On Bretton Woods: Those Opposed Now Vindicated?

J. L. Benvinisti, British Economist

I will come straight to the point. The Bretton Woods final act is the crown and triumph of stupidity. It is stupidity's Declaration of Independence. It is the affirmation of the right of stupidity to have the last word, even if it means mass impoverishment and mass frustration the world over, including the impoverishment of America.[1]

John Francis Neylan, Lawyer on Board of Regents of the University of California

The fact is the document embodies so many basic contradictions, and is so loaded with ambiguities it defies understanding as anything but an elaborate contrivance to give away American money and fetter the US in the postwar era, almost like a conquered nation.[2]

US Representative Frederick C. Smith, Ohio, Republican

The Keynes-Morgenthau scheme is a scheme to set up world communism. Avowed Communists were quick to see this and to rally to its support.[3]

US Representative Charles G. Binderup, Nebraska, Democrat

This financial octopus clothed in absolute power by the Bretton Woods conspiracy will control directly the money of 43 other nations, thereby controlling the money of the world. These international bankers, that have ever been traitors to the peoples' cause, that have usurped the control of our money contrary to the Constitution, that have created no less than 27 money panics, depressions, and recessions in the brief lifetime of our Nation...[4]

Andrew Baglino
History 165C

Fifty-nine years ago more than four hundred delegates of forty four nations checked into the snug hamlet known as the Mount Washington Hotel in Bretton Woods, New Hampshire, to take up the matters of reconstruction and development and currency stabilization in the post-war world. They were called there by then President Franklin D. Roosevelt to discuss the finer points of the institutions that have grown into the World Bank and the International Monetary Fund as we know them today. While there they had barely three weeks to overcome differences of opinion over everything from the fundamental purposes of these institutions to the more practical issues of national sovereignty. Negotiating began on July 1st, 1944 with documents that had been in discussion for two years by US Treasury Secretary Henry Morgenthau, his chief economic advisor Harry Dexter White, and British economist Lord John Maynard Keynes as a basis. A short while later, on July 22nd, Secretary Morgenthau, president of the Bretton Woods Financial and Monetary conference, marked its completion by indicating the cooperation and the "spirit of good will and mutual trust, is, I believe, one of the hopeful and heartening portents of our time" in a radio broadcast. "None of the nations represented here has had altogether its own way." he went on, and added "Today the only enlightened form of national self-interest lies in international accord."[5] All the delegates signed the final accord, though not without reservation, and agreed to deliver them to their home governments for consideration.

Fifty-nine years later, meetings of money-men in reclusive ski resorts is commonplace as the spread of anti-Globalization protests have upped the volume and violence outside meetings of the G8 and the World Trade Organization. Searching for IMF and the World Bank on the internet turns up hundreds of sites painting these organizations as economically imperialist tools of an over-zealous United States hegemony. Yet, in 1944, Roosevelt called the conference that spawned these multilaterals an earnest effort to "cooperate in peace as we have in war" towards "economic cooperation and peaceful progress" and away from "senseless economic rivalries,"[6] with monetary policy awash in a sea of confusing bilateral agreements, trade restricted by aggressive tariff regimes, and currency devaluation used as tool of the economically maladjusted to attack the stronger currencies on the world market. And in many ways, Bretton Woods was exactly that—as H.H. Kung, chairman of the Chinese delegation, commented upon closure of the proceedings:

> What is remarkable about this conference is not that there were differences, but that many delegations could sacrifice their own special viewpoints in the common interest, despite the fact that their reservations may have been supported by real and important justifications. This kind of sacrifice is an investment which pays high dividends.[7]

With strong promotion by Roosevelt and later Truman, the US Treasury Office, and the media, an over-war-tired public quickly towed the administration's line and strongly supported the Bretton Woods plan. To attack the Bretton Woods agreements was to align with isolationists or cold-hearted Wall Street bankers. By mid 1945, the House had approved the program 345-18, and the Senate 61-16, and Truman made short shrift in signing it into law. However, as this paper will argue, sixty years of perspective brings the few dissenting voices in the halls of Congress and in economic circles at the time into new light. These futile attempts to derail Morgenthau's and Keynes' monetary train in the months from July 1944 to July 1945 have stood the test of time; their predictions of institutional failure have come to pass in more ways than one.

However, before one can put the criticisms of Bretton Woods into perspective, one must get a better idea of why the conference was called. According to a United

Nations Information Office publication on the conference, “a world half prosperous and half starving cannot long preserve peace, and that prosperity must be achieved for all unless insecurity is to spread to all.”[8] This is a statement that resonated as clearly in 1945 as it does today, when unstable regimes in poverty-stricken nations breed resent and inspire terrorism in the developed nations. However, in the closing years of World War II, policy makers were less aware of terrorism and more of the reality that “war may be waged in the economic field as well as on the battlefield”, and thus the UN sought to “secure the economic, as well as military and political peace of the world.”[9]

The problem of economic warfare was a real one in the 1930s. Countries protected their manufacturing base with high tariffs and export subsidies. They devalued currencies in efforts to boost exports in the face of such tariffs. The United States in many ways set the stage for this economic nationalism when Herbert Hoover passed the protectionist Smoot-Hawley tariff act of 1930, raised tariffs to historically high levels, and set off a volley of protectionist activities on both sides of the Atlantic. These trade and currency barriers “threatened to turn the whole world into a chaos of warring economic cells, each surrounded by artificial walls.”[10] By 1934, world trade had declined by 66%[11], further deepening the Great Depression. By the time Bretton Woods had been called, many looked upon economic nationalism as the instigator of World War II, and sought to stem it as much as possible.

Also, many saw the dire need for reconstruction assistance in the occupied countries. These were countries without functioning infrastructure, where the farms, mines, and factories could not be restarted. Exporting nations of the world stood to benefit from a quickly rebuilt and product-hungry Europe. As Treasury Secretary

Morgenthau explained, “The United States wants, after the war, full utilization of its industries, its factories and its farms, full and steady employment of its citizens, particularly its ex-servicemen, and full prosperity and peace.” To achieve that end he claimed it was “desirable to promote world-wide reconstruction, revive normal trade and make funds available for sound enterprises, all of which in turn call for American products”[12]. Also, a stable Europe would be less prone to influence by revolutionary influences, which was attractive to many afraid of Communism at the time. Bretton Woods thus tried to establish a means “by which those countries with capital assets may invest them, under conditions of reasonable security in order to establish the machinery of production in the ravaged lands for the benefit of all.”[13]

Thus, Bretton Woods was an attempt to solve the problems of financing the reconstruction and development of nations to a stable economic equilibrium, and establishing the stable currency and exchange conditions to promote free and safe trade. As the United Nations Information Office put it:

> The world paid heavily for not solving them earlier. Because they were not solved after the last war, they brought unrest, inflation, then over-production and economic warfare, and finally a world-wide depression and unemployment. This *must* not happen again.[14]

Three weeks after the opening day at the Washington Hotel the framework of two institutions was agreed to as solutions to these problems. The Bretton Woods agreements were eighty-two pages long, and were no easier to understand than the worst of the statutes passed up on Capitol Hill, which is why books such as “Bretton Woods: Clues To A Monetary Mystery” were published by the World Peace Foundation to aid the layman’s understanding of them. As John Francis Neylan stated, “It is a safe assertion that not one per cent of the American people have any understanding of the provisions of this revolutionary plan.”[15]

Therefore, a simplified version of what these agreements laid out is in order. Both organizations were to have roughly $10 billion dollars, were dominated in both voting power and subscriptions by the US, Great Britain, and the USSR, and were essentially lending institutions. According to the agreements, the International Monetary Fund was to make loans to help countries deal with short-term balance of payment problems in order to "promote international monetary cooperation" and "to avoid competitive exchange depreciation"; whereas the International Bank for Reconstruction and Development was to make loans towards the "restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries."[16] A simple explanation provided by The New Republic claimed the Bank would "put the world back on its feet after the war" and the fund would "keep said world on its feet."[17] Both institutions were to be supra-governmental, though any government could opt-out at anytime, and the prevailing wisdom at the time was that US involvement was essential. In the Bretton Woods proposals, the US paid $B2.75 into the fund and $B3.175 into the bank.

As mentioned above, the Bretton Woods proposals were passed by the United States, and nearly all of those countries present at the Washington Hotel (with the USSR a notable exception). The institutions opened up shop in 1947, and sixty-odd years later have quite a reputation. Of late, the Bretton institutions have been implicated in the East Asian financial crisis of 1997 and 1998, the Argentinian of 2001, and the current tottering Brazilian economy, which is weighed down by debt nearly 60% of GDP. Aside from recurring financial crises, the institutions are infamous for dictating the "Washington Consensus," the systematic institution of the free market system, upon debtor countries through "Structural Adjustment Programs", often to disastrous effects. What is intriguing, though, as may come as some surprise, is that these institutional tendencies were foreseen by a rather interesting bunch of the opponents to the Bretton Woods legislation.

The American Bankers Association opposed the Bretton Institutions both vocally and frequently in the time period from July '44 to June '45. Two of their points especially stick out when referencing the Fund's more recent effects in the developing world. First, they felt the Fund "would increase the already grave danger of inflation; would delay fundamental economic adjustments."[18] Next, they commented on the limitations of debtor countries:

> The chief limitation is the power of borrowing countries to absorb money, to use it productively, and to repay it when the time comes. There is no favor to anyone, but rather a grave danger, in ignoring these limitations, getting countries loaded up with too much debt, and adding fuel to the inflationary fires now burning over most of the world.[19]

Here the ABA is begging the question: did they consult an oracle, or did they just have a knack for seeing through these institutions? They point out, astutely, that just because you have lent money to a country for development, does not mean that it will productively develop to the point of being able to pay off the loan with a reasonable time frame.

J. Taylor Peddie, a British economist claimed the fund "would, if established, possess full sovereign power over national sovereignties" which is something any modern-day Argentinian or Brazilian would wholeheartedly agree with. At the time, Peddie submitted the Fund would restrict the progressive political groups by binding them into a "Money Economy based on gold" and a Money Economy must always possess sovereign power. This is a simple claim that the Bretton Institutions really only applied in a strict sense to capitalist nations. He went on to say:

> Progressive schools of thought ardently desire that any new national monetary mechanism devised should be made to serve the economic objectives which they seek to achieve, and not to continue to be their master. Under the Bretton Woods Proposals, our internal and external monetary mechanisms would inevitably continue to be our masters.[20]

Of course, Peddie was discussing the fate of the developed world. As we have seen, the only nations where the "internal and external monetary mechanisms" have continued to be the masters have been in the developing world, where everything from IMF-dictated dollarization to fiscal austerity measures has extended the sense of a "monetary master". This economic imperialism was also foreseen by John Francis Neylan, who considered Lord Keynes, underwriter of the institutions himself, to be "the most brilliant exponent of the project of substituting economic imperialism for political imperialism."[21]

W. Latimer Gray, Vice President of the First National Bank of Boston, also exposed this opinion. In his testimony before the House of Representatives Banking and Currency Subcommittee, he claimed:

> "It is easy to see that the executive directors of the United States, United Kingdom, and Russia can largely control the actions of this organization. We do not know what authority the other nations will give to their representatives, but if they should follow the same course that is here recommended, three individuals would have greater economic powers than have ever been conferred on anybody in the world."

He saw the Bretton Woods institution as concentrating in the hands of few what used to be the realm of each individual country. He clarified later in his testimony that the most dangerous aspect of the fund was "its tendency toward managed economy and that is totalitarianism." Gray added later,

> "We see here an economic superstate imposing its will on its members and the members in turn adopting or extending a program for managed currency. Now we have all been told that a benevolent despot is the best government and as long as the fund is operated wisely there will probably be little trouble, but it requires a large degree of optimism to believe that all 44 nations will at all times be satisfied with the actions of the fund."

These are strong words, especially at the close of World War II, which in many respects was a war against totalitarianism. He allowed for the possibility of a benevolent despot, but predicted a less than optimal reality. This less than optimal reality has come to pass, in the form of the "Washington Consensus", a despot that favors developed country corporate interests by assuming totalitarian control of economic policy in developing nations.

"We do not believe that the fund plan can attain its objectives because it persistently avoids dealing with the causes of maladjustment, and attempts to ameliorate the effects of maladjustment."
W. Latimer Gray, VP of the First national Bank of Boston ….p.495-6

The text of the proposal made by Winthrop Aldrich as an alternative to the ….by BW as printed in Aldrich's Proposed Currency Plan p. 28:3 September 16, 1944
"The world willl have been lulled into a false sense of security. We shall have the shadow of stability without the substance. We shall eventually realize that the solution of our basic economic problems has become infinitely more difficult. Perhaps the most dangerous aspect of the Bretton Woods proposals is that they serve as an obstacle to the immediate consideration and solution of these basic problems."
"Unless tariffs are substantially reduced and other trade barriers eliminated now and unless all nations are given equal access to the trade and raw materials of the world, the economic basis for currency stabilization or international investment will not exist."

"We are objecting to this program because we believe that it will end in failure and will bring about disharmony, and will encourage the opponents of international cooperation."
W.L Hemingway, President Mercantile-Commerce Bank & Trust Co., past president of the ABA before House Banking and Currency Committee, March 22, 1945, on H.R. 2211, The Bretton Woods Agreement Act p.492 of "Bretton Woods Agreements Act: Hearings Before the Committee on Banking and Currency House of Representative Seventy-Ninth Congress First Session on H.R.2211 v.1 p.492

Congressman Smith of Ohio: "Who Devised the So-Called Bretton Woods Proposal for an International Monetary Fund?' Frederick C. Smith, M.C. p.1307
Mr. Pethick-Lawrence, member of the house of Commons, responded:
"If not a despotism, what shall it be? Shall it be a condominium? Shall the United States and the British Empire combine to rule the fininancial world? We are now out of dreamland, and facing a quite practicable possibility….I see many dangers in an attempt by the Anglo-Saxon bloc to dominate the financial and economic life of the rest of the

world. It would be certain to cause resentment, and every failure of a people to secure well-being in the future would be laid at our door."

"If I may say so without offense, that great nation [theUnited States] has much to learn before it can successfully and benevolently maintain the hegemony of the financial world."

p.139 Congressional Digest "Should the U.S. Congress Approve the Bretton Woods Proposals' vol 24. 1945
radio address on April 10, 1945 over Columbia Broadcasting System on the "Congress Speaks" series by US Rep Frederick C. Smith, Ohio, Republican

"It might cause spurts of false prosperity. In my judgment it would, in the long run, destroy more jobs than it would creat, abolish what real international cooperation is still elft, and endanger world peace rather than sustain it. Indeed I look upon this proposal as an immeasurable peril to our Nation and people."
p.141
"To lose control of our money to foreign countries would be to lose our nationhood to them."
"The scheme proposes that the US furnish, to start with, billions of dollars to be loaned to about forty countries without any interest to her, or any timelimit. The borrowing countries being in control they would dictate to the US the terms upon which the loans to them would be made." (this gets reversed, of course)

"By keeping up exchange rates by artificial means, buying currencies at par regardless of their real market value, and making devaluation easy and respectable, the way will be cleared for encouraging every government in power to follow the easy political path. It can continue to pay heavy subsidies to all sorts of pressure groups, to embark on public works and patronage on a grand scale, and to tax lightly, thus continuing chronic budget deficits and financing them by added debt." Mr. Hazlitt editorial writer for the NYT
p.159

---

[1] J. L. Benvenisti, "Bretton Woods: An Englishman Speaks His Mind," Commonweal, December 15, 1944, 225.
[2] John Francis Neylan, An Analysis of the Bretton Woods Agreement, (San Francisco: The Pacific Union Club, 1945), 4
[3] Frederick C. Smith, Radio Address, Congress Speaks, Columbia Broadcasting System, April 10, 1945, excerpted in "Should the U.S. Congress Approve the Bretton Woods Proposals?," Congressional Digest 24 (1945): 141.
[4] Charles G. Binderup, Letter to Congressman William Lemke, as placed in the record as "What is Bretton Woods", U.S. Congress, Congressional Record fix! 1945 (Washington D.C.: GPO, ?) part 11 (Appendix II): A2137-A2138.
[5] Henry Morgenthau, Radio Address upon completion of Bretton Woods Financial and Monetary Conference, July 22, 1944, as printed in "Analysis by Morgenthau of Monetary Agreements," New York Times, 23 July 1944, 25:1-4.
[6] Franklin D. Roosevelt, Message to the opening session of the United Nations Monetary and Financial Conference, July 1, 1944, as printed in "Message of the President," New York Times, 2 July 1944, 14:4-5.

[7]Russel Porter, “Russia Increases World Bank Quota As Post-War Help,” New York Times, 23 July 1944, 1, continues 24
[8] Money and the Postwar World: The Story of the United Nations Monetary and Financial Conference, (New York: United Nations Information Office, 1945), 4
[9] Money…, 4
[10] Money…, 7
[11] US Department of State, Smoot-Hawley Tariff, < http://www.state.gov/r/pa/ho/time/id/17606.htm> (30 May, 2003)
[12] Russel Porter, “Roosevelt Opens Monetary Parley,” New York Times, 2 July 1944, 14
[13] Money…, 6
[14] Money…, 7
[15] John Francis Neylan, 8
[16] United States Department of the Treasury, Articles of Agreement, International Monetary Fund and International Bank for Reconstruction and Development, United Nation Monetary and Financial Conference, Bretton Woods, N.H., July 1 to 22, 1944, (Washington D.C.: GPO, 1945)
[17] Edwin A. Lahey, “A Reporter at Bretton Woods,” The New Republic, 17 July 1944, 67
[18] Report on the Bretton Woods Proposals, (New York:American Bankers Association, 1945) as quoted in Carlyle Morgan, Bretton Woods: Clues To A Monetary Mystery, (Boston: World Peace Foundation, 1945), 130
[19] Report… as quoted in Carlyle Morgan…, 55
[20] J. Taylor Peddie, A Criticism of the Bretton Woods Proposals: A Reply to Sir John Anderson, (London: Economic Equity, 1944), 3
[21] John Francis Neylan, 5