Seeing the Woods for the Trees – Preconceptions and Misconceptions about Bretton Woods

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"It's a great spot for a murder."

So spoke a newspaper editor as the delegates, reporters, secretaries and economists made their way to the Mount Washington Hotel in the summer of 1944.[1]

Take a step back and you can see what he meant. Here were hundreds of highly-strung men from more than forty countries, each with their own agenda, many of them determined not to speak to each other, let alone negotiate. Almost all of them had plenty to gain and about as much to lose from the settlement that would be decided at Bretton Woods.

And here they were: cooped up in a decrepit hotel in the middle of nowhere, with the taps running, the paint from the renovation work barely dry and the temperature rising. Amid this chaos they were expected to craft and seal the most important agreement in international monetary history.

There are plenty of accounts of the Bretton Woods conference, all the way from Richard Gardner's *Sterling-Dollar Diplomacy* to Armand Van Dormael's 1978 work to Benn Steil's book from last year, *The Battle of Bretton Woods*. However, while many of these previous books are excellent analytical works and good accounts of the negotiations, few of them attempt to portray the experience of the negotiators. They tend either to ignore the pressure-cooker atmosphere of the conference, or to treat it as an incidental detail, rather than something endogenous that might have affected the agreement itself.

Though you wouldn't guess it to read most of the other accounts, the war, which was still being fought fiercely in Europe and the Pacific, was a constant presence. One of the Greek delegation, Alexander Argyropoulos, had only just escaped from a prisoner-of-war camp. His arrival in the USA the week before Bretton Woods had been the first time he had seen his wife and daughter in four years.[2] One of the Indian delegation (Sir Theodore Gregory, actually a British national) had to

[1] 378 Envoys, 500 Newsmen Due at Monetary Parley, *Boston Globe*, 2 June 1944.
[2] Kaity Argyropoulo, *From Peace to Chaos, A Forgotten Story*, New York, 1975.

share his plane to the conference with a cargo of unexploded Japanese bombs.[3] Englishman Bob Brand was on edge throughout the proceedings as his son, Jim, was among the soldiers involved in Operation Overlord.[4]

In fact, the very arrival of the British delegation in the USA was delayed because of D-Day. On the day they left, London was waking up from the first night of the second Blitz, as it came under heavy bombardment from Hitler's new V1 bombs. One of the delegates would later confess that he thought Britain would have been defeated by the bombs had Overlord not succeeded.[5] In the parties and drinks receptions around the hotel, the Russians and British would exchange what they called "atrocity stories", and an odd macho hierarchy developed, whereby anyone whose country hadn't seen direct conflict wasn't taken quite as seriously.[6]

Somewhere at the very bottom of this pyramid were the French, whose delegate, Pierre Mendes France, was a truly brilliant man (he would later become Prime Minister) but found himself in an invidious position. Charles de Gaulle had insisted to him that he should not negotiate with the Americans at Bretton Woods, "at any cost". The country his delegation was representing was still not recognised as a sovereign state, much to their chagrin. So the best he could do was to wave the French flag as often as possible. Though he spoke perfect English he would insist on speaking French through a translator at the official sessions, which led to a number of awkward moments of mistranslation. At one stage he attempted to get the entire Bretton Woods articles of agreement published in French as well as English, on what he called "sentimental grounds".[7] Given how much the French have come to dominate the International Monetary Fund throughout much of its life, it is rather ironic – or perhaps not – that at its inception they were at such a low ebb.

At the very centre of the action, on the other hand, were the two lead protagonists in the drama: Harry Dexter White and John Maynard Keynes. They had spent most of the past couple of years fighting, in person and in print. Their backgrounds were almost diametrically opposite: Keynes from a privileged Imperial British family, sent to Eton and Cambridge, inculcated from pretty early on in life to believe that he could have and achieve anything he wanted. White was the absolute inverse: short and stocky where Keynes was tall, Jewish where Keynes was anti-semitic, self-made while Keynes had it all. Keynes had refused to fight in the Great War. White had signed up at the first possible opportunity.

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3 Bank of England Archives, OV38/8.

4 Brand Papers, Bodleian Library, various.

5 Goldenweiser Papers. 1945. Library of Congress. Conversations and Reflections in Europe. Summer.

6 Susan Howson and Donald Moggridge (eds.). 1990. *The Wartime Diaries of Lionel Robbins and James Meade*, 1943–45. New York. p. 178.

7 National Archives, Kew, FO317/40917, 12 July 1944.

The long process of drafting and redrafting that led to the Bretton Woods agreement had begun not long after the start of the war. The pair began from a common starting point: that the post-war world needed a set of institutions to manage international monetary relations and reconstruct the world economy on a fairer basis.[8] But their solutions were quite different. Keynes's involved an international currency – Bancor – and a system of rules which would ensure countries with current account surpluses would be penalised: not just those with deficits. He wanted a genuine global central bank through which international monetary transactions should pass, levying charges on countries with excessive imbalances. As we all know, this was in no small part influenced by the fact that Britain, once one of the world's great creditor nations, had ceded that position to the United States some decades earlier.

White's conception was rather different. At its centre was a stabilization fund whose job was less to sit at the apex of international transactions than to step in, like a referee, when a country was facing a balance of payments crisis. It was the emergency room to Keynes's health salon and, crucially, it would not penalise creditor nations. Nominally at least, debtors would have to pay the price when their economies were in trouble.

Underlying this was a parallel struggle. Britain was no longer the world's undisputed economic superpower. That much had become pretty obvious in the inter-war period. It was clear to everyone around at the Mount Washington Hotel that what would happen at Bretton Woods would formalise the United States' role as the world's undisputed economic power.

Both White and Treasury Secretary Henry Morgenthau were determined that, in particular, London's crown as the world's financial centre would soon be taken by New York.[9] They were both cold towards the British, particularly in the early stages of the negotiations. After all, they considered themselves to have been extraordinarily generous to the United Kingdom already, handing it aid through Lend-Lease, despite what they and most of the American people considered to have been a default on World War I debts. So it hardly went down well when Keynes entered the discussion on post-war arrangements and presumptuously expected his plans to be adopted unquestioningly by the Americans.

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[8] It's worth remembering that, even in the post-war multilateral-focused world, even this was hardly exactly a universal standpoint.

[9] In a private meeting during the conference, Morgenthau said: "Whether it is done between governments or whether it is done here, this thing is a matter of postponing the day of reckoning ... the financial center of the world is going to be New York and we don't want to postpone this thing until another day where we may not be in as advantageous a position and maybe have then to get in a horse-trading position and maybe end up by having it in London. Now the advantage is ours here, and I personally think we should take it." (Morgenthau Diary 753, p. 162).

This combination of factors meant that the relationship between Britain and the United States was a testy one. Keynes and White would fight ferociously throughout their early negotiations in 1943. Difficult as it was, however, it was hardly the only significant dynamic at the conference. In fact, most of the two countries' battles had already been fought and, in Britain's case, lost, by the time they arrived in New Hampshire.

While the participants had plenty of their own individual difficulties, they all shared one common complaint: that it was *extraordinarily* hard work. Most of the delegates at Bretton Woods were perfectly used to long, gruelling days. Since the war began Lionel Robbins had been mostly living in the Cabinet Office. Back home, 18 hour working days were pretty common.

But even by their standards, the work at the conference was exhausting, difficult, and emotionally-draining. At one stage, Fred Vinson, Morgenthau's deputy, described the British delegation as completely "fagged". White admitted that he was "cracking up" and Ned Brown, the 20-stone Chicago banker who was the most macho of all the delegates, burst into tears in full view of everyone during one session.[10]

Part of the problem was that even though much of the preparatory work had been done many months earlier – largely by the Americans – attempting to get agreement on everything, from the structures of the monetary system to the quotas for each nation, within three weeks, was nigh-on impossible. And the owners of the hotel were insistent that the very latest the delegates could leave was July 24th when a new batch of guests was arriving.[11]

It is tempting, for some economic historians, to treat details such as all of those above as mere anecdote and noises-off, fundamentally irrelevant to the actual economic decisions made at the conference – and that is broadly what most accounts of Bretton Woods have done. To do so is a mistake, however. What was agreed at the Mount Washington in July 1944 was an astonishing achievement. In the course of those three weeks the architects devised a system of rules which would preside over the world economy for decades. As Michael Bordo has documented, during the Bretton Woods era the international economy grew more rapidly, with more stability and fewer banking crises or economic imbalances than in any other comparable period – though as we all know those yardsticks do disguise a multitude of sins.[12]

[10] Morgenthau Diary 755, p. 81.

[11] What the hotel owner, David Stoneman, didn't reveal was that the reason for the forced departure was that the hotel was hosting another conference for none other than the American Banker's Association – the lobby group which was most determined to destroy the Bretton Woods agreement (*Louis Rasminsky unpublished memoirs*).

[12] Bordo, M., B. Eichengreen, D. Klingebiel and M. S. Martinez Peria. 2001. Is the crisis problem growing more severe? *Economic Policy*. Vol. 16(32). 51–82.

However, what was agreed at the Mount Washington was also pockmarked with mistakes, peppered with inadvertent clauses which would later either become redundant or would cause problems. It is remiss to consider this great but imperfect system without considering the sometimes histrionic circumstances under which it was constructed, and the mindset of those who were building it.

Why? Because neglecting to do so can lead to major misconceptions. Take one example, something which some historians have pinpointed as a seminal event, perhaps *the* central event of the conference: the moment the dollar sign was incorporated into the Articles of Agreement. White's strategy, in Van Dormael's telling, involved replacing the term "gold and convertible exchange", which was in the text whenever it wanted to refer to a benchmark yardstick of value, with the term "gold and the US dollar".[13] Doing so would effectively crown the US dollar as the world's most important currency, but the process of getting it past the dastardly British would involve a few crafty steps.

The account continues as follows: on the morning of July 13, midway through the conference, White enigmatically informed his American colleagues that that afternoon's meeting was "extremely important. This is where we either fish or cut bait on most of these things." And, lo and behold, that very afternoon the question of what that enigmatic phrase "gold and convertible exchange" actually meant came up; it was indeed changed to "gold and US dollars". The changes were inserted into the articles of agreement at one of the late night drafting sessions. The upshot, so this version goes, is that White managed, surreptitiously, to insert the US dollar into the official Bretton Woods agreement, against the will of most other delegates, including the British. America's place at the pinnacle of the economic pyramid was thus cemented for years to come.[14]

One can see why such a version of events seemed compelling in the 1970s, given that the dollar's place in the international monetary system had been responsible in large part for the dissolution of the Bretton Woods system. However, the 1970s international monetary mindset was quite different to the one which reigned in the 1940s.

More importantly, this version of history simply doesn't stand up to proper scrutiny. It's certainly convenient, in that it reinforces the notion that Bretton Woods was primarily a battle between White and Keynes. But when you examine the day's events in more detail they present a rather more ambiguous story. For the delegate who brought up the question of what to do with that complex term, "convertible exchange", was not an American but an Indian delegate. The delegate who sug-

[13] Steil, B. 2013. *The Battle of Bretton Woods*. Princeton. 214.

[14] The transcripts are available in the IMF Archives and in: Kurt Schuler and Andrew Rosenberg. 2012. *The Bretton Woods Transcripts*. 2012. New York.

gested inserting the dollar sign in there was not an American but a Briton – and not just any Briton: Dennis Robertson, one of the country's most venerable economists.

For the reason why, one must recall one of the important back-stories to the conference: India had been pressing Britain throughout Bretton Woods, attempting to secure some sort of commitment that it would be allowed to convert its sterling debt into dollars. For Britain, such a prospect would be disastrous; for London the c-word – convertibility – had become a byword for financial disaster.

Robertson took matters into his own hands. The dollar was the only convertible currency in the world; it would almost certainly remain so for some years yet. So, rather than leaving a loophole open for India to leap through after the conference, he suggested doing away with the disconcertingly vague phrase "convertible exchange" and replacing it with "US dollars", which no-one would mistake for sterling. This was hardly whimsy – he continued to press for these changes both at the late night drafting committee and in the full commission meeting the following morning.

In other words, the evidence suggests that the reason the US dollar was legally enshrined as the world's reserve currency was due as much to a spat between India and Britain as it was to a grand American plan. Well, either that or Harry Dexter White really was the finest tactician of the past century, managing to recruit the Indians and British as operatives while keeping the entire plan a secret from his closest American colleagues[15].

But this, too, seems unlikely.

For if there was one person who was aware of the problems posed to the rest of the world by formalising the dollar's role in the international monetary system, it was White. In the course of my research I came across some intriguing unpublished documents written by the architect of the IMF shortly before his death. In them, he argued that the USA should consider changing the gold value of the dollar from the USD 35 an ounce level effectively formalised at Bretton Woods to the old gold standard value of USD 20.67. The suggestion, he wrote, "will doubtless seem startling to many", but if the United States failed to do so, he added, there would be a "terrific price to pay". His concern, at the time, was that the US dollar was undervalued – as opposed to the overvaluation it would later suffer from in the 1960s and

[15] He did not mention the plan at this, or indeed any other private meeting of the American delegation. Indeed, even in their (even more private) planning meetings at Atlantic City the previous month he and Bernstein agreed that "gold convertible" would be best translated as "gold or its equivalent". Except for a briefing document for Morgenthau, which replaced the phrase with "dollars" in an effort not to confuse the Treasury Secretary, there is simply no evidence that the Americans intended to make this change. To believe that White really planned such a change, one also has to believe that he was capable of widespread deceit – which perhaps helps explain why some historians remain convinced that White was a determined Communist spy, rather than the indiscreet private diplomat the evidence largely paints him as.

1970s. All the same, this equivocation is wildly at odds with the depiction of White as someone determined to implant the dollar sign into international legal frameworks, whatever the consequences.[16]

Why do these misconceptions matter? Because they reinforce the erroneous notion that at least a handful of the men and women at the Mount Washington Hotel had a masterplan, and a pretty good idea of how it would end up performing. They didn't. There was a broad plan. There were broad objectives. But the final product was hardly a thing of beauty. The articles were warped and misshapen by the fraught nature of the negotiations at the hotel. It wasn't just Dennis Robertson's amendment. Pierre Mendes France's complaints eventually elicited a permanent seat for France on the IMF board. The Russians were kept happy with a stream of amendments, most of which still sit, redundant, in the official IMF and World Bank articles.[17]

If there was an American masterplan, it was to keep the Articles of Agreement as vague as possible. Time and time again, Keynes attempted to get White and his assistant Eddie Bernstein to be more specific about what their system would involve. He accused them of writing the whole thing in what he called "Cherokee" – an opaque kind of legal jargon. But the "Cherokee" wasn't purely a hallmark of the strong American legal tradition – it also served a purpose. White and Bernstein were well aware that the more specifics there were in the Articles, the more pinch-points there would be which could serve to undermine the stability of the system.

The US dollar clause is a good example: whether or not it was in there, the US currency would have become the world's reserve currency anyway, with all the "exorbitant privilege" this entailed; Nixon would almost certainly have closed the gold window as he did in 1971. But while giving the currency a formal role within the articles may have seemed logical to most of the participants at the time, it ultimately made the agreement more fragile. The same went for a whole range of areas where the 1944 authors were simply off-ball with the details: the size of quotas and the projected amounts that would be made available to recipient countries, to give just two examples. The IMF's post-war survival depended on its officials quietly bending many of these rules rather than obeying them.

So one obvious lesson for anyone considering what a 21st international monetary agreement might look like is that the more specific it is, the more fragile it is likely to be. Any framework that snugly fits today is unlikely to fit well tomorrow. A second lesson – a challenge really – goes back to those circumstances under which

[16] White Papers, Princeton, Box 9/18, undated notepad.

[17] Even the Russians were taken aback with their success at the conference. One confidential account, hitherto unpublished, exclaims that when it came to one clause about the Soviet Union being able to control its own exchange rate, "The Commission Chairman, White, railroaded our wording so quickly and without any discussion, that the majority of the delegations that took part in the meeting of the Commission on the Monetary Fund were not aware of the substance of this change."

Bretton Woods took place. The world was at war. The international monetary system had been in disarray for most of the previous couple of decades. And there was a single superpower with the authority to impose new rules. It is hard to imagine all of those criteria being in place any time soon. And yet they were essential elements. Even the authors themselves were well aware that there was a very limited time window within which a new monetary system could be laid down. White admitted that "within a few years after the end of the war you won't be able to get an international arrangement of this kind any more than you could fly."[18]

This would suggest that it is impossible to construct another Bretton Woods style system today – and indeed almost every policymaker I spoke and listened to, from Olivier Blanchard and Adair Turner to Mervyn King and Paul Volcker, thought that the notion of imposing anything as comprehensive and far-reaching as Bretton Woods today was essentially fantasy. Nor is there much public enthusiasm for such reforms. Indeed, when one reads the coverage of the financial and economic crisis of the past five years, it is only occasionally that one hears people make the point that much of what happened since 2007 was due to dysfunctions in the international monetary system. Instead bankers, errant politicians and lax regulators are the usual scapegoats. For those who hope that this could have been a wake-up call, the prelude to a new Bretton Woods, such sentiments are no doubt mildly depressing.

On the bright side, however, there is at least some reassuring evidence from the past. Even in the depths of the 1930s, in the midst of the world's greatest economic catastrophe, even among the most educated financial practitioners, no-one much cared about the international monetary system either. When Harry Dexter White came to London and met Keynes for the first time he found it "surprising to find so little concern – almost a complete lack of interest – in exchange problems, gold standard, and the like, among the business men."[19]

As the Bretton Woods agreement was being formulated, the news on the front pages of many of the papers, the Office of War Information in the United States sent its correspondents out to survey public opinion about this monumental achievement. Some days later they came back.

"There is virtually no public opinion about the Bretton Woods conference," they concluded. "Not one in a thousand even knows there was a Bretton Woods conference," reported one of their staff. "Most of them think it had something to do with fuel question. Sorry but that's facts." The conference and its "swank environment", added another, "has an aura of mystery, it has sinister implications with a dime novel drop curtain".[20]

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[18] Morgenthau Diary 749, p. 161.

[19] White Papers, Princeton, 7/1, Summary of conversations with men interviewed in London, 13 June 1935.

[20] Morgenthau Diary 752, pp. 279–280.

In other words, don't be fooled into thinking that when the Bretton Woods agreement was agreed in 1944, it happened against a far more permissive, understanding backdrop of public opinion. The circumstances may have been different – the economic and political systems may have been far more ravaged than they are now. But it happened not because it was inevitable, but because a small group of economists and policymakers thought it was the right thing to do. So perhaps it's not entirely impossible today either.