PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 29

Early Plans for a World Bank

Robert W. Oliver

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
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PRINCETON STUDIES IN INTERNATIONAL FINANCE

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EARLY PLANS FOR A WORLD BANK

I. INTRODUCTION

This is an account of the early proposals which eventuated in the International Bank for Reconstruction and Development—the World Bank. The major emphasis is upon the work of the Division of Monetary Research of the United States Treasury Department, particularly that of Harry Dexter White,[1] for it was the Bank draft conceived by White which eventually became the Articles of Agreement of the working Bank.

This is an appropriate moment for such an account since the Bank celebrates its silver anniversary in 1971. On March 8, 1946, the Inaugural Meeting of the Board of Governors of the Bank and the Fund was convened at Wilmington Island near Savannah, Georgia, in the United States. The first meeting of the Executive Directors of the Bank and the Fund took place in Washington on May 7. On June 4, Mr. Eugene Meyer, editor and publisher of *The Washington Post*, was nominated by President Truman and elected by the Executive Directors as the

[1] From June 1934 until April 1946, when he became the first United States Executive Director of the International Monetary Fund, a position he held until March 31, 1947, Dr. Harry Dexter White occupied a series of increasingly important posts in the Treasury Department—from Economic Analyst and Assistant Director in the Division of Research and Statistics, to Director of the Division of Monetary Research, all the way up to Assistant Secretary of the Treasury.

After he had left the Treasury, White was publicly accused of being, or having been, a Communist and of passing classified information to unauthorized personnel. The records of the Federal Bureau of Investigation presented in *Hearings before the Subcommittee to Investigate the Administration of the Internal Security Act and Other Internal Security Laws of the Committee on the Judiciary, United States Senate, Eighty-Third Congress* (Washington: Government Printing Office, 1954), pp. 1160 ff, appear to have been generally accepted in this regard, though White, shortly before his death from a heart attack on August 16, 1948, strongly denied the accusation, and his family subsequently prepared and published a book: *Harry White, Loyal American.*

According to the official biography of Henry Morgenthau, Jr., Secretary of the Treasury from January 1, 1934, to July 18, 1945, "Morgenthau in all his years in office had no reason . . . to doubt White's competence or loyalty or value to the department." John Morton Blum, *Roosevelt and Morgenthau,* A Revision and Condensation of *From the Morgenthau Diaries* (Boston: Houghton Mifflin, 1970), p. 462.

It would be unfortunate in any event if opinions about White as a person were permitted to obscure or dilute the facts of the history of the World Bank and the International Monetary Fund.

first president of the World Bank. Formal Bank operations began on June 25, when the member nations were asked for payment of the first 2 per cent of their subscriptions.

This is also an appropriate moment to remember the intentions of those who dreamed about the post World War II world, for some of the components of the Bretton Woods system have come under attack in recent years. There has been much criticism of the system of foreign exchange rates allowed to fluctuate only within a narrow band around fixed par values which are changed infrequently and only in response to overwhelming evidence of balance-of-payments disequilibrium. There has also been criticism of international foreign aid: some feel that charity should begin at home and others believe that existing programs are designed to benefit the advanced rather more than the less developed countries. While this study does not deal with these issues *per se*, it may shed some light on reasons for the exchange rate and international-aid system now in existence.

This story has received scant attention in the literature, partly because most histories have concentrated more on the Fund than the Bank and usually begin with the publication in 1943 of the Keynes Clearing Union Plan.[2] Within the Bank itself it has been taken for granted that little of consequence occurred before 1947, when John J. McCloy became president and charted the course followed by the Bank for the ensuing decade and a half. In a sense, this is a proper perspective, for the Bank nurtured by McCloy, Robert Garner, and Eugene Black was different in some respects from the Bank born at Bretton Woods. In recent years, however, as the Bank has become less concerned about the market for its bonds, it has become anxious to join with other international bodies and governments to "relate aid and development policies to those concerned with trade, monetary policy

[2] In particular see Richard Gardener, *Sterling-Dollar Diplomacy* (Oxford: Clarendon Press, 1956); J. Keith Horsefield, *The International Monetary Fund*, 3 volumes (Washington: International Monetary Fund, 1969); and Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951). For descriptions of other aspects of postwar planning, see Ernest F. Penrose, *Economic Planning for the Peace* (Princeton, N.J.: Princeton University Press, 1953); William Adams Brown, Jr., *The United States and the Restoration of World Trade* (Washington: The Brookings Institution, 1950); George N. Halm, *International Monetary Cooperation* (Chapel Hill: University of North Carolina Press, 1945); Raymond F. Mikesell, *United States Economic Policy and International Relations* (New York: McGraw-Hill, 1952); and Department of State, *Postwar Foreign Policy Preparation, 1939-1945*, Department of State Publication 3580, General Foreign Policy Series 15 (Washington: Government Printing Office, 1950).

and private capital Movements"[3]—all of which is interesting in the light of the postwar planning of the early 1940's.

The postwar planners never presumed that the individual parts of the total solution of the world's economic problems should be considered in isolation. Relief, reconstruction and development lending or giving, balance-of-payments adjustments, monetary and trade matters, countercyclical income policies, and national and international politics were all understood to be related, and organizations dealing with the various pieces were supposed to work closely together. The American planners desired the participation by all nations in international economic decision-making, and, with due regard for the limitations unavoidably imposed by nationalism, they were genuinely concerned with the welfare of the planet. Their major objective was to provide a world within which competitive market forces would operate freely, unhampered by governmental interference, for they supposed that market forces would produce optimum results for the entire world.

They sought to make trade barriers as moderate and nondiscriminatory as possible, to provide for international collaboration aimed at high-level employment, and to encourage the movement of long-term capital from capital-rich to capital-poor areas. As Jacob Viner put it, they were

> . . . trying to reverse the whole trend of policy and practice of the world at large in the field of international economic relations since 1914 and especially in the ill-fated years since 1929. [They were] attempting to do this, moreover, in the face of a skeptical world, undecided as to its objectives, and in particular lacking solid faith in the virtues of a pattern of international economic collaboration which can be reconciled with difficulty, if at all, with the comprehensive national planning of domestic economies to which most of the governments [were] strongly committed.[4]

At about the same time (April 1941) that a Committee of the United States Senate was considering the proposal for an Inter-American Bank, White began work on his Suggested Plan for a United and Associated Nations Stabilization Fund and a Bank for Reconstruction and Devel-

[3] Lester B. Pearson *et al.*, *Partners in Development* (New York: Praeger, 1969), p. 228.

[4] In Murray Shields, ed., *International Financial Stabilization, A Symposium* (New York: Irving Trust Company, 1944); reprinted in Jacob Viner, *International Economics* (Glencoe, Ill.: The Free Press, 1951), p. 233.

opment of the United and Associated Nations. His plan was an outgrowth of the Inter-American Bank proposal, though it embodied his own thoughts and the thoughts which had been expressed during earlier discussions within the Treasury Department.

White believed that the first international monetary problem to be solved was that of securing stable, though not rigid, foreign-exchange rates and freely convertible currencies. None of the other American objectives could be attained, he felt, if the various governments controlled and manipulated their foreign-exchange markets as had the Germans during the thirties. He proposed, therefore, an international agency (the Fund) which would help member governments decide which exchange rates should be maintained and would assist them in maintaining these rates by making available appropriate foreign currencies whenever *temporary* balance-of-payments disequilibria developed.

White then proceeded to provide for the attainment of other American objectives. He proposed an International Bank whose primary objectives would be to provide or otherwise stimulate long-term, low-interest-rate loans for reconstruction and for the development of capital-poor areas. He indicated that it might also finance an international development corporation and a stabilization program for international basic-commodity prices, and it might arrange its lending so as to combat international business fluctuations.

White was convinced that private investors could not be relied upon to provide the capital that would be needed for postwar reconstruction. He also felt that even after the postwar transition period, the normal flow of capital from rich to poor areas could not be left solely to the private investment markets of the world. The lessons of the twenties had been that long-term private capital movements tended to enforce, rather than mitigate, the spread of international business fluctuations and that the high interest rates and the relatively short-term maturities of private portfolio investments tended to make unproductive what might otherwise be productive international ventures. Ill-feeling on the part of both borrowers and lenders was the result.

The lesson of the thirties had been that unilateral national action could not bring a revival of international trade and investment along the liberal lines which had existed in large measure during the greater part of the nineteenth century.

This is not to say that White conceived of an International Bank which would supersede private investing, but rather one which would serve as a supplement. It would help to stimulate private investment in the post-transition period by guaranteeing private loans, and it would make loans directly only when it approved a worthwhile project that could not be financed privately at a reasonable rate of interest.

White was anxious that the loans of the Bank should result in permanently raising the standard of living of the borrowing country. He desired to avoid loans that would finance armaments or permit careless budgetary practices. He also wished to avoid loans that would be used for the purpose of repaying old loans. White was specific in stating that a loan could only be made after a careful study and a written report had been made by a competent committee on the merits of the projects to be financed.

The most novel feature of White's proposal was that the Bank might issue its own International Bank notes. These would be backed by a minimum of 50 per cent gold and would be "as good as gold" in international exchange. If the Bank's lending policies had been related to worldwide liquidity requirements, it could have become a sort of world central bank not unlike the supernational bank proposed by Keynes in the late 1920's.

Perhaps the most important feature of White's plan in the long run, a point on which he was adamant, was that the Bank must be truly international. It must not be a rich man's club. The poorest and smallest countries must be represented in the decision-making process, even if not on the one-country-one-vote basis of the General Assembly of the United Nations.

This study does not include a discussion of the reasons for the modifications of White's first draft nor of the negotiations leading to the Bretton Woods Conference. That is another story.[5] Nor does it include an account of the relevant discussions in wartime London among the representatives of various occupied countries. That also is another story.[6] The background of Anglo-American collaboration will be mentioned, as will the early plans of the American State Department, the Council on Foreign Relations, and the Board of Economic Warfare. In general, this is an account of the climate of opinion in wartime Washington regarding the postwar world.

[5] See Robert W. Oliver, *The Origins of the International Bank for Reconstruction and Development*, unpublished doctoral dissertation, Princeton University, June 1957.

[6] See J. W. Beyen, *Money in a Maelstrom* (New York: Macmillan, 1949).

II. ANGLO-AMERICAN POSTWAR ECONOMIC PLANNING

The appearance of recovery from the First World War was achieved during the late twenties, but sources of potential international disequilibrium remained: disequilibrium gold-currency ratios and, hence, exchange rates; an unequal international distribution of gold; large and growing short-term assets held abroad; erratic long-term capital movements; increasingly rigid price and wage structures; war-debt and reparations obligations; high tariff barriers; and the preoccupation of central banks with domestic rather than international monetary policy. With the Great Depression the gold-standard system of balance-of-payments adjustment collapsed, and economic nationalism became the order of the day.

The Background

The Americans, who had rejected many proposals for intergovernment economic cooperation during the twenties, became much concerned over the drift toward competitive currency devaluation, exchange controls, state trading, international cartels, bilateralism, and so forth. Following the 1933 experiment of changing the dollar price of gold, they came again to prefer stable, if not altogether inflexible, foreign-exchange rates, and they deplored foreign discrimination against American exports.

The American State Department sought the acceptance by all governments of lower trade barriers and unconditional-most-favored-nation treatment in international commercial relations, while the Treasury Department began its search for an international monetary system which might allow greater scope for national monetary action than had the gold standard, but which might also insure multilateral international payments, freely convertible currencies, and a reasonable degree of exchange-rate stability.

In 1936 the Treasury Department scored a victory of sorts when the Tripartite Agreement between the United Kingdom, France, and the United States was arranged and competitive devaluation among the major or key currencies ceased. But the dollar remained slightly undervalued relative to the pound, the franc gradually declined in value relative to the pound and the dollar, and gold continued to flow to America. No permanent international monetary arrangement had been found to replace the gold standard by 1939 when the Nazis invaded Poland,

and international monetary matters were high on the agenda of items to be considered by the wartime planners.

For their part, by the time the pound was freed from gold (1931), the British had developed a fear of deflation, particularly deflation dictated by external events. They consistently opposed a return to any international monetary system such as a gold standard which would require permanently fixed foreign-exchange rates. They were more interested than the Americans in the balance-of-payments adjustment process, and they considered balance-of-payments problems more than did the Americans from the standpoint of debtor and/or deficit nations. Some British economists, following Keynes, tended to favor fluctuating (though not necessarily freely fluctuating) exchange rates, and some (particularly those in sympathy with the policies of the Labor Party) tended to favor import restrictions and exchange controls. In either case, they were at odds with most of their American counterparts.

By the mid thirties, both the British and the Americans had become suspicious of international, long-term capital movements, though for different reasons. Following the arguments of Keynes,[7] the British suspected that long-term capital exports might injure the lending country. They were not at all convinced that the exports of the lending country would increase automatically as a consequence of foreign

[7] During the 1920's, Keynes wrote a number of articles and tracts inveighing generally against most international long-term lending and particularly the long-term lending of the United Kingdom. In *A Revision of the Treaty* (London: Macmillan, 1922), p. 162, Keynes wrote: "If European bonds are issued in America on the analogy of the American bonds issued in Europe during the nineteenth century, the analogy will be a false one; because, taken in the aggregate, there will be no natural increase, no real sinking fund, out of which they can be repaid."

In three articles appearing in *The Nation & The Athenaeum*, "Does Unemployment Need a Drastic Remedy?" (May 24, 1924); "A Drastic Remedy for Unemployment" (June 7, 1924); and "Foreign Investment and National Advantage" (August 9, 1924), Keynes argued that loanable funds should be used to purchase domestic rather than foreign securities, since new domestic investment was needed to deal with domestic unemployment. He advocated giving the Treasury discretionary powers over the issuance in London of new foreign securities. See Theodor E. Gregory, "Foreign Investments and British Public Opinion," *Foreign Investments*, Lectures on the Harris Foundation, 1924 (Chicago: University of Chicago Press, 1928), p. 113.

In "The British Balance of Trade, 1925-27," *Economic Journal*, Vol. 37 (December 1927), pp. 551-65, Keynes pointed out that, since 1926, the British had been investing abroad annually more on long-term account than they had been earning net on current account, the difference being made up by a potentially dangerous inflow of short-term capital.

Keynes remained suspicious of foreign investing at least until the Atlantic City meetings which preceded the Bretton Woods Conference in July 1944.

investments, and, at least in the case of British overseas investments, they were concerned that capital outflow might result in downward pressure on the external value of sterling. Thus, after 1931 the Bank of England, in conjunction with the British Treasury, imposed unofficial restrictions against the sale in Great Britain of foreign securities.

The British also felt that the burden of deflation and declining imports might become unbearable for a borrowing country if the lending country should erect barriers against its imports, if the lending country were unable to maintain its national income at a high level, or if the capital outflow from the lending country were highly erratic. In short, the British looked upon long-term capital movements largely in terms of balance-of-payments adjustments. They maintained that creditor as well as debtor nations ought to assume certain international responsibilities, and they apparently felt that, if balance-of-payments problems could be solved, long-term capital movements would require little additional consideration.[8]

The Americans tended to think of foreign-investment problems as distinct from short-run, balance-of-payments considerations. They paid much attention to the extent of, and the reasons for, the defaults after 1930 on American overseas investments, and they became wary of proposals that appeared likely to foster exports of American capital over which they might have no control. They felt, moreover, that a world-wide revival of long-term lending would require more adequate repayment guarantees on the part of the governments of the borrowing countries and that more care would have to be exercised by lenders to insure that the borrowed funds might be productively employed.

Of course, the foregoing is an oversimplified and extremely general summary of contrasting British and American views at the end of the depression decade. Exceptions to, and elaborations of, these approaches were expressed on both sides of the Atlantic. Anglo-American differences were differences in emphasis, moreover, rather than irreconcilable opposites, and there was a wide area of accord. By 1941, the British and the Americans were in substantial agreement that international trade should be balanced on a multilateral, rather than a bilateral basis, that the gold standard should not be resurrected, that the trade and foreign-exchange controls employed by Nazi Germany were detrimental to the peace and prosperity of the world, and

[8] See, for example, James E. Meade, *The Economic Basis of a Durable Peace* (New York: Oxford University Press, 1940), pp. 106-12.

that some system of organized international economic cooperation was probably desirable.

Because of common military and political interests and capabilities and in response to Article VII of the Master Lend-Lease Agreement, the Americans and the British were primarily responsible for planning the postwar international economy.

Keynes' Proposals

In June 1940, John Maynard Keynes accepted an invitation from Sir Kingsley Wood, the Chancellor of the Exchequer, to be a member of a Consultative Council. In this advisory capacity, he worked on many wartime problems, including the Bretton Woods negotiations.

Late in 1940, he prepared a memorandum on the relation between anticipated postwar balance-of-payments problems of the United Kingdom and the wartime liquidations of overseas British investments—a subject which he discussed with American officials in Washington during the late spring and summer of 1941. While in Washington he also had occasion to discuss the embryo Article VII of the Master Lend-Lease Agreement. Upon his return to London in the late summer of 1941, as a part of the British program to implement the Lend-Lease Agreement, Keynes began work on his Proposals for an International Clearing Union. His primary objective was to provide for an international organization which might deal with temporary balance-of-payments difficulties (rather than long-term capital movements) after the transitional postwar difficulties had been overcome.[9]

Keynes recognized that some international agreement regarding international investment would be desirable. In the Preface to his Proposals, he suggested that international economic cooperation should proceed along four main lines: (1) the mechanism of currency and exchange; (2) commercial policy; (3) production, distribution, and pricing of primary products; and (4) international investment. But, though in 1944 he proposed a number of amendments to the American plan for an International Bank for Reconstruction and Develop-

[9] See Ernest F. Penrose, *Economic Planning for the Peace* (Princeton, N.J.: Princeton University Press, 1953), pp. 44-45.

For a summary of the discussions concerning the Keynes Proposals and the other wartime plans for international monetary stabilization, see George N. Halm, *International Monetary Cooperation* (Chapel Hill: University of North Carolina Press, 1945). The basic similarity between the Clearing Union Proposals and Keynes' earlier plan for a Supernational Bank described in his *Treatise on Money* is obvious. (New York: Harcourt Brace and Company, 1930, pp. 395 ff.)

ment, he never devised his own plan for an international investment organization.

There may have been several reasons for this. Keynes may have felt, as did the Americans, that discussions on exchange stabilization should precede the discussions on the other main lines of international economic cooperation. He may have been deterred by his antagonism to international investment. He probably shared the prevailing British opinion that it was for the Americans to initiate any discussions regarding overseas investment.[10]

Keynes insisted that the drawing rights in his Clearing Union were not to be used to finance long-term international investment.[11] In a speech before the House of Lords on May 18, 1943, he stated:

> It is most important to understand that the initial reserve provided by the Clearing Union is not intended as a means by which a country can regularly live beyond its income and which it can use up to import capital goods for which it cannot otherwise pay. Nor will it be advisable to exhaust this provision in meeting the relief and rehabilitation of countries devastated by war, thus diverting it from its real, permanent purpose. These requirements must be met by special remedies and other instrumentalities.[12]

[10] See Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), p. 533: "In regard to international investment, it was agreed that the British ought not to take an initiative, on the ground that they would not be in a position in the period immediately following the war to contribute substantial sums toward it. It was for the Americans to take the initiative in this part of the field."

In personal correspondence with the writer (September 13, 1952), Harrod reaffirmed this point as follows: "The official British view at that time was—and I don't think Keynes dissented—that the U.K. would have few spare funds for overseas investment after the war and that, therefore, if there was to be a big, bold plan on these lines, the U.S. must take the initiative. If the U.K. took the initiative in a big way and then said they could only put up £2-10 they would look rather foolish!

[11] See his Clearing Union Proposal, Sections 36, 41 and 42.

[12] See *Parliamentary Debates on an International Clearing Union*, British Information Services, July 1943, pp. 77; quoted in Halm, *op. cit.*, p. 161. The full text of this speech has been reprinted in Seymour E. Harris, ed., *The New Economics* (New York: Alfred A. Knopf, 1948), pp. 359-68.

In personal correspondence with the writer (September 13, 1952), Harrod emphasized the point further: "[Keynes] was anxious that big post-war reconstruction burdens should be thrown elsewhere, *not* into the permanent institutions. He was most anxious that the Clearing Union should be fully international with all countries having their chance of being plus or minus at the end of a period. He would have opposed and resented the idea that this should be thought of as an agency for distributing U.S. money. And I agree with Keynes most warmly."

Nevertheless, a clear distinction was never drawn by Keynes between the period of transition from war to peace and the more permanent period to follow. Certainly the American negotiators never considered the Clearing Union Proposals solely in terms of a post-transition period which would be characterized at the outset by balance-of-payments equilibrium for all member nations.

Regardless of whether the Clearing Union would have begun operations in the transition or the post-transition period, the Americans feared that it would enable many nations to finance substantial current-account deficits of a semi-permanent nature without really being obliged to take the necessary steps to restore external equilibrium. What, the Americans asked, would prevent a nation from fostering the sort of enduring inflation that would lead to a more or less continuous balance-of-payments deficit on current account?

Keynes did include a proposal that, under certain conditions, the governing board of the Clearing Union might restrict the right of a member nation to make additional use of the Clearing Union's facilities, and deficit nations would have been limited, in the last analysis, by the size of their quotas. Keynes also argued that a surplus nation could prevent an undesired accumulation of credits by reducing its trade barriers, extending international loans, appreciating its currency, and/or instituting domestic credit expansion.

The Americans feared that the Clearing Union would force inflation upon a surplus nation (the United States) and/or compel it to provide unrequited exports—to grant foreign loans, in other words, over which it would have no control.[13]

Keynes denied that such an eventuality was any part of his intentions.

> . . . There is no foundation whatever for the idea that the object of the proposals is to make the United States the milch cow of the world in general and of this country in particular. In fact, the best hope for the lasting success of the plan is the precise contrary. The plan does not require the United States, or any other country, to put up a single dollar which they themselves choose or prefer to

[13] See, for instance, Jacob Viner, "Two plans for International Monetary Stabilization," *Yale Review*, XXXIII (September 1943); reprinted in his *International Economics* (Glencoe, Ill.: The Free Press, 1951), pp. 192-215.

See also John H. Williams, "Currency Stabilization: The Keynes and White Plans," *Foreign Affairs*, July 1943; reprinted in his *Postwar Monetary Plans and Other Essays*, 3rd ed. (New York: Alfred A. Knopf, 1947), pp. 13-14, 29-32.

employ in any other way whatever. The essence of it is that if a country has a balance in its favor which it does not choose to use in buying goods or services or making overseas investments, this balance shall remain available to the Union—not permanently, but only for just so long as the country owning it chooses to leave it unemployed. That is not a burden on the creditor country. It is an extra facility to it, for it allows it to carry on its trade with the rest of the world unimpeded, whenever a time lag between earning and spending happens to suit its own convenience.

I cannot emphasize this too strongly. This is not a Red Cross philanthropic relief scheme, by which the rich countries come to the rescue of the poor. It is a piece of highly necessary business mechanism, which is at least as useful to the creditor as to the debtor. A man does not refuse to keep a banking account because his deposits will be employed by the banker to make advances to another person, provided always that he knows that his deposit is liquid and that he can spend it himself whenever he wants to do so. Nor does he regard himself as a dispenser of charity whenever, to suit his own convenience, he refrains from drawing on his own bank balance. The United States of America, in my humble judgment, will have no excessive balance with the Clearing Union unless she has failed to solve her own problems by other means, and in this event the facilities of the Clearing Union will give her time to find other means, and meanwhile to carry on her export trade unhindered.[14]

The Americans remained skeptical. They believed that the suggested quotas were unnecessarily large if currency stabilization in the post-transition period were really the sole objective, and they felt that too much of the burden of balance-of-payments adjustments was being placed on the surplus nation or nations.[15] Moreover, by September 1943, when they officially rejected the Keynes Proposals as a basis for further negotiation, the Americans had in hand not only a plan for an international currency-stabilization organization but also a plan for an international organization which might foster international investment. It seemed advisable to establish two separate organizations to deal with temporary problems of the balance of payments and the longer-run problems of reconstruction and development.

[14] See Harris, *op. cit.*, pp. 365-66.

[15] This opinion was most forcefully stated by Leo Pasvolsky in a personal interview in July 1950. During the war, Pasvolsky was a Special Assistant to Secretary of State Hull.

The second of these is the subject of the remainder of this study.

The State Department

On September 16, 1939, shortly after the outbreak of the war, Secretary of State Cordell Hull appointed Leo Pasvolsky of the Brookings Institution as his Special Assistant to work on problems of the peace. This was the beginning of State Department planning for the postwar world.[16] Secretary Hull hoped that the United States might serve in a neutral capacity to bring the war to a speedy conclusion by sponsoring a plan which would remove the causes of prewar tension.

Early in 1940, an Advisory Committee on Problems of Foreign Relations was officially organized within the State Department, with subcommittees to deal with political problems, limitations and reductions of armaments, and economic problems.[17] The Subcommittee on Economic Problems suggested that a conference of neutral nations be held to discuss raw materials, commercial policy, credit and investment policy, and monetary policy. On February 8, 1940, Secretary Hull actually began discussions with the representatives of 47 neutral nations as to the possibilities of holding such a conference, but the idea was abandoned in April when it became apparent that the Nazis were about to overrun France, an event which compelled "immediate consideration of the economic and political consequences to the United States of a possible German victory."[18] During the remainder of 1940, postwar planning was virtually abandoned by the State Department, because of the need for consideration of the day-to-day operations of the war,[19] and the major research activity of 1941 was the drafting of the Master Lend-Lease Agreement.

[16] For a detailed statement of State Department planning during the period from 1939 to 1945, see Department of State, *Postwar Foreign Policy Preparation, 1939-1945*, Department of State Publication 3580, General Foreign Policy Series 15 (Washington: Government Printing Office, 1950). See also Cordell Hull, *The Memoirs of Cordell Hull* (New York: The Macmillan Company, 1948), vol. II, pp. 1625-1713; and John Parke Young, "Developing Plans for an International Monetary Fund and a World Bank," *Department of State Bulletin*, Vol. 23 (November 13, 1950), pp. 778-90.

[17] The members of the Subcommittee on Economic Problems were Leo Pasvolsky, Special Assistant to the Secretary; Adolf A. Berle, Jr., Assistant Secretary of State; Henry F. Grady, Assistant Secretary of State; and Herbert Feis, Economic Adviser to the State Department. Department of State, *op. cit.*, p. 22.

[18] *Ibid.*, p. 28.

[19] An Interdepartmental Group to Consider Postwar International Economic Problems and Policies was organized after the conference of neutral nations had become impossible, and this group did hold several meetings toward the end of

In October 1941, Dr. Pasvolsky pressed Secretary Hull for a reactivation of the Advisory Committee on Post-War Foreign Policy. In a letter to President Roosevelt written two weeks after the Japanese attack on Pearl Harbor, Secretary Hull recommended that this Committee be officially organized. The President approved, and representatives from the important administrative departments and agencies became members. At the first meeting, the acting chairman explained "that by direction of the President, only this Committee and, in a more limited field, the group of officials gathered under Vice President Wallace as Chairman of the Board of Economic Warfare were making authorized preparations concerning postwar foreign policy, and the recommendations of both were to be channeled to the President through the Secretary of State."[20]

Six subcommittees were established, two of which, under the chairmanship of Adolf A. Berle, Jr., and Dean Acheson, were to deal with economic problems. The first was to handle "relief; restoration and reconstruction of production facilities, including nutrition; the immediate aspects of demobilization of persons and movements of populations; labor conditions, social security, and voluntary migration; and transportation and communications, including the economics of avia-

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1940. But since no concrete proposals came out of these meetings, they are important only because some of the people in attendance were instrumental in later planning activities. Among those present, for example, were Harry White and Frank Coe of the Treasury Department; Leo Pasvolsky, Herbert Feis, and Emilio Collado of the State Department; and E. A. Goldenweiser of the Board of Governors of the Federal Reserve System. For a complete list, see *ibid.*, p. 29.

[20] *Ibid.*, pp. 78-79. This statement is interesting in view of the fact that discussions were already under way in the Treasury Department concerning Dr. Harry White's "Proposal for a Stabilization Fund of United and Associated Nations."

In January 1942, White sought unsuccessfully to have his proposal presented to the Conference of Ministers of Foreign Affairs of the American Republics which was to convene in Rio de Janeiro later the same month. See Young, *op. cit.*, p. 778.

The State Department occasionally resented the Treasury Department's incursions into fields over which the State Department claimed jurisdiction. In his *Memoirs* (vol. I, p. 207) Cordell Hull wrote: "The Secretary of the Treasury, Henry Morgenthau, Jr., who ranked next to me in the Cabinet, often acted as if he were clothed with authority to shape the course of foreign policy in given instances. He had an excellent organization in the Treasury Department, ably headed by Harry White, but he did not stop with his work at the Treasury. Despite the fact that he was not at all fully or accurately informed on a number of questions of foreign policy with which he undertook to interfere, we found from his earliest days in the Government that he seldom lost an opportunity to take long steps across the line of State Department jurisdiction."

tion and of broadcasting." The second was to consider such long-run problems as "commercial policy and relations, monetary relations, credit and investment, commodity agreements and cartels, and international economics sanctions."[21] The State Department planners were thinking in terms of an overall attack on postwar problems, exchange-rate and international-investment considerations being only parts of a greater whole.

At the second meeting of the State Department Advisory Committee, a complete outline of proposed subject matter was discussed and the chairmen of the subcommittees reported on their work. Berle's subcommittee had discussed problems of relief, while Acheson's had considered the problems of balance-of-payments adjustment. The full committee met again only twice, however, and, although the subcommittees continued their work, most of their time was taken by discussions of relief. Favorable military developments in North Africa toward the end of 1942 made relief an immediate problem, and it does not appear that there was much consideration of exchange stabilization and international investment, though this may also have been because an interdepartmental study of the White plan for a United Nations Stabilization Fund and a Bank for Reconstruction and Development was already underway.

On April 9, 1943, a State Department Committee on Post-War Foreign Economic Policy (known as the Myron Taylor Committee) replaced the two economic subcommittees of the Advisory Committee. Among the fields to be considered were Monetary and Banking Relations, Long-Term Investment, Relaxation of Trade Barriers, Commodity Agreements and Methods of Trade, and International Coordination of Anti-Depression Policies. Thus, the State Department continued to regard itself as the proper agency for all international postwar planning, even though, by the spring of 1943, the Treasury Department had succeeded in gaining control of postwar planning in the fields of international investment and foreign exchange.

Several government departments and agencies were dealing with problems which had international repercussions, and, during the summer of 1943, a number of disputes arose both over questions of policy and of jurisdiction. The most publicized of these was an exchange between Vice President Henry Wallace and Secretary of Commerce

[21] See Department of State, *op. cit.*, p. 81. See also Dean Acheson, *Present at the Creation* (New York: W. W. Norton, 1969), pp. 28ff.

Jesse Jones over economic-warfare measures—a controversy which led to the eventual establishment of an Executive Committee on Economic Foreign Policy. But there was also a dispute over the question of whether the Office of Foreign Relief and Rehabilitation (established within the State Department in November 1942) should undertake to provide for reconstruction as well as relief. It was not until November 1943, when the UNRRA Act was signed by President Roosevelt, that it became clear that the UNRRA jurisdiction was to be limited to relief.

On September 22, 1943, the State Department did send to the Treasury Department a proposal for an International Investment Agency,[22] which had been prepared in the State Department's Division of Economic Studies by Dr. John Parke Young, but "the Young Plan" was not basically different from the Treasury proposal which had already become the basis for Anglo-American negotiations. Thereafter, the State Department abandoned its own independent consideration of postwar international investment.

The Council on Foreign Relations

While the State Department regarded planning for international investment as an integral part of overall postwar economic planning, it never considered the problem in detail. In a sense, however, the entire story is not to be found in the official State Department records, for the State Department was actively assisted by the War and Peace Study Groups of the privately endowed Council on Foreign Relations.

On September 12, 1939, Hamilton Fish Armstrong, the Editor of *Foreign Affairs*, and Walter H. Mallory, the Executive Director of the Council on Foreign Relations, offered to the State Department "such

[22] A copy of this plan, underlined by Harry White, may be found among the Private Papers of Dr. Harry White (hereafter referred to as *White Papers*) which are located in the Princeton University Library. Young himself has stated (*op. cit.*, p. 785) that his plan differed from the Treasury plan in only two significant details: it did not require member governments to guarantee the repayment of loans made within their respective jurisdictions, nor did it provide that the proceeds of the International Investment Agency's loans could be spent only in the country whose currency had been loaned.

The Young Plan provided, however, for a special Rehabilitation Fund the function of which would have been to finance projects midway between relief, on the one hand, and those meeting the tests of strict financial soundness, on the other. From this and other evidence, it would appear that the State Department was rather more concerned than the Treasury Department with the problems of reconstruction as distinguished from long-run development.

aid on the part of the Council as might be useful and appropriate in view of the outbreak of the war in Europe. . . . Specifically, they proposed that the Council form groups of experts to proceed with research under four general heads—Security and Armaments Problems, Economic and Financial Problems, Political Problems, and Territorial Problems." This offer was accepted; the groups were organized; and, thereafter, for the duration of the war, memoranda summarizing the deliberations of these groups were made available to the State Department.[23]

The study group on Economic and Financial Problems was organized under the direction of Jacob Viner of the University of Chicago and Alvin Hansen of Harvard and included in its membership individuals who were important in the academic world and/or the government.[24] Altogether, this group sent to the State Department nearly 100 reports and 66 additional Discussion Digests of meetings, several of which dealt with postwar international investment.

Some plan of international collaboration for dealing with business cycles was thought desirable. The United Kingdom in particular could not expect to obtain sufficient imports through multilateral trade in the immediate postwar period unless worldwide and continuous prosperity were assured.

> Properly directed expansionist measures are therefore very important if we are to build a postwar order in which there is to be stability, prosperity, a rising standard of living, and equal treatment in matters of world trade. One of the most important instruments for working toward this end would be an international agency which, through one means or another, would stimulate international investment in sound developmental programs throughout the world.[25]

One report proposed an Economic Declaration to be made by the United States and the United Kingdom, which would have indicated that the joint objective of the two countries was to maintain full employment in order to implement the effective worldwide use of the world's productive resources.

[23] *The War and Peace Studies of the Council on Foreign Relations, 1939-1945* (New York: The Harold Pratt House, 1946), pp. 2-3. A fifth group, on Peace Aims, was subsequently organized. Over 450 titles are cited.

[24] For a list of the members and their periods of service see *ibid.*, p. 21.

[25] E-B44, "International Collaboration to Secure the Coordination of Stabilization Policies and to Stimulate Investment (November 28, 1941)," p. 2.

As the first steps in carrying out this Declaration, the two Governments jointly propose:

A. To establish forthwith an International Economic Development Board . . .

B. To request the International Economic Development Board forthwith to undertake, with the active assistance of all collaborating governments, an International Resources Survey for the purpose of exploring the needs and opportunities for socially and economically desirable developmental projects throughout the world. Particular attention is to be given to projects requiring capital not readily available in the region of the proposed developments.

C. To request the International Economic Development Board forthwith to work out . . . specific and concrete plans . . . to carry out the principles of this Declaration, including the furtherance of socially and economically useful developmental projects throughout the world.[26]

In a "Note on Postwar Foreign Capital Needs,"[27] Alexander Loveday suggested that postwar relief should not be financed on a lending basis; nor should it obstruct reconstruction as it had done in many cases during the period following World War I. Some outright lending would probably be required, he argued, particularly to avert uncontrolled inflation in the war-torn countries, but such lending would not be sound from the point of view of private investment. It should be arranged by governments and kept at a minimum. Money transfers should not be made except to finance actual shipments of goods.

Another report warned:

What we should be doing *now* is to appraise needs of countries one by one, friends and enemies. Disaster will follow sudden ending of war unless governments pool their shipping facilities and interests and start *at once* to move food and raw materials and exchange goods. *Credits* are called for. The *movement*, the *credit*, and the *allocations* can all be modified rather quickly in the light of unfolding circumstances. The main point is that a scheme must exist. With such a scheme in hand there is every reason to expect collaboration

[26] E-B45, "Tentative Draft of a Joint Economic Declaration by the Governments of the United States and the United Kingdom (January 3, 1942)," pp. 1-2.

[27] E-C7, "Note on Postwar Foreign Capital Needs (January 24, 1942)."

in both the interlocking economic and political spheres under the leadership of the United States.[28]

A report of April 1, 1942 contained memoranda on six aspects of postwar economic planning: International Relief, Labor Problems and Social Legislation, International Trade, International Commodity Problems, Monetary Reconstruction, and International Long-Term Investment.[29]

In the last of these, the prewar governmental restrictions on long-term capital movements were discussed, and it was suggested that

> The possibility needs to be explored of mitigating these obstacles to desirable international investment through setting up multinational official agencies:
>
> a) to provide capital where the scale required is too large for private enterprise to handle or where the financial risks would be too great for private capital to assume.
>
> b) to police international investment by private capital, so as to provide judicial or arbitral facilities for settlements of disputes between creditor and debtor, and to remove the danger of the use by creditor countries of their claims as a basis for illegitimate political or military or economic demands.
>
> c) to promote the flow of capital at times and in directions which would (1) facilitate world economic (and perhaps also political) postwar reconstruction and stabilization; and (2) foster the development of backward areas where there is scope for beneficial capital investment but the opportunities for profitable investment under private foreign auspices are scanty and local initiative is lacking.
>
> d) to prevent international rivalries with respect to political influence or control in certain areas from acting as a barrier to investment of outside capital (including the exploitation of natural resources) in such areas. (The problem of equal access to investment opportunities with respect to mining, etc. is also relevant here.)
>
> e) to allocate capital among regions and types of investment on

[28] E-B47, "Preparation for Reconstruction (February 11, 1942)," p. 2.

[29] Postwar Economic Problems, April 1, 1942. The statements and their authors were as follows: "Problems of International Relief, by William Diebold, Jr.; Labor Problems and Social Legislation, by Carter Goodrich; Problems of International Trade, by Arthur R. Upgren; International Commodity Problems, by Eugene Staley; Problems of Monetary Reconstruction, by Alvin H. Hansen; and Problems of International Long-Term Investment, by Jacob Viner."

the basis of greatest need, if the capital available is less than the demand for it.[30]

The prewar disputes between debtor and creditor, and even between creditor governments, were also mentioned, and it was suggested that

> There is need for exploration of the possibilities of minimizing the source of international conflict through the establishment of (a) multinational investment institutions and (b) supranational judicial or arbitral institutions for the settlement of disputes between debtors and creditors where these are of different nationality and one or both are governments. There will be need also after the war for a comprehensive survey of outstanding international debt liabilities, and for negotiations for their settlement on terms which are both realizable economically and reasonably fair as between the differing interests of debtors and creditors.[31]

It should be clear from these instances that there was considerable discussion within the Economic and Financial Study Group of the Council on Foreign Relations of international investment problems. It is not clear that a specific plan for a postwar investment organization was ever considered by this group, though a plan was developed within the Board of Economic Warfare which was consistent with the thinking of the Study Group and was discussed by some of its members.

The Board of Economic Warfare

At the same time that the State and Treasury Departments were engaged in postwar international economic planning, the Board of Economic Warfare, organized under the leadership of Vice President Henry Wallace, was considering some of the same problems. In August 1941, Milo Perkins was appointed to head the Economic Defense Board (later the Board of Economic Warfare), and he asked Winfield Riefler to be his special assistant. In addition to his other activities, Dr. Riefler worked on a plan for the postwar development of backward areas. He discussed his "Program to Stimulate International Investment"[32] with several members of the Economic and Financial

[30] *Ibid.*, p. 15.
[31] *Ibid.*, p. 16.
[32] According to Dr. Riefler, in a personal interview in June 1950, the basis for this plan had already been formulated within the Economic Defense Board.

Study Group of the Council on Foreign Relations, and it is possible that this paper was circulated in the State Department.

Nothing came of the Riefler plan, but it indicates the existence in wartime Washington of more than isolated interest in some sort of a postwar international investment organization,[33] and it is interesting because it was an adumbration of the International Finance Corporation organized in 1955 as an adjunct of the International Bank for Reconstruction and Development.

> The program proposes through the use of public guarantees, to establish a more just and more secure basis for the flow of international investment funds. It is designed
>
> A. To stimulate the investment of an adequate volume of equity funds in corporations operating across national boundaries;
> B. To provide particularly for the development of underdeveloped regions;
> C. To remove, on the one hand, the fear that native populations and resources will be subject to exploitation in the interests of capital investment, and, on the other hand, the apprehension that productive enterprises will be discriminated against or confiscated, once they have been successfully established.

Riefler proposed the establishment by Great Britain and the United States of an International Development Authority which would grant charters to international corporations organized to pursue development projects in those countries which had registered approval of a relevant development plan with the International Development Authority. Each development corporation would guarantee to provide adequate work-

[33] Professor Eugene Staley of the University of Chicago and a member of the Economic and Financial Study Group of the Council on Foreign Relations had indicated, earlier, the desirability of some form of an international investment organization. See Eugene Staley, *Raw Materials in Peace and War* (New York: Council on Foreign Relations, 1937), pp. 230-33. See also Eugene Staley, *War and the Private Investor* (Chicago: University of Chicago Press, 1935), pp. 493-510. In the latter, Staley cited (p. 510) as one of his sources a suggestion advanced by Jacob Viner at the Williamstown Institute of Politics in 1931: Report of the *Roundtables and General Conferences at the Eleventh Session*, Arthur Howland Buffinton, editor (Williamstown, Mass., 1931), p. 193.

John B. Condliffe, of the University of California, had also discussed an international investment organization in a study submitted to the American Section of the Committee for Economic Reconstruction of the International Chamber of Commerce. See *Agenda for a Postwar World* (New York: W. W. Norton, 1942).

See also Penrose, *op. cit.*, pp. 40-41.

ing conditions, social insurance, housing, and sanitation for its employees, and the participation by local management in the decisions of the corporation. Each local government would guarantee to refrain from discriminating against the development corporations operating within its territory. Each development corporation would own its projects, though each would agree in advance to share profits with relevant local governments and with the International Development Authority.

The capital for each development corporation would be raised in the private capital markets of the world, most especially in Great Britain and the United States. But the International Development Authority would stand ready at all times to exchange its own debentures for the stock of its chartered corporations at the option of the stockholders. The debentures would bear interest at the market rate. The stockholders of the development corporations would be guaranteed against loss and would stand to profit if the development projects proved successful.

The debentures of the International Development Authority would be payable in United States dollars or in the currency originally used to purchase the stock of the development corporations in question. The funds of the Authority would be provided by the governments of the United States and Great Britain. It was thought that an initial contribution of $2 billion by each country would be sufficient.

The most obvious difference between this plan and the Treasury plan for an International Bank for Reconstruction and Development is that the former was based on the principle of equity financing; the corporation promoting the development would have been owned and operated directly by those who had provided the capital. Another important difference is that the Authority would have been organized and administered solely by the United States and Great Britain, the countries whose citizens were most likely to invest in the development projects.

III. THE TREASURY DEPARTMENT

During the years 1938 to 1940, under the leadership of Harry White, the economists in the Treasury Department's Division of Monetary Research discussed many of the problems of international finance which had plagued the world during the interwar period. Among these was international investment. It was felt, for example, that the sudden cessation in 1928, and particularly in 1931, of long-term capital exports by the United States had contributed to the intensity of the depression and the breakdown of the international gold standard. Consequently, it was felt that international investment should be directed or regulated by the governments of lending countries so that it would not fluctuate in phase with international business cycles.

The pros and cons of the "tied-loan" policy of the Export-Import Bank were discussed, and it was decided that, in general, "tied loans" by governments were undesirable. The proper interest rates and maturities for foreign bonds were considered, and it was agreed that the interest rates had been too high and the maturity periods too short in the private American lending of the twenties. The potential political frictions resulting from direct foreign investing were taken into account, and it was thought that direct investments should not be encouraged by governments. At the same time, it was agreed that some way must be found of insuring that foreign loans would increase the productivity of the borrowing countries and that, if possible, the projects financed by foreign loans should themselves lead to the acquisition by the borrowing countries of the foreign exchange needed to service the loans. Further, the governments of the borrowing countries should assume some responsibility for the servicing of nongovernment bonds sold abroad.

However, while many of these discussions concluded that there ought to be more governmental guidance of international investment, the Treasury economists were not unmindful of the criticism within the United States that the government was already encroaching in the fields traditionally reserved for private enterprise, and they rejected the notion that governments should compete with private borrowers and lenders in international capital markets.

It was apparent by the late thirties that venture capital was not likely to flow across national boundaries in great volume unless certain foreign-exchange problems had been overcome. The difficulties of repatriating funds invested abroad and of converting foreign earnings into domestic currency were already substantial barriers to international investment. Consequently, some means of obtaining stable exchange rates and free foreign-exchange markets was considered a prerequisite to the reopening of international capital markets.

Finally, though the Treasury economists had no interest in restoring the international gold standard as such, they were impressed by the usefulness of gold as an international medium of exchange.

All of these thoughts were taken into account by White when he began work on his plan for an international investment organization.

Developing The Plan

White's interest in some sort of lending program by the U.S. Government stemmed in part from his participation during 1939-40 in the drafting of a proposal for an Inter-American Bank.[34] Following the outbreak of war in Europe, research was also begun within the Division of Monetary Research on various topics relating to the war: "Foreign Exchange Resources of Belligerent Governments," "How Much Gold Will U.S. Get?" "What Will Happen to U.S. Trade with Latin America during the War?" "Is There Danger of Inflation in U.S.?" and "Economic Program to be Adopted in the Event War Ceases."

Apparently, White prepared his initial draft of a plan for a stabilization fund and a bank for reconstruction and development at home, for White's colleagues were unaware that he was working on such a plan until he showed them a draft in the late summer or early autumn of 1941.[35] It is not clear whether White began work at the direction of Secretary of the Treasury Morgenthau, or on his own. In a brief intro-

[34] For an account of the background of and the proposal for an Inter-American Bank, see *Hearings before a Subcommittee of the Committee on Foreign Relations, United States Senate, Seventy-Seventh Congress, First Session, on a Convention for the Establishment of an Inter-American Bank, signed on behalf of the United States of America on May 10, 1940* (Washington: Government Printing Office, 1941). This proposal, which had much in common with the subsequent Treasury drafts of an International Bank, was the work of an interdepartmental committee chaired by Adolf A. Berle, Jr., Assistant Secretary of State for Latin American Affairs. A major author was Emilio G. Collado, Assistant State Department Chief, Division of American Republics. Collado later became the first American Executive Director of the International Bank for Reconstruction and Development and may really have been the individual most responsible for the conception of that institution.

[35] Frank Coe, personal interview, August 1950.

duction which he apparently considered sending along with his plan to President Roosevelt in April 1942, he wrote: "This report has been prepared at the request of Secretary Morgenthau that I draft a plan for an International Stabilization Fund and an International Unit of Currency."[36] Of course, this may have been written to lend authority to the proposal, though it was not in fact sent; the President first learned of the plan on May 15, 1942, during a personal meeting with Secretary Morgenthau.

However that may be, and although some of his colleagues expressed skepticism regarding the political practicability of the plan, mimeographed copies were prepared, and by January 1942 White was ready to promote his ideas in other departments of the Administration.

The Draft of March 1942

One of the earliest mimeographed statements of White's original plan was that of March 1942.[37] This was the version which White wanted to send to the President in April. It was entitled: "Suggested Plan for a United and Associated Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations," and was divided into three parts plus an Introduction. In Part I, the Fund and Bank plans were presented in outline form. In Parts II and III, the Fund and Bank plans respectively were discussed in detail. This was not yet an official plan of the U.S. Treasury Department, let alone of the U.S. Government. It was still the personal plan of Harry White, as is indicated by such words as: "I believe . . ." and "It is my conviction . . ."

In the Introduction, the following points were made:

(1) At the conclusion of the war, the world will be faced by three problems among others: the maintenance of monetary systems and foreign-exchange markets; the restoration of foreign trade; and the relief, reconstruction, and recovery of national economies.

(2) The task of solving these problems can only be handled through international action.

[36] The *White Papers.*

[37] This is the earliest statement I have seen. Apparently, however, there was an earlier mimeographed version, dated December 1941, of the Fund plan alone. See John Parke Young, "Developing Plans for an International Monetary Fund and a World Bank," *Department of State Bulletin*, Vol. 23 (November 13, 1950), p. 778. A part of the March plan, redated April 1942, has been reproduced in J. Keith Horsefield, *The International Monetary Fund* (Washington: International Monetary Fund, 1969), pp. 37-96.

(3) The establishment of appropriate international agencies cannot wait upon the conclusion of the war.

(4) Two agencies are needed: a Fund to stabilize foreign-exchange rates and a Bank to provide capital. Two separate, though linked, agencies would be better than one, since one agency dealing with both tasks would have too much power and would run the risk of greater errors in judgment.

(5) Specific action now (1942) would be a psychological aid in winning the war.

(6) There must be a willingness to depart from tradition.

(7) The suggested plans are only designed to be a starting point for intergovernmental discussion.

The total capital of the Fund was to be (at least) $5 billion, divided into quotas assigned to the various member governments and based on comparative national incomes. Each member government would initially pay into the Fund 50 per cent of its quota. Of this 50 per cent, one-fourth would be paid in gold, one-fourth in local currency, and one-half in interest-bearing government bonds payable in gold. With its own currency each member country could then purchase from the Fund the currency of another member country (with which it had a *temporary* deficit balance of payments) up to 100 per cent of the purchasing country's paid-in subscription. Additional purchases could be made and exchange rates changed only with the consent of four-fifths of the possible votes of the members.[38]

Each member government would agree: (1) to abandon within one year of joining the Fund or the end of World War II, whichever occurred later, all foreign-exchange controls not approved by the Fund; (2) to maintain the exchange rates approved by the Fund; (3) to avoid all bilateral clearing arrangements; (4) to avoid any domestic price or monetary policy disapproved by four-fifths of the member votes of the Fund; (5) to reduce trade barriers; (6) to avoid default

[38] This plan was essentially the same as the later versions upon which the Articles of Agreement of the International Monetary Fund were ultimately based. White did not define in 1942, or later, a temporary balance of payments deficit. See Raymond F. Mikesell, *United States Economic Policy and International Relations* (New York: McGraw-Hill, 1952), pp. 132 ff. The balance-of-payments adjustments process envisaged by White was essentially the same as that in the case of the gold standard. See John H. Williams, "Currency Stabilization: The Keynes and White Plans," *Foreign Affairs* (July 1943); reprinted in his *Postwar Monetary Plans and Other Essays*, 3rd ed. (New York: Alfred A. Knopf, 1947), pp. 6-11.

on any of its foreign obligations, and (7) to avoid the subsidization of exports.

The initial capital of the Bank was to be $10 billion.[39] This was to be subdivided into subscriptions which would be assigned to the various member governments and, like the quotas in the Fund, would be based on comparative national incomes. In accordance with these assigned subscriptions, each member government would purchase shares of stock in the Bank, each share to have a par value of $1 million.

Each member government was to have fifty votes plus one additional vote for each share of stock purchased—provided, however, that no one country might have more than 25 per cent of the total votes regardless of how many shares of stock it had purchased. To be eligible for membership in the Bank, moreover, a government would have to become a member of the Stabilization Fund.

The initial assets of the Bank were to consist of gold and local currencies. One-half of each member government's subscription was to be paid into the Bank at the time of subscription, the remainder to be paid in when called for by the Bank. One-half of each initial paid-in subscription was to be gold and one-half local currency, but the Bank might raise additional funds in private investment markets.

The more important objectives of the Bank were

(1) to provide capital for relief and reconstruction and otherwise facilitate a smooth postwar transition;

(2) to raise standards of living throughout the world;

(3) to supply short-term capital for financing international trade;

(4) to help strengthen the monetary and credit structures of the member countries by redistributing gold;

(5) to eliminate worldwide financial crises and mitigate depressions; and

(6) to help stabilize the prices of basic commodities.

[39] This figure was arrived at backwards, so to speak. According to White's formula for establishing the subscriptions of the member governments, by relative national incomes, the United States would have subscribed about one-fourth of the Bank's capital. White apparently thought that the most the American Congress could be induced to appropriate for the Bank would be around $2.5 billion; hence a total Bank capitalization of $10 billion. According to White's calculations, this formula would have given the United States 25 per cent of the votes to about 17 per cent for the British Empire other than Canada and Australia, and 8 per cent for the U.S.S.R. Most of the significant decisions of the Bank were to require a four-fifths majority vote.

The Bank was to be an international lending agency capable of making both short- and long-term loans. In addition to making long-term loans out of its own capital, it was to guarantee the long-term loans of private investors whenever possible. Loans were to be made to governments or directly to private businesses, provided that repayment was guaranteed by the government in question and that funds were unavailable, except at high interest rates, in private investment markets. Each loan had to be recommended to the Bank by a committee that had studied the proposed use of the loan and felt satisfied (except in the case of relief loans) that the standard of living of the borrowing country would be raised as a result. Bank loans were not to be used to repay old debts except under special circumstances, and a government would not be eligible to receive a loan if it were in whole or partial default on a previous foreign loan.

The loans of the Bank were to be made, in part, in the currency of the borrowing country (it having been determined how much of any given project would involve local expenditure) and, in part, *in the notes of the International Bank*. These International Bank notes could then be spent by the borrowing country in any member country, the Bank placing no restrictions as to the country in which the proceeds of the loan must be spent.

These International Bank notes would be noninterest-bearing and would be redeemable in gold on the demand of any member government. At all times the Bank would have to maintain a gold reserve of at least 50 per cent as backing for the notes issued. Moreover, the note-issuing power would be limited to 100 per cent of the par value of the obligations to the Bank of all the member governments, the obligations of any one government providing not more than 10 per cent of the backing of the notes.

Repayment of, and interest payments on, the loans were to be in local currency, to the extent that local currency was borrowed, and in International Bank notes or gold for the rest. The interest rates were to be low (say, 3 per cent), and the loans were to be long-term (say, 25 years). In the case of loans expressly made to increase the monetary reserves of a member country, the interest charge would be even lower (say, 1 per cent).

In addition to this long-term lending activity, the Bank was to perform many of the functions of a world central bank. It was to buy, sell, hold, and deal in gold, and in the obligations and securities of any participating government; to act as a clearing house for various transfers between governments or central banks; and to discount and rediscount central-bank or member-government commercial paper as well as to offer its own paper to member governments for discount. In short, it was to be prepared to assist in the financing of current-account international trade as well as long-term investment.

In addition to all of this, the Bank was to be permitted to finance international institutions designed to develop and sell at fair prices important raw materials and to stabilize the prices of important commodities.

IV. SOME OF THE ISSUES

This, then, was the "extremely ambitious International Bank" to which Harrod has referred in his biography of Keynes.[40] It was the Bank plan, rather than the Fund plan, which departed more significantly from convention, and it was the Bank plan which was altered more during the two and a half years prior to the Bretton Woods Conference.

International Bank Notes and the Bank's Lending Capacity

The most unconventional feature of White's initial plan for an International Bank was the provision that the Bank might issue its own noninterest-bearing notes.[41] White obviously intended that these notes should serve, like gold, as an international reserve and a medium of exchange. If White had proposed, as he did not, that these notes should also serve as monetary reserves for the various member nations; and if he had proposed, as he did not, that the International Bank should regulate the supply of these notes in the interest of stability of the world price level, his proposal would have been similar to Keynes' 1930 plan for a supranational bank.[42] As it was, White's International Bank notes were a counterpart to the "bancor" overdrafts suggested in Keynes' Clearing Union Plan and might have been similar to the Special Drawing Rights now available for use by the member governments

[40] Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), p. 551. At another point (p. 540), Harrod summarized the Bank proposal as follows: "The International Bank was ambitious; it was to be a genuine international 'Central Bank,' with a right to issue notes and hold the deposits of other Central Banks. Keynes later said that the International Monetary Fund ought to be called a bank and the International Bank a fund; the origin of the terminology we have is to be found in White's original plan."

[41] In a subsequent draft, White gave these notes the name: "Unitas." But this title did not appear in the March 1942 draft.

[42] It appears reasonably clear from the various memoranda among the *White Papers* that White did not have much sympathy with the gold standard as a regulator of the supply of money, either at the national or the international level. But he had great respect for gold as an international medium of exchange. This may explain why he did not propose that national currencies should be based on his International Bank notes, though he was interested in supplementing gold as an international medium of exchange provided that the creation of these notes was related to a corresponding increase in productivity.

of the International Monetary Fund.[43] The significant difference was that White's International Bank notes would not have been issued at the discretion of borrowing nations as readily as "bancor" overdrafts, nor would they have financed the general balance-of-payments needs of deficit nations as with SDRs. They would have been issued only in connection with Bank loans to finance specific development projects approved by the Bank, a circumstance which could obtain in the case of SDRs through Bank-Fund cooperation, but does not do so at the present time.[44]

The question arises: What would have been the lending (note-creating) capacity of the International Bank if it had been established along the lines suggested by White in 1942? The total initial capital of the Bank was to be $10 billion. One-half of each initial subscription was to be paid into the Bank, the remainder to be called at the will of the Bank. Of the one-half to be paid in, 50 per cent was to be in gold and 50 per cent in local currency. If each nation had conformed to this formula, the Bank would have had at the beginning of its operations $2.5 billion in gold and $2.5 billion in various local currencies.

The loans of the Bank were to be made, in part, in the local currencies of the borrowing countries and, in part, in International Bank notes. These notes could have been issued by the Bank only against a backing of 100 per cent of the obligations of the borrowing governments (the obligations of no one government could have provided more than 10 per cent of the total) and 50 per cent gold. Since the Bank was to be permitted to buy local currencies from the Fund either with gold or with its own Bank notes, it was the limitation on the Bank's note-issuing capacity that would have been crucial.

At first glance it might appear that the Bank could have issued $5 billion of its notes against the $2.5 billion of paid-in gold. But such would not have been the case unless the nation or nations ultimately receiving the notes had been willing to hold them. Had the governments in receipt of Bank notes presented the notes to the Bank and demanded gold, the gold stock of the Bank would have been exhausted

[43] See Joseph Gold, "Special Drawing Rights," *Pamphlet Series No. 13*, Second Edition, 1970, International Monetary Fund, Washington, D.C. See also M. G. Kelly, "The Demand for International Reserves," *American Economic Review*, Vol. LX (September 1970), pp. 655-67.

[44] See Robert G. Hawkins and C. Rangarajan, "On the Distribution of New International Reserves," *The Journal of Finance*, vol. XXV (September 1970), pp. 881-91.

after a maximum of \$2.5 billion of International Bank notes had been issued. Moreover, as soon as the Bank management had discovered the lack of confidence in the notes it would undoubtedly have stopped their issue long before the gold stock had been exhausted.

It is possible that the Bank might have tried to sell its local currencies for gold, though there are probably few countries other than (and perhaps including) the United States where this operation would have been successful. The Bank might have marketed its own interest-bearing obligations in an effort to obtain more local currencies, which, in turn, might have been sold for gold. But this would hardly have been possible on any significant scale if the member governments evidenced such a lack of confidence in the Bank that they would not hold the Bank's notes, like gold, for future international transactions. All of this suggests that the Bank's lending capacity might have been strictly limited by the \$2.5 billion of gold initially paid in by the member governments.

If this is correct, what was the idea behind White's scheme? White specifically stated that the use of International Bank notes would substantially increase the loanable funds at the Bank's disposal. The notes, according to White, would be as good as gold, by which he apparently meant that *the member nations would be as willing to accept and hold International Bank notes as they were to accept and hold gold.*

Given this assumption, the Bank's lending capacity would have been many times the initial paid-in capital. Assume that the Bank made a loan to France involving a \$1 billion issue of Bank notes and that the French Government used the notes to buy dollars from the American Government, thus financing the purchase of goods and services from the United States. If the U.S. Government did not present the notes to the Bank for payment in gold, the Bank would not have lost any gold and could have repeated this sort of operation until \$5 billion in notes were outstanding.

The Bank could then have raised additional capital by calling in the unpaid portion of each member government's subscription or by selling its own interest-bearing obligations to the private investors of the member countries. With its additional capital, it could have purchased additional stocks of gold as backing for further issues of its notes. Conceivably, it could even have obtained additional gold by simply printing new Bank notes and using them to buy gold from any government willing to make the exchange, a not impossible eventuality if Bank notes had really been regarded as being "as good as gold."[46]

It is this general procedure which White must have had in mind, for at no time prior to the Bretton Woods Conference did he anticipate that the Bank's lending capacity would be limited to $10 billion or any fraction thereof. Indeed, even at Bretton Woods, White fought to avoid such a limitation.

In his March 1942 draft, White mentioned as an objective of the Bank the redistribution of the world's gold supply—something which could only have come about if the United States, directly or indirectly, had been willing to part with some of its gold in exchange for Bank notes. Further evidence that this is what White had in mind is to be found in his discussion of an international currency. He refuted various popular notions concerning an international currency and concluded that, after all, we already have one: gold. It is costless, he argued, to use the already mined monetary gold in the world, and he added, significantly, that it would be worthwhile to give the International Bank note-issuing powers, based on some gold reserve, to make the world's monetary gold stock do more work and to correct the maldistribution of gold in the world.

There is no evidence, however, that White believed that Bank loans should be made at some particular rate so as to induce some prescribed annual increase in the world's international reserves. Countercyclical international investment was to be an objective of the Bank, but White did not discuss the significance of this objective for the Bank's operations, and the working Bank has not speeded or slowed its lending for countercyclical reasons.

The White and Keynes Plans Compared

After the spring of 1943, when White's Fund plan and Keynes' Proposals for an International Clearing Union were made public, there ensued considerable debate as to the relative merits of these plans. The British regarded White's Fund plan as being too narrowly conceived. They felt that the size of the Fund was too small and that the rights of the member nations to make purchases from the Fund or to alter the external values of their own currencies at their own volition

[45] A necessary condition to the issuance of Special Drawing Rights by the International Monetary Fund is that member nations must agree to accept the SDRs in exchange for their own currencies at the discretion of the Fund. In this sense, the SDRs are "as good as gold."

were too circumscribed. To agree to the Fund, many of the British felt, was to agree to an international monetary system not unlike the gold standard.

It is, perhaps, unfortunate that White's plan for a Fund *and a Bank* was not considered as a whole, for many of the British criticisms might then have been answered, and the ultimate Bretton Woods Agreements might have been improved. As it was, a draft of the Bank plan was not made public until November 1943, and by that time many of the ambitious features of White's original plan had been removed.[46]

White had worked on the plan for an Inter-American Bank, a significant weakness of which was that it provided for the financing of specific development projects as well as general balance-of-payments deficits, the latter in the interest of exchange stability. Sometime between early 1940 and 1941, White apparently decided that the same organization should not deal with short-run exchange stabilization and with long-run development. Consequently, he provided for two international monetary organizations. His Fund was to be more restrictive than Keynes' Clearing Union; it was to finance only temporary balance-of-payments disequilibria. Legitimate long-run and countercyclical credit creation was to be financed by the Bank, and it may have been that White's original plan for a Fund *and a Bank* was more ambitious than Keynes' Clearing Union plan taken alone.[47]

[46] "As it was with the Keynes Plan, so it was with the White Plan; the first draft contained bold proposals ranging much wider than the plan ultimately adopted. Just as the failure to adopt the bolder proposals of Keynes necessitated new emergency measures in 1947 and 1948, so the failure to adopt the bolder proposals in the White Plan led to new emergency proposals for 1949 and 1950." (Ernest F. Penrose, *Economic Planning for the Peace*, Princeton, N.J.: Princeton University Press, 1953, p. 46.) The "bold proposals" which particularly impressed Penrose were those dealing with the postwar sterling balances. White initially proposed that the Fund—later the Bank—might take over the sterling claims and allow the original holders of sterling to draw on the new international organizations. But the statement cited would seem to apply to other of White's original suggestions as well.

[47] If this analysis is correct, it is somewhat puzzling that White's complete 1942 plan seems never to have been considered by the British—this in spite of the fact that neither Keynes nor White apparently regarded the final Fund and Bank plans as sufficiently ambitious. The explanation probably lies in the facts that White's plans were well watered down before the American Technical Committee was prepared to begin negotiations abroad, that White himself wanted to negotiate one thing at a time, and that Keynes was never enthusiastic for the general American approach.

Regarding this last point, Harrod has written: "I don't think Keynes was satisfied with White's Fund and Bank in the original form. He would have felt that

While the maximum credit-creating capacity of the Clearing Union would have been something over $30 billion, assuming that all member nations but one had run up the maximum debit balance in bancor (a liability for the creditor nation frequently referred to as "virtually unlimited"), the maximum credit-creating capacity of White's original Fund and Bank would really have been "unlimited"—assuming a willingness on the part of member governments to accept International Bank notes as a medium of international exchange.[48]

The significant difference between the original Keynes and White plans, therefore, was that, under the Keynes plan, debtor and/or deficit nations could have run up substantial debit balances without the express approval of the Clearing Union. Under the White plan, on the other hand, debtor or deficit nations would have had more difficulty in obtaining international credits from the Fund solely on their own volition, though war-devastated and low-income nations could have obtained quite large credits from the Bank if they could have satisfied the Bank that the credits would be used for proper reconstruction or development projects or for insuring an adequate stock of gold for monetary purposes.

In the last analysis, the basic difference between the Keynes and White approaches was the greater emphasis in the former on national economic sovereignty. Harrod has stated the matter as follows:

> The Americans are in the habit of praising private initiative and inveighing against paternalistic socialism. In the minds of many Americans, who do not specialise in these subjects, Keynes has been thought to be a sort of high priest of the paternalism they so much dislike. Yet, when the Americans turn their eyes away from their own rights under the Constitution toward the international sphere, it is they who have recently tended to be the chief advocates of

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it still did not face the creditor country problem. You must remember that at that stage the Fund still had no scarce currency clause. The Bank, ambitious as it was, contained no features designed to deal with this particular problem. Nor did the original Fund. Therefore, Keynes may have thought that his Clearing Union was superior to the two together . . ." (Letter from Harrod, September 13, 1952.)

[48] The *maximum* credit-creating capacity would actually have been limited to, roughly, two times the world supply of gold. But this, in 1942, would have amounted to at least twice $30 billion. Moreover, the supply would increase with the additions to the monetary gold supply of newly mined gold. And the 50 per cent gold-reserve requirement for International Bank notes could have been reduced at some future date by proper amendment of the Articles of Agreement of the Bank.

paternalism. It was Keynes who had to fight the battle of liberalism against the voracious appetite of the Americans for paternalistic interference. Keynes thought of the international institutions as setting up a framework within which individual initiative could flourish; they were to settle certain broad principles of action; the Fund, in particular, would establish certain drawing rights, but only interfere in their exercise on most exceptional occasions. The Americans wanted to give meticulous scrutiny to each individual transaction. In all this long-drawn-out conflict it appears that Keynes was fighting for the philosophy of freedom against the philosophy of regimentation.[49]

But one wonders if Harrod might not be confusing individual initiative with national or governmental initiative. Keynes was not so much concerned with the economic freedom of individuals as with the freedom of governments to take economic action while paying minimum attention to the economic actions of, or the consequences of its own actions on, other governments. White, on the other hand, was anxious to codify the rules of governmental behavior in international monetary and investment matters so that individual entrepreneurs might have the maximum freedom of action without being subjected to the contractionary influences of the international gold standard. Who can say which approach was the more genuinely international?[50]

The Transition Period: Reconstruction or Development

Penrose has indicated his belief that one of the two great gaps in postwar planning lay "in the failure to make provision for organizing and financing reconstruction."[51] Certainly the soundness of this view was demonstrated in 1947 by the need for the Marshall Plan. But what of the International Bank for Reconstruction and Development? Did White really expect that his Bank would be a proper and adequate

[49] *Op. cit.*, pp. 570-71. Harrod is dealing here with the question of drawing rights in the Clearing Union rather than with basic philosophies. But the distinction can be made in the case of the overall approaches as well.

[50] On this general point, see Calvin B. Hoover, *International Trade and Domestic Employment* (New York: McGraw-Hill, 1945). On p. 2, Professor Hoover wrote: "Fundamentally, the reasons for resisting the assumption that future foreign trade must be a function of national governments do not differ from the reasons that favor free capitalistic enterprise and oppose state ownership and operation of domestic industry and commerce."

[51] *Op. cit.*, p. 203. The other gap was the American failure, during the war, to appreciate the postwar British balance-of-payments difficulties.

agency for meeting the reconstruction requirements of the world and still have sufficient capital to finance development as well? Apparently, at least in 1942, he did, and his position requires some explanation.

It must be remembered that White did not foresee the Cold War; he assumed that the postwar world would be peaceful.[52] He assumed that the European nations would be able to use all of their facilities for peaceful production at the conclusion of the war.[53] He also assumed that there would be a postwar resumption of world trade; he anticipated that world productivity would increase following a general relaxation of trade barriers and controls; and he hoped that stable exchange rates and freely convertible currencies would be conducive to a vastly expanded international flow of private long-term capital. Furthermore, at least until 1944, he had good reason to assume that reconstruction would be substantially financed by Lend-Lease and direct United States government loans.[54]

But the real crux of the matter is that, in 1942, White was not thinking in terms of the Bank with the limited lending capacity that emerged from the Bretton Woods Conference. Some reasons for believing that this was the case have been given in the previous section. Further evidence may be found in the Introduction to White's Bank draft of August 2, 1943, in which he stated:

[52] I am indebted to Ansel F. Luxford (personal interview, July 1950) for suggesting the points made in this paragraph. Mr. Luxford, as a member of the legal staff of the Treasury Department, worked closely with White in developing the successive drafts of the Bank plan.

[53] During the years of the Marshall Plan, the British and the French spent more for military purposes than they received as aid from the United States.

[54] Particularly following the Quebec Conference of 1944, it was anticipated by the British that they could carry out part of their reconstruction program during Phase 2 of the Lend-Lease program (the period between V-E and V-J Day). See Cordell Hull, *The Memoirs of Cordell Hull* (New York: Macmillan 1948), pp. 1613-14; and Robert Sherwood, *Roosevelt and Hopkins* (New York: Harper & Bros., 1948), p. 817. See also "The Morgenthau Diaries," *Interlocking Subversion Hearings*, pp. 2326-32. But there was opposition in Congress to the use of Lend-Lease for reconstruction (see Penrose, *op. cit.*, pp. 201-202), and the Japanese surrendered well ahead of schedule, following which Lend-Lease was abruptly terminated. President Truman, it may be noted, has since admitted that this was an error. See the *New York Times*, February 15, 1950, p. 1.

I have also been told by a British economist who does not wish to be identified that there was an understanding in high-level British government circles that, in accordance with Article VII of the Master Lend-Lease Agreement, there would be a general postwar financial settlement among the Allies based on some estimate of the relative contributions to the war effort.

Asia, Europe, Africa and South America can for many years profitably use for the creation of capital goods $5 to $10 billion of foreign capital each year provided they can get it on reasonable terms . . .

Only an international governmental agency equipped with broad lending powers and large resources can both effectively encourage or induce private capital to flow abroad in large amounts and provide a substantial part of the necessary capital not otherwise available.[55]

It was also true that White saw no good way of distinguishing between reconstruction and development loans. Thus, while White was anxious to insure that the loans of the Bank would increase the productive capacity of the borrowing nations, it did not seem to him to matter whether such an increase was for the purpose of restoring, or moving beyond, prewar productive capacity.[56]

To be sure, there were many individuals in high places during the war who warned that extraordinary difficulties would have to be faced during the postwar transition period, but I am not aware of any wartime suggestions, except, perhaps, in connection with Lend-Lease, that reconstruction, as such, should be financed through gifts. Indeed, the Americans opposed the Clearing Union plan largely because they feared that it would have had the effect of compelling the United States to finance reconstruction, in fact, on a gift basis.

As things turned out, given the postwar political difficulties and the abrupt termination of Lend-Lease, it is extremely doubtful that the International Bank negotiated at Bretton Woods could have financed the reconstruction of Western Europe, and it is fortunate that the Marshall Plan enabled the Bank to husband its resources, but it is possible to understand why Harry White apparently believed that the

[55] See the *White Papers.*

[56] Some indication of White's attitude may be found in a report of the informal international conference which took place in June 1943. At one point, Viner remarked that a distinction should be drawn between emergency and long-run balance-of-payments problems and that it would be desirable to have separate organizations to deal with each. To this, according to Viner's report of the discussions, White replied that there is no such thing as a normal period.

Professor Viner urged the conferees to make up their minds whether they were building a "bomb shelter" for the difficult transition period or a "parasol" for the minor exchange difficulties of the eventual return to a quiet and normal world. He did not recall that White replied anything to this, though he felt that White did not like what he had said. For a reference to Viner's metaphor, see Dennis H. Robertson, "The Post-War Monetary Plans," *Economic Journal,* Vol. LIII (December 1943), pp. 352-60.

Bank he originally conceived might finance reconstruction as well as development.[57] Further, even if White had been convinced that his permanent organizations were not well suited for dealing with the transition period, he might have favored their immediate adoption on the grounds that, if postponed, they would never become a reality. Dennis H. Robertson, arguing for the Clearing Union, put the matter well in 1943 when he said: "Knowing what we know of the centrifugal forces at work among the nations of the world, of the ease with which wills tire and good intentions fade, can we doubt that in this, as in the political field, it would be wise to lay the foundations while imaginations are active and hopes are high."[58]

Productivity and Repayment

White wrote into his March 1942 draft several provisions designed to insure that the Bank's loans would be productively employed and would be repaid. These provisions were carried over substantially unchanged into the Articles of Agreement formulated at Bretton Woods, and they have been stressed by the officials of the Bank ever since. The Bank was not to extend a loan until it had been recommended by a committee which had studied the proposed use of the loan and felt satisfied that the standard of living of the borrowing country would be raised and that repayment would be possible.

Of course, the Bank cannot absolutely guarantee that the *net* result of a loan will be to increase the standard of living of the borrowing nation. If a project financed by the Bank would have been put into operation anyway, the question becomes: How are the funds thus released employed? In other words, the indirect effect of a Bank loan might be to increase consumption or military expenditure or to allow the citizens of the borrowing country to relax their efforts to maximize domestic production.

[57] This is not to say that White committed no errors of forecasting. For one thing, it appears that he seriously underestimated the reserves the British would need after the war if the pound were to be made freely convertible. On this point, see "The Morgenthau Diaries," *Interlocking Subversion Hearings*, pp. 2361-67. On the other hand, White did propose that the Fund might help the British to convert their short-term obligations to the Sterling Area members into long-term debt, and he may have intended that the Bank should extend to the British a long-term currency-stabilization loan. White did not solve the problem of finding correct exchange rates for the period immediately following the war. And he did not provide realistically for the exchange-rate changes that would have been required during the transition period if currencies had been made freely convertible.

[58] Robertson, *op. cit.*, p. 357.

In practice this danger has been reduced to a minimum, for the Bank considers the entire economy of the borrowing nation as well as the specific project to be financed before approving a loan. Indeed, it is difficult to see what more could be done to insure the productive use of the Bank's funds than was prescribed in general by White and has been carried out by the Bank.[59]

White was interested in increasing the number of worthwhile projects that might be financed by foreign loans. He hoped that, by reducing interest rates, by providing for relatively longer repayment periods, and perhaps by helping to diminish worldwide business fluctuations and short-run variations in relative prices, some otherwise unprofitable projects might be profitable. Insofar as the repayment was concerned, he was insistent that the government of each borrowing country guarantee to service the loans granted to it or to any agency within its jurisdiction. White also indicated his belief that, being a member of the Bank, the debtor government would make more of an effort than otherwise to fulfill its obligations. He did not deal with the transfer problem. He apparently felt that transfer would not be difficult for a debtor nation if all currencies were freely convertible into International Bank notes, and hence into each other, if a general liberalization of postwar trade occurred, and if the repayment period were long and the interest charges low on the loans of the Bank. In subsequent drafts, however, White added the proviso that, in the event of temporary balance-of-payments difficulties, a debtor nation might make temporary payments to the Bank in its own domestic currency.

Artificially Low Interest Rates

Three questions arise from White's proposal that the Bank should charge abnormally low interest rates: Can the Bank really avoid competing with private investment bankers? How may the operations of the Bank affect the demand for and the supply of internationally loanable funds? And what yardstick can the Bank use for determining which potential borrowers should actually receive loans?

In his March 1942 draft and thereafter, White insisted that the International Bank should not compete with private enterprise; it was

[59] Concerning the evolution of Bank procedures, see Staff of the Bank, *The International Bank for Reconstruction and Development, 1946-1953* (Baltimore: The Johns Hopkins Press, 1954). See also J. A. Lombard, "The Experience of the International Bank during its Formative Years, 1946-1952, as a Guide to the Art of Public International Lending to Underdeveloped Countries" unpublished Ph.D. dissertation, London School of Economics, 1956).

to extend loans only if funds were unavailable, except at high interest rates, in private investment markets.[60] Moreover, White attempted in subsequent drafts to devise a procedure for ascertaining whether or not a prospective loan might be financed in private markets at a reasonable cost, though his suggestions were not included in the final Articles of Agreement.

Whether or not adequate safeguards could have been worked out in fact has not been an important practical question, for there has been little private American demand for new foreign bonds. Indeed, it is doubtful that the bonds of the International Bank itself could have been marketed in the United States without the guarantee of the government of the United States.

But what of the effect of the Bank's low-interest-rate policy on the international demand and supply of loanable funds? Other things being equal, if the International Bank charges an interest rate lower than the rate which would otherwise obtain in the market, it is to be expected that the quantity of funds demanded will exceed the quantity of funds supplied. This makes it necessary for the officials of the Bank to substitute themselves for the market place in determining which demands will be satisfied.

Somewhat curiously, this problem was not mentioned directly by White in his discussion and explanation of his plan, though it may be inferred that he regarded the imperfections in the private investment market as being so important as to make it a poor guide for internationally financed capital formation.

In practice, this problem has been solved by the Bank in two ways: it has succeeded in increasing the quantity of internationally loanable funds supplied, and it has effectively rationed the available funds among prospective borrowers. The first it has done by assuming some of the lending risks itself: it has substituted its own promise to pay (or, more accurately, the promise of its member governments to pay) in place of the obligations of the borrowers. The second it has done by insisting that borrowers must meet the strict requirements that have been established by the Bank in its attempt to carry out the general injunction that its loans must be productively employed. Thus, the

[60] White did not specify what interest rates he considered "high." Presumably, however, judging from the literature on the private investments of the twenties, rates in excess of 7 or 8 per cent would be "high." In his March 1942 draft, White indicated that 3 per cent would be an appropriate interest rate in connection with the loans of the Bank.

Executive Directors (in practice, the management) of the Bank have become a sort of rationing board; it is their decision, within the broad framework of the productivity requirement, rather than the decision of the market, which determines the volume and the allocation of new portfolio international investment.

Given this situation, an important question arose during the pre-Bretton Woods negotiations. Should the Bank attempt to distinguish between borrowers as to the interest rate it would charge? Obviously not all of the Bank's loans would involve the same risk. But could the Bank substitute its own judgment for the judgment of the market? In the end, primarily because of the insistence of the British, it was decided that the Bank should charge the same rate of interest to all borrowers, and this it has done (in the case of Bank, as distinct from loans of the International Development Agency)—any differences in the charges being due to the differences in the interest the Bank itself has had to pay to obtain additional funds.

It may well be that this procedure was the only one which was politically possible, but it bears mentioning that, with the economic yardstick of the market no longer available, the proper allocation of new portfolio international investments depends upon the wisdom of the officials of the International Bank. It may be added, moreover, that one consequence of this was the debate at the Bretton Woods Conference as to whether or not reconstruction loans should take precedence over development loans, it being agreed at one point in the Articles of Agreement (Article I, paragraph iv) that "the more useful and urgent projects, large and small alike, will be dealt with first"; and at another (Article III, Section 1-a) that there should be "equitable consideration to projects for development and projects for reconstruction alike." In other words, the officials of the Bank were being warned by the Bretton Woods delegates to consider more than the monetary profitability of the projects to be financed.

A last aspect of this problem is that, given the rationing aspects of the Bank's operations, the officials of the Bank may tend to consider "the most useful and urgent projects" in terms of the various member countries individually rather than in terms of the entire world. In the case of free and competitive investment markets, there is at least a presumption that the foreign project yielding the highest return is the one that adds the most to the productivity, not only of the given country, but also of the world. But it may be difficult for the officials of the Bank to consider the productivity of the world as the basic frame of reference for their policy decisions.

An International Organization

The two world wars of this century may be contrasted in terms of the significantly greater effort made during World War II to prepare to meet the economic problems of the postwar world. Another contrast was the significantly more widespread belief during the Second World War, even in the United States, that international problems, both political and economic, should be dealt with on the basis of international cooperation.

It was as though the peoples of the world had been convinced by the events of the interwar years that no nation can successfully direct its own destiny unmindful of the destiny of others. The ideals of Woodrow Wilson were again proclaimed in such manifestoes as the Atlantic Charter and Article VII of the Master Lend-Lease Agreement.

It is impossible to recapture the mood of this bygone era. Less than three years after the Bretton Woods Conference the Cold War was clearly under way, hot wars were in progress in Greece and China, and international cooperation was again regarded with suspicion. But it may be worth remembering that White's initial draft was based upon a fully international approach to the solution of international problems; it was conceived in the wartime atmosphere of One World.

At the August 31, 1943 meeting of the American Technical Committee,[61] when White introduced the subject of the International Bank, he suggested that the members should bear in mind four guiding principles: (1) international cooperation and the sharing of responsibility is desirable, (2) the participation of other countries should be more than nominal, (3) the voting power should be related to the contributions of the members, and (4) the Bank should not replace any existing institution.

Thereafter, White stoutly defended the principle of genuine international cooperation—frequently for its own sake and regardless of whether his position made sense on other grounds. The question arose, for example, as to the point of having nations pay their currencies into the Bank if there was virtually no possibility that other nations would ever want to borrow those particular currencies. Surely, it was argued, there is something anomalous about a lending organization

[61] See the *White Papers.*

which requires contribution from prospective borrowers. To this White replied that the various member governments would not feel any real responsibility for the Bank unless they had actually contributed something to it.

During a brief meeting between Keynes and White during the summer of 1942, though Keynes argued for direct negotiations between the United States and the United Kingdom alone (other nations being asked to join only after agreement had been reached), White maintained that this would create suspicion of an Anglo-American "gang-up."[62] He favored broader negotiations, particularly including the Latin American nations.

After the Bank plan was published in November 1943, the international approach was attacked on another score. It was generally understood that the United States would be the most important (for a time after the war, in effect, the sole) contributor to the Bank,[63] and it was asked why any nation other than the United States should have anything to say about how the funds were to be used. This criticism did not comprehend White's approach to international cooperation. Though strictly national lending organizations such as the U.S. Export-Import Bank may be useful, they cannot, in the nature of things, be expected to perform in the same way as either the private investment market or an international organization. Political objectives are too likely to be important, perhaps dominant, in the case of a national lending organization; strictly financial or economic considerations are too likely to be neglected; and defaults and/or charges of economic imperialism may follow, with consequent ill will all around.[64]

[62] See Penrose, *op. cit.*, p. 48. See also Harrod, *op. cit.*, pp. 553-54: "In the course of 1942 the Americans seemed to come round to the view that all schemes of this sort must be fully international from the beginning and that Britain should have no special status." And at the Bretton Woods Conference, according to Harrod (p. 578), "White was scrupulous in his insistence that all the amendments proposed by all the nations should be carefully considered."

[63] As John H. Williams stated: "I have not been able to see how such a bank can be international, except in a formal or limited sense, in a world containing only one large creditor and many debtors." "The Postwar Monetary Plans," *American Economic Review*, Vol. XXXIV (March 1944); reprinted in *Postwar Monetary Plans and Other Essays*, 3rd ed. (New York: Alfred A. Knopf, 1947), p. 42.

[64] As John J. McCloy stated in his *Presentation Address at the Second Annual Meeting of the Board of Governors of the International Bank*, p. 3: "There are few things which place a greater strain upon friendship between nations than international loans which leave behind merely an obligation to repay, without corresponding benefits to those who must bear the burden of repayment."

To be sure, the officers of the International Bank cannot be expected to be completely detached from nationalistic considerations, and, within the frame of reference of the Articles of Agreement, the Executive Directors are supposed to represent their respective nations or areas. But there is still a difference between what an international and a strictly national lending organization can do. Since it is an international body, the International Bank can send missions into borrowing nations to investigate loan applications, and it may be able to attach specifications and restrictions to its loans which it would be difficult for a single government to attach without inviting charges of imperialism.

As contrasted with strictly private international investing, the International Bank may be able to hasten worldwide economic development by extending loans on more favorable terms and by being able to overcome the imperfections of the market. By more thoroughly investigating loans before they are made, the Bank may also be able to increase the productivity of the loans. It may even be able to reduce the risks of private lending.

Finally, as White insisted, the borrowing governments may be expected to make a greater effort to live up to their obligations if they have a voice, however small, in the determination of the general policies of the World Bank.

Other Issues

The paragraphs in the March 1942 plan which dealt with the short-term operations of the International Bank leave no doubt that White was thinking in terms of a world central bank. The Bank was to have the authority to buy, sell, hold, and deal in gold and in the obligations and securities of any participating government. It was to act as a clearing house for funds, balances, checks, drafts, and acceptances for the account of participating governments or their fiscal agents. It was to accept demand and time deposits from the participating governments and their fiscal agents. It was to discount and rediscount bills and acceptances and other obligations of the participating governments and agents. In short, the Bank was to perform for member governments the same services that are normally performed for commercial banks by national central banks and which have been performed for national central banks by the Bank for International Settlements.

In carrying out these provisions, however, the Bank would have been usurping many of the functions of long-established private institutions and would have been invading the field supposedly reserved for the Fund. Consequently, these proposals were abandoned by the time of the Bretton Woods Conference.

White's references to gold are of some interest, in part because of their apparent inconsistency with other aspects of White's thinking. White wrote as though he expected all currencies to be freely convertible after the inauguration of the Fund, and he seemed to believe that the Fund would be fully capable of dealing with short-run balance-of-payments disequilibria. But he also insisted that both the Fund and the Bank should have ready access to free funds in the form of gold.

Of course, in his initial Bank draft, White proposed that the International Bank should be permitted to issue its own noninterest-bearing notes, and he undoubtedly believed that these notes would be more acceptable as an international medium of exchange if they were convertible into gold.

Even after White had abandoned the notion that the Bank should issue its own notes, he continued to insist upon gold contributions by the members of both the Fund and the Bank, and this may be taken as an indication that he was not so optimistic about the rapid return to freely convertible currencies as he professed.

Moreover, though White provided in his March 1942 draft that the Bank might purchase local currencies from the Fund, paying in gold or International Bank notes, he dropped this provision in later drafts, arguing that the Bank should not put any additional strain upon the Fund. At the same time, he insisted that the Bank should have some gold so that it might be able to purchase hard currencies.

Two of the provisions of the March 1942 draft are interesting because, though they were discarded at or before the Bretton Woods Conference, they were later rediscovered. In his initial draft, White provided that the Bank could make loans for purposes of currency stabilization as well as reconstruction and development. This specific provision was removed from later drafts. But, at the subsequent insistence of the United States Congress, the Executive Directors of the Bank decided that, since they were not specifically prohibited from doing so, they might authorize currency-stabilization loans after all.

White also provided in his initial draft that the Bank might participate in equity investments. This suggestion was included in most of the Treasury drafts until the time of the Bretton Woods Conference. At the insistence of the United States, however, it was then dropped, only to be reborn in 1955 in the International Finance Corporation.

One of the reasons cited by the Economic and Financial Study Group of the Council on Foreign Relations for the establishment of an international investment organization was the desirability of employing international investment as a weapon against international business fluctuations. In his March 1942 draft, White was also insistent upon this point, but his enthusiasm waned during later negotiations. On March 31, 1944, in answer to a question raised by a Polish representative to an informal meeting in White's office, White stated that: ". . . it would be inaccurate to suggest that the Bank is essentially a compensatory device although the Board of Directors would certainly consider any cyclical developments and would make its decisions accordingly."[65]

But at the Bretton Woods Conference, it was agreed only that the Bank would "conduct its operations with due regard to the effect of international investment on business conditions in the territories of members . . . , and the management of the Bank has not been enthusiastic about arranging the operations of the Bank on a countercyclical basis.[66] White specifically stated in his March 1942 draft that the Bank should impose no condition as to the particular country in which the proceeds of a loan must be spent. Moreover, since the loans of the Bank were to be made in International Bank notes, there was no provision in this draft for a veto power. But when the idea of Bank notes had been dropped, the right of any member nation to refuse to permit the Bank to make loans of its currency was asserted.

White suggested that the International Bank might organize and finance the activities of two other international organizations: an International Essential Raw Material Development Corporation and an International Commodity Stabilization Corporation. The International Essential Raw Material Corporation was to have been responsible for developing raw materials in those countries which could not undertake such development themselves.[67] Three-fourths of the votes of the

[65] See the *White Papers*.

[66] See Lombard, *op. cit.* For a discussion of the difficulties of combining countercyclical and development operations in a single organization, see Jacob Viner, "International Finance in the Postwar World," *Journal of Political Economy*, Vol. LV (April 1947), pp. 97-107.

[67] White apparently thought that the International Bank would be concerned primarily with financing industrial projects, but at the Bretton Woods Conference it was specified that the Bank might finance agricultural development as well. White's proposal for an International Essential Raw Material Development Corporation might have been combined with the plan for an International Development Agency which evolved within the Board of Economic Warfare.

International Bank would have been necessary before the Bank could have financed any specific project of this Corporation, and the Corporation would have been required to sell its products to all nations on equal terms. But this proposal was dropped from the Treasury drafts after August 1943. A somewhat similar idea reappeared in the draft of November 1943, but was then abandoned again.

The idea of establishing an International Commodity Stabilization Corporation was not new. Many suggestions for stabilizing the prices of certain basic commodities had been made prior to 1942, and the U.S. State and Agriculture Departments continued to work on the problem even after the relevant provision had been dropped from the drafts of the International Bank. White's specific suggestion was that the International Bank might finance a portion of the international price-stabilization operations if at least five governments were to participate directly in the management and operation of the Corporation, if the stabilization of the price of any specific commodity were to be carried out only with the consent of the Bank, and if the Corporation were prepared to give due weight to the interests of world consumers as well as producers. But this proposal did not appear in any draft after August 1943.

In the March 1942 draft, an important distinction was that the borrowing rights of the Bank members were to bear no relationship to the number of shares subscribed; while, in the Fund, the quantity of foreign currencies which could be purchased by any member was to be related to the size of that country's subscription. This distinction remained in subsequent drafts and became important at the Bretton Woods Conference.

The decisions of the Board of Directors of the Bank were to be by majority vote with exceptions of some importance. Authorization for the extension or the guaranteeing of intermediate or long-term loans was to require a two-thirds majority. Limited authority to make loans and extend credit without direct Board approval could be vested in the officers of the Bank, but only by a four-fifths majority. Loans to members in default on foreign debts other than interallied-government war debts could only be authorized by a nine-tenths majority. Loans to be used for the purpose of repaying previous loans were to require a four-fifths majority.

CONCLUSION

White's Bank plan was revised through many drafts before it was published in November 1943 and began to be considered by the United and Associated Nations. Within the American Government, it was constantly considered in the light of what might be acceptable to Congress, an attitude adopted by White himself. Just before the Bretton Woods Conference, the November 1943 draft was modified further to take account of the suggestions of the Europeans—the British and the Dutch in particular—who prepared a "Boat Draft" on their way across the Atlantic. The major contribution of the Europeans was to shift the emphasis of Bank operations away from lending its own paid-in subscriptions and toward the lending of borrowed funds or the guaranteeing of private loans. Nevertheless, the major features of White's plan remained, and White's Fund and Bank approach prevailed.

In the end, the British accepted an International Monetary Fund which provided for smaller new international reserves and for less leeway for independent national action—including the freedom to adjust exchange rates unilaterally—than they would have liked. The Americans agreed to an International Monetary Fund which provided for more international reserves (drawing rights), for less paid-in gold, and for more independent national action—including the right of member nations, under certain conditions, to employ exchange controls—than they would have liked.

Without notable enthusiasm, the British also accepted the International Bank for Reconstruction and Development, believing that it would be an agency primarily concerned with guaranteeing private investments; while the Americans agreed to an International Bank, hoping, among other things, that borrowers would thereby be made more responsible.

After the war, they also agreed on an International Trade Organization which provided for less trade discrimination than many British would have liked and for more international bargaining with respect to tariff reductions than many Americans would have liked. This organization never came into being, though some of its objectives have been met under the General Agreement on Tariffs and Trade.

Together with the other United and Associated Nations, insofar as they could do so through the creation of institutions, they had fulfilled the mandate of the Master Lend-Lease Agreement, which promised action "directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples."

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