were able to balance national political goals with the vision required to establish international financial institutions. Two delegations included past prime ministers. Many other delegations included current or former members of parliament. And, of course, they were chockablock with finance ministers and other officials whose work stretched across politics and finance. Seven delegates would go on to become presidents or prime ministers of their countries, and dozens of others would later become ministers of finance, central bank governors, or other top politically appointed officials dealing with international financial issues.[24]

Bretton Woods was a closed-door conference, so for the most part it was free of the posturing for public consumption that takes place in an open forum. It was understood, however, that certain positions required a public airing for the benefit of a domestic audience. The conference organizers gave the press what at the time was an unusually high degree of access to delegates, and informed journalists off the record about the direction of conference proceedings. Delegates had ample opportunity to talk to the press. They also had the ability to issue statements for the press, which could consist either of the text of the speeches at conference meetings or of fresh material prepared only for the press. Only in a few

[21] Helleiner, *Forgotten Foundations*, p. 159.
[22] Ibid., ch. 6, 7, and 9.
[23] Schuler and Rosenberg, *The Bretton Woods Transcripts*.
[24] Ibid, pp. 588-610.

instances did delegates tax the patience of their fellows with long speeches intended for later publication as press releases.

As a negotiation, Bretton Woods continues to elicit interest today because it was so successful: two major international agreements in only three weeks (preceded, as we have seen, by years of preparatory work). The conference was only half the story for the agreements, though. Signing the Bretton Woods agreements only meant that countries would bring them before their legislatures for consideration; it did not guarantee ratification.

In a few countries the Bretton Woods proposals were hotly debated. In the United States, New York money-center banks, some other commercial interests, and people worried about U.S. entanglement in the affairs of other countries were critical of the agreements. The Roosevelt Administration recognized from the start the possibility of opposition, and it was one reason why the conference was held in Bretton Woods. The ranking Republican on the Senate Committee on Banking and Currency, which would hold hearings about ratifying the agreements, was from New Hampshire. Holding the conference in his state was a way to seek his favor.

The Roosevelt Administration also was active in explaining to the public, through publications, press statements, and engagement with civic groups, the case for ratifying the Bretton Woods agreements. It tried to cover all the bases and ultimately succeeded. By the time the enabling legislation for Bretton Woods came to the floor of the U.S. House of Representatives, opinion polls showed that respondents who had an opinion about Bretton Woods — slightly more than half those surveyed — favored the agreements by about three to one.[25]

The main failure regarding ratification was the Soviet Union. It signed at Bretton Woods, after some last-minute brinksmanship, but never gave a reason for its failure to ratify the agreements. Possibly it was related to the requirement that members of the IMF disclose a great deal of economic information that Soviet officials wished to keep from the rest of the world, although as U.S. Treasury official Raymond Mikesell noted, "in the light of the Soviet Government's well-known ability to manipulate its statistics," these disclosure requirements need have presented no very great impediment to Moscow's participation. Documents discovered in the 1990s indicate Stalin's officials may have hoped to get a loan from the United States (on the model of the Anglo-American loan) in exchange for ratifying Bretton Woods.[26] After the collapse of the Soviet Union, its successor states quickly joined the IMF and World Bank, making them institutions with nearly universal participation by independent countries.

Lessons of Bretton Woods?

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[25] Gallup Poll (AIPO), Jun, 1945. Retrieved 9/28/14 from the iPOLL Databank, The Roper Center for Public Opinion Research, University of Connecticut. http://www.ropercenter.uconn.edu/data_access/ipoll/ipoll.html

[26] Harold and Marzenna James, "The Origins of the Cold War: Some New Documents," *The Historical Journal,* vol. 37, no. 3 (September 1994), pp. 615-622.

Seventy years later, Bretton Woods conference continues to fascinate. It has come to symbolize how global financial governance can be reformed in ambitious and creative ways. After almost every recent global financial crisis, experts and policymakers still invoke the 1944 meeting as a precedent, calling for a "new Bretton Woods."

The reputation of Bretton Woods is certainly well deserved. At the same time, it is worth remembering that its success in establishing a new multilateral institutional foundation for the postwar international financial order drew on long historical roots. In addition, the success of the Bretton Woods architects reflected not just their ambitious and creative vision but also their great political savvy. These dimensions of the Bretton Woods story contain important lessons for global financial reformers today.