Architecture is created by human beings. That applies also to global financial architecture. Benn Steil, Council on Foreign Relations, has written a fascinating book on the two main architects behind the Bretton Woods System, which provided the basic financial framework for international trade and economic cooperation from the end of World War II to the early 1970s. The Bretton Woods system can to a large extent be conceived of as the outcome of a tough contest during the war and culminating at the conference in July 1944 between two very intelligent and very different personalities. When John Maynard Keynes, fellow at Kings College, Cambridge University was appointed by the British Government as chief negotiator, he was already a world famous economist. He had also become a member of the House of Lords in London. Harry Dexter White, in contrast, was a little known bureaucrat, who through hard and dedicated work had established a strong position for himself in the US Treasury. Treasury Secretary Henry Morgenthau had close relations to President Roosevelt, and Morgenthau relied in monetary matters very much on the advice and analyses of White. As a result, White had gained broad influence on American foreign policy in the 1940s. Keynes would in Bretton Woods apply his outstanding insights concerning the role of money in the economy in the design of a new global monetary order, built around a new international reserve currency. Such a framework would, however, be a threat to the global supremacy of the US dollar, and White was determined to keep it from seeing the light of day. Keynes had also come to the conference in the United States with the mission of conserving what he could of bankrupt Britain’s historic imperial prerogatives. President Roosevelt and his government wanted to support Britain in its warfare against Germany but had not much sympathy with the long-standing British interests, particularly as they related to the empire. Morgenthau and White used in fact on several occasions the Lend-Lease Program to press the British for financial and trade concessions that would eliminate Britain as an economic and political rival in the postwar landscape. A peculiar feature in the context of the “battle” is that White, who had a Lithuanian/ Jewish family background, seemed to be fascinated with the Soviet Union and had several contacts with people working for the Soviet underground. After World War II, FBI Director J.Edgar Hoover accused White of being a Soviet agent, and in 1948 White had to testify before the House Un-American Activities Committee.

In December 1941, Morgenthau expressed the aim to move the financial center of the world from London and Wall Street to the United States Treasury and to create a new concept between the nations of international finance. His trusted assistant White accordingly produced the first complete draft in March 1942 of what would become known as the “White Plan”. Providentially, Keynes, entirely on his own initiative, had begun germinating his own ideas for a new international monetary system in August 1941, just a few months before White began formally developing his. The facades of the two schemes looked remarkably similar. But the structural supports suggested very different engineering concepts, reflecting clashing national interests. Like White, Keynes wanted a system that would support liberalized trade while keeping global payments imbalances from emerging and, when they did emerge, allow them to be corrected with minimal economic pain. In both plans, stable exchange rates were considered desirable. Keynes was, however, in favor of some restrictions on capital and trade flows, while White feared that such restrictions would involve discrimination against the US. According to the “Keynes Plan”, international transactions should be settled through a new International Clearing Bank (ICB). Clearing accounts should be expressed in a new currency “bancor”. Creditors as well as debtors should be pressured to take corrective action to reduce imbalances. According to the “White Plan”, an International Stabilization Fund” should allow member states to borrow against collateral of their national currency and gold. Borrowing should be subject to tough conditions. White’s opposition to the ICB was grounded in the fact that the USD had already risen to the global role that Keynes wanted to bestow on “bancor”. So, the United States had no incentive to yield its power to expand or contract the supply of global money to a supranational structure. Keynes’s plan allowed member countries far greater borrowing power. Under White’s plan, the United States should only commit its subscribed capital. Both plans envisioned the voting power of members being heavily weighted in favor of the more economically powerful states. The process of reconciling the two plans took two years. It began on July 1942, when the draft White Plan was sent to London. The two plans were later gradually distributed to other countries, and both authors were engaged in efforts to convince the allied countries to support their respective plans. The tone of the discussions between the two men was often rude. White, ever mindful of the gulf between his own background and that of his
ennobled interlocutor, once said: “We will try to produce something which Your Highness can understand”. In June 1944, during preparatory meetings before the Bretton Woods conference started, Keynes and White clashed several times. White worked on establishing a special position for the USD, while Keynes tried to avoid this. White succeeded in structuring the conference with himself at the head of the commission dealing with the Fund (IMF). Keynes was shunted to head the commission dealing with the World Bank. White had arrogated to himself vast power over the organisation of the conference, which started July 1, 1944. In an introductory speech to the American delegation, he emphasised the strong US position. The secretaries of the different sub-committees – responsible for writing the minutes - were all Americans, appointed by White.

The delegates used a lot of time on discussing the size of quotas in the IMF. Future voting power and commitments were determined by the quotas. A crucial meeting in the Fund Commission’s Committee 2 took place on July 6, 1944. A Joint Statement working document indicated “that the par value of a member country’s currency would be expressed in terms of gold”. The American delegates proposed an alternative text: -- “be expressed in terms of gold as a common denominator, or in terms of a gold-convertible currency unit of the weight and fineness in effect on July 1, 1944.” This text had never, however, been approved by the British, and Keynes – who was busy chairing the commission on the Bank – had never seen it. In a meeting one week later, Dennis Robertson represented the British, and he did not see the implications of the change and even suggested that payment of official gold subscription should be expressed as official holdings of gold and US dollars. This change would, he remarked incautiously, require wording changes elsewhere in the agreement. During the following night, White’s technicians replaced “gold” with “gold and US dollars” throughout the 96-page Final Act. Keynes would only discover the changes after his departure from Bretton Woods, and they became part of the final IMF Articles of Agreement. The adoption of the agreement on the International Monetary Fund took place on July 22, 1944 and the Agreement entered into force on December 27, 1945. Other member countries than the US should fix the par value of their currencies in terms of USD, and their central banks could exchange their dollar holdings into gold at the official gold price USD 35 per ounce. This option was not available to firms or individuals. Indirectly, all currencies pegged to the USD had a fixed value in terms of gold. Thus, the Bretton Woods Exchange Rate system rested on two pillars: The US commitment to convert dollar holdings of foreign central banks to gold at a fixed price, and the obligation of other member countries to defend by intervention in the spot market fixed exchange rates in terms of USD.

The last chapter in Steil’s book is an epilogue. He gives an overview of major exchange rate adjustments after 1945, the adoption of the Marshall Plan, the allocation of IMF’s Special Drawing Rights (SDR) and other important events concerning the Bretton Woods System. Around 1970 after years with massive deficits on the US balance of payments, a dollar confidence crisis evolved. On August 15, 1971 President Nixon closed the gold window. The US would no longer redeem the dollar holdings of foreign central banks. This meant that the first pillar under the Bretton Woods construction disappeared. In March 1973, the G10 formally acknowledged the end of two years of tortuous efforts to re-establish fixed exchange rate parities. This meant that the second pillar disappeared. The international monetary architecture designed according to the White plan lay in ruins.

Steil’s book is an outstanding piece of political science research. It is strongly recommended. His analysis of the interplay between the politicians, the economists and the central bankers on both sides of the Atlantic Ocean who in the 1940s all contributed to the design of the Bretton Woods system is extremely well written and well documented. Notes, references and the index are impressive and contribute to the understanding of the behaviour of the key players. The author has several aims. He wants to deprive readers of the illusion that the Bretton Woods was created by English speaking gentlemen in Britain and the US with a common goal of constructing a fair and balanced framework for deficit and surplus countries. He also wants to deprive today’s politicians of the view that it is desirable to re-establish a kind of Bretton Woods System in order to put an end to the current global mixture of floating and pegged exchange rates. His sympathy is rather with an updated version of the Keynes Plan. The political feasibility of this plan is, however, uncertain. The future of the international monetary framework is uncertain.

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