Chapter 1

The Political Economy of the Bretton Woods Agreements

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The Allied representatives who met at Bretton Woods in July 1944 undertook an unprecedented endeavor: to plan the international economic order. To be sure, an international economy has existed as long as there have been nations, and there had been recognizable international economic orders in the recent past—such as the classical era of the late nineteenth and early twentieth centuries. However, these had emerged organically from the interaction of technological, economic, and political developments. By the same token, there had long been international conferences and agreements on economic issues. Nonetheless, there had never been an attempt to design the very structure of the international economy; indeed, it is unlikely that anybody had ever dreamed of trying such a thing. The stakes at Bretton Woods could not have been higher.

This essay analyzes the sources of the Bretton Woods Agreements and the system they created. The system grew out of the international economic experiences of the previous century, as understood through the lens of both history and theory. It was profoundly influenced by the domestic politics of the countries that created the system, in particular by the United States and the United Kingdom. It was molded by the conflicts and compromises among the signatories to the agreements, as they bargained their way up to and through the Bretton Woods Conference. The results of those complex domestic and international interactions have shaped the world economy for the past seventy-five years.

THE HISTORICAL SETTING

The negotiators at Bretton Woods could look back on recent history to help guide their efforts. This history included both general successes and remarkable failures. The most relevant general success was the open international economy that prevailed from the 1870s until World War I broke out in 1914. During that first age of globalization, the movement of goods and capital across borders was quite free, and the movement of people—particularly Europeans—was even freer. In addition, the world's economies were tied together by the gold standard, which eventually came to cover virtually every significant economy (the only exceptions were Persia and China).[1]

This classical era saw the most rapid economic growth that the world had ever known: the world economy grew more in 75 years than it had in the previous 750. There was a substantial amount of convergence, with many poor countries catching up to middle-income countries, and many middle-income countries becoming rich. In addition, macroeconomic conditions were generally stable. There were periodic recessions and financial crises, and a lengthy period of gradually declining prices, but overall both growth and macroeconomic conditions were quite steady. To be sure, all was not sweetness and light: this was the age of colonial imperialism in Africa and Asia, of agrarian crisis in Europe, of grinding poverty in the industrializing cities. Nonetheless, in broad historical perspective, the classical world economy of the gold-standard era was a success, associated with economic growth, convergence, and macroeconomic stability.

However, the Bretton Woods negotiators could also look back on a stunning failure, one that was undoubtedly uppermost in their minds: the striking inability of the major powers to reconstitute the pre–World War I economic order in the aftermath of the war. There was no mystery about why the world economy had closed up during the war, but the widespread expectation after the war had been that something resembling the prewar system would be restored. The participants in the post–World War I Versailles conference largely took for granted that the world economy would return to a semblance of its prewar conditions.

Yet the open world economy of the pre-1914 era could not be restored. There was a brief period, for five years after 1924, when trade and capital movements—but not immigration—moved back toward prewar levels. But nothing was as it had been, and when trouble began in 1929 it turned into the most devastating economic catastrophe in modern history. The collapse was nearly complete: international trade, finance, and investment dried up, economic growth stopped, unemployment soared. And the political effects were, if anything, more disastrous than the economic failures: the Depression led more or less directly to the rise of Nazism in Germany, and of fascism elsewhere, and thence to World War II.[2]

The failure to reconstitute an open world economy after World War I was not for lack of trying. There was a multitude of conferences, agreements, treaties, and international institutions. And when the Depression began, there were many attempts to arrest the downward spiral. But nothing worked. And it seemed clear that it would be impossible simply to re-create the world economy as it had been constituted before 1914.

As the Bretton Woods Conference convened against this backdrop, it is worthwhile to review what had gone wrong. The architects of Bretton Woods had clear views on the causes of these catastrophic experiences, views that are largely in line with the current consensus among scholars on the causes of the interwar collapse.[3] The central point is that domestic and international economic and political conditions had changed fundamentally between the Victorian era and the interwar years.

Economically, circumstances had altered in ways that called into question the practicability of the gold-standard open economy. The central requirement of the classical era, to simplify wildly, was that national economies adapt themselves to the state of their international economic relations rather than the other way round. This can be seen most clearly in the balance-of-payments adjustment mechanism of the gold standard itself. To sustain a country's commitment to the gold standard required that when the balance of payments came under stress, domestic wages and prices would adjust. It was not uncommon for this adjustment to involve wage and price reductions that were so substantial as to be unthinkable today—sometimes of 25 percent or more in a couple of years. This was possible in part because nineteenth-century economies came close to the picture of competitive markets painted in textbooks. These economies were made up almost exclusively of small family firms and small family farms; labor was rarely organized. The fact that most markets were competitive and labor was unorganized meant that wages and prices were very flexible, including flexible downward. So when economic distress hit, wages and prices could drop precipitously to carry out the necessary macroeconomic adjustments, leaving the currency's gold value intact.[4]

By the 1920s, the major industrial economies had changed dramatically. Now they were characterized by large oligopolistic or monopolistic firms with substantial market power. As an example, by the late 1920s, in most leading economies the automotive sector dominated the industrial structure, and this sector was in turn dominated by a few large companies. At the same time, labor unionization grew rapidly after 1900 and skyrocketed during and after World War I. Between oligopolistic industries and organized labor movements, neither wages nor prices were very flexible. Attempts to fit the national economy—and specifically wages and prices—to a country's currency value ran up against wage and price rigidity and caused massive macroeconomic dislocations, including massive unemployment.[5]

Politically, conditions had changed just as utterly. The modal industrial country in the 1890s was semiauthoritarian, with limited suffrage, few or no labor rights, and an illegal or suppressed socialist movement. In the 1890s fewer than a dozen countries could be considered democracies, most of them only marginally so. Workers, farmers, and in many instances even the middle classes were represented only poorly, if at all, in prewar political systems. For example, Socialist parties were small or illegal in most countries before World War I. This was particularly relevant to the international economic order of the day. While there was elite consensus on the desirability of fitting the national economy to its international economic conditions, typically the costs of doing so were not borne by the elites. It was workers, farmers, and the middle classes who suffered most from the adjustment processes of the gold-standard era. But they had little or no voice, and so adjustment was politically as well as economically feasible.

Dramatic political changes during and after World War I fundamentally changed this political picture. By 1920 the number of democracies had risen to around twenty-five; virtually every advanced industrial nation had a civilian electoral democracy with universal or nearly universal suffrage. Perhaps most important, democratization had brought workers, farmers, and the middle classes into the center of politics, including electoral politics. By the 1920s, Socialist parties were important almost everywhere. Indeed, at one point or another in the interwar years, Socialist parties were in government in every western European country, and in many cases they were the largest party.[6]

The enfranchisement and empowerment of labor, farmers, and the middle classes meant that governments could no longer impose major adjustment costs on these groups without facing political opposition—in many cases, opposition that could not be overcome in a democracy. Adjustment by way of downward wage flexibility may have been desirable from a purely macroeconomic standpoint (although even that point was debatable in the new economic conditions), but it was almost certainly, and almost everywhere, politically impractical.

An embryonic variant of this interpretation of the changed conditions of the interwar political economy was common at the time.[7] Economists had come to understand that economies dominated by price-makers rather than price-takers could not be expected to behave in the same way as the simpler, more competitive, prewar economies. This was the background to John Maynard Keynes's frequent plea that policy makers not attempt to impose Victorian principles on utterly changed conditions. Calling the gold standard a "barbarous relic," Keynes railed against those who would apply "the principles of an economics, which was worked out on the hypothesis of *laissez-faire* and free competition, to a society which is rapidly abandoning these hypotheses." Throughout the interwar years, Keynes accused those in authority of "attacking the problems of the changed post-war world with . . . unmodified pre-war views and ideas," arguing that their insistence on this would "sow the seeds of the downfall of individualistic capitalism."[8]

Similarly, the interwar experience demonstrated that democratic societies were going to have a substantially increased range of social programs. These included such forms of social insurance as unemployment and disability insurance, publicly funded pensions (such as Social Security), and in many countries publicly funded health systems. Big business and big labor were going to have to live with—had, in the eyes of some, made necessary—big government. Whatever shape the international economic order was going to take, it had to be able to accommodate new notions of the appropriate role of government, and in particular the emerging welfare state.

In addition to the evolution of domestic political economies, the delegates at Bretton Woods also had a wealth of *international* experiences to draw from as they contemplated the new order. Whatever the benefits of the classical age may have been, it was undeniable that it had ended in the two most devastating wars in modern history. Whether features of the classical era had played a part in causing those wars was another matter; but it would be prudent to pay close attention to any possible international political lessons that could be drawn from the fact that the prewar global political order collapsed just as completely as did the prewar global economic order.

Two features of the pre–World War I international system were most striking. The first was cooperation among the monetary authorities of the principal financial centers, so as to avoid the transmission of crises that might have destabilized the international financial system. The second was the tendency for the principal countries engaged in international finance and investment to become embroiled in bitter political, diplomatic, and even military disputes over their foreign investment interests. Both issues had drawn both scholarly and popular attention and were well known to the delegates at Bretton Woods.

Regarding international monetary cooperation, by the 1940s policy makers and scholars had come to understand the fallacies of an earlier, naive, belief that the international monetary and financial order of the late nineteenth and early twentieth centuries had been self-regulating. Two powerful interpretations of both the gold standard and the interwar crisis strongly influenced contemporary views. The first was a monumental study by W. A. Brown published by the National Bureau for Economic Research in 1940; the other was an authoritative summary of the interwar period by a highly respected League of Nations economist, Ragnar Nurkse.[9] Their conclusion was that the pre–World War I international monetary and financial system's solidity depended in large part upon the willingness and ability of the major monetary authorities to support each other in times of difficulty. Central-bank cooperation was in fact quite common during the gold-standard era, especially when the system, or members of it, came under stress. Periodic crises, even panics, required collaboration among the main national authorities, and this collaboration was typically forthcoming.

International cooperation among the major financial centers fell apart in the interwar years. One cause was the continued conflicts between France and Germany, in particular; another was the unwillingness of the American government to participate in most attempts at international economic cooperation, despite the overwhelming dominance of the United States in interwar economic activity. Between American abdication and Franco-German rivalry, cooperation collapsed. It began to be rebuilt slowly in 1936, with the Tripartite Agreement, which eventually linked the United States, the United Kingdom, France, Belgium, the Netherlands, Luxembourg, and Switzerland in an accord to stabilize currencies. But these early attempts were overtaken by World War II.[10] Nonetheless, it was clear that some form of cooperation among the principal financial centers would be essential to the creation of a stable international monetary and financial order.

The second international issue that had attracted attention in the interwar years was the process by which international finance and investment became embroiled in interstate conflicts. Lenin was not the only observer to believe that competition among investors could drive their home countries toward political, even military, clashes. After all, the developing world was largely divided into competing empires, and it was only natural for imperial powers to protect the interests of their investors.

Many policy makers and observers came to see this intertwining of international investment and international politics as an impediment to the smooth functioning of international investment itself. Studies by Herbert Feis and Eugene Staley, for example, argued famously, and prominently, that the association of investments with their home-country governments was a major source of international conflict, including military conflict.[11] This dovetailed with a strongly held American view that imperial exclusions and preferences were both a threat to American interests and a threat to peace.

The governments represented at the Bretton Woods Conference, and their representatives, had important historical experiences to draw upon. Focusing, as is natural, upon the dominant British and American government views, we can summarize the historically grounded views of the leading participants. They believed that the classical economy of the late nineteenth and early twentieth centuries had many positive features, especially its openness to trade and investment. However, they also saw flaws in the classical economy. One was that the gold standard forced countries to undertake macroeconomic adjustments that were no longer economically or politically feasible. Another was that a commitment to openness could conflict with legitimate social-policy goals. Finally, international investment too often drew countries into interstate disputes.

To reconstruct some semblance of an open international economy, then, required an act of synthesis.[12] The openness of the pre–World War I system was desirable, but it needed to be managed so as to allow for national macroeconomic-policy flexibility, and for socially and politically desirable national policies. International investment should be encouraged but should not be connected to national interests in such a way as to spur interstate conflict. With these goals in mind, a varied array of diplomats and economists—led by Keynes at the head of the British delegation and Harry Dexter White at the head of the American one—met at Bretton Woods to create a blueprint for a new international economic order. But they did so within the constraints created by their respective nations' expected interests in whatever order did emerge.

THE CENTRAL PROPOSALS

The conference addressed two related problems, each of which gave birth to one of the Bretton Woods institutions.[13] The first, and the less politically contentious of them, was to prepare the way to rebuild a shattered Europe. In their deliberations, this goal was combined with that of encouraging the development of the poor countries of Asia, Africa, and Latin America. The institution responsible for both sets of tasks was to be the International Bank for Reconstruction and Development, or World Bank.

As it turned out, the Marshall Plan rendered the World Bank's reconstruction mandate irrelevant, and it ended up focused on development. But this was intended to be at least half of its purpose from the start.[14] The development-banking focus of the World Bank was based on a number of interrelated concerns. First was the widespread belief that private investment in the developing regions was hampered by the inadequacies of their basic economic infrastructure—ports, roads, railroads, electric power—and that the private sector was unable or unwilling to finance the development of this infrastructure. In this context, a public development bank could act—much as some of the public-spending countries like the United States had undertaken in the 1930s—to facilitate and stimulate private investment, including foreign investment. The World Bank's mission, in other words, was to ease the way for international private investment. There had in fact been some experience with initiatives of this sort in the 1920s, under the auspices of the League of Nations.[15] In any event, both developed and developing countries could agree on the goal of providing multilateral assistance to smooth the path for private investment, although of course they disagreed on how much money should be involved and on how stringent the conditions attached to World Bank loans should be.

Another rationale for the World Bank was more political. It is important to keep in mind that outside Latin America, much of the developing world was still colonial, and not expected to be postcolonial for quite some time. Whether they had in mind Latin America or the colonial world, the architects of the World Bank tended to believe that making at least some foreign lending multilateral might reduce the likelihood of the kinds of conflicts that had erupted previously among national investors. Where rich countries cooperated to provide common funding to infrastructure projects in the developing world, it was unlikely that they would clash with one another over these projects.

The World Bank was almost universally popular. Rich nations saw it as stimulating private investment by their citizens. Poor nations saw it as providing needed capital on favorable terms for important infrastructural projects. Private international financial institutions and international corporations regarded the bank's expected activities as complementary to their interests: public projects to improve the economic infrastructure could only be good for private foreign investors. Neither international bankers, international investors, nor multinational corporations felt the World Bank was in competition with them: most felt it was likely to facilitate their operations.[16]

The World Bank would fund its work by floating bonds in the major financial markets, with the relevant national government guaranteeing the bonds. This would provide the bank with low-cost funds, which it could then turn around and relend to developing-country governments at interest rates they would not have been able to obtain on their own. World Bank loans were expected to finance specific, defined projects to develop economic infrastructure.

The one area of controversy had to do with how stringent the bank's conditions would be on the borrowing country governments. Unsurprisingly, governments of countries that expected to be providing the funds believed that the bank needed to make sure that the projects funded were economically sound. There was no objection to this in principle, but in practice the countries that expected to be borrowers were anxious to secure favorable conditions. Ultimately, the extent of fiscal stringency of the World Bank's requirements was left undecided. It would take years after the bank began operations before its American presidents were able to establish the expectation that World Bank loans would come with quite stringent conditions—in some ways, more explicit than those that had traditionally been imposed on sovereign borrowers by private lenders. Of course, the terms offered were very favorable, and borrowers got access to funds they could not have borrowed on private markets, at low interest rates. By the same token, World Bank borrowing was typically for such very specific projects as power plants. In this context, agreement on the desirability of World Bank lending was virtually universal, with disagreements only around the edges.

There was much more controversy over proposals for the International Monetary Fund. Governments could agree on the general shape of the reconstituted international monetary order, as Keynes and White had worked it out over many months of discussions. National governments would tie their currencies to gold, but the precious metal would only serve as a nominal anchor rather than as an actual base for international currency relations. Even more important, governments would maintain the right to change their exchange rates should national conditions warrant such a change. The fact that currency values would be fixed against each other would provide some of the stability of the classical gold standard, which was seen as a stimulus to cross-border trade and investment. At the same time, the ability of governments to change their currencies' values would provide the macroeconomic flexibility whose absence had undermined both the gold standard and sociopolitical stability in the interwar period.

It was understood that the commitment among developed countries to maintain stable exchange rates presupposed some international institution to provide balance-of-payments financing for countries facing difficulties, and also perhaps to monitor the behavior of national governments. But agreement largely stopped with this general principle. Fixed but adjustable exchange rates, and a fund to oversee them, left open exactly how the system was expected to work, and this was not a trivial issue.

The balance-of-payments adjustment mechanism is the central, and most potentially controversial, component of any international monetary system. It was the central problem of the gold standard, and a hope of something different was the central attraction of a more flexible system. The issue is straightforward. A country in payments deficit has effectively two choices. It can adjust its domestic economic activity so as to restore balance, for example by decreasing consumption to reduce imports and by cutting wages to increase exports. The gold standard's collapse in the interwar years grew out of the requirement that it imposed on national economies to undertake such austere adjustment measures, especially when national populations were unwilling. It involved, in essence, forcing the domestic economy to conform to its international economic conditions.

The alternative would be to adjust the country's exchange rate. A country in payments deficit can devalue. This makes foreign goods more expensive at home and makes home goods cheaper abroad. A devaluation often reduces imports and increases exports quite quickly, as imports are less attractive to domestic residents and exports are more attractive to foreigners. A devaluation also has a domestic impact, making foreign goods more expensive and effectively reducing consumers' purchasing power. Nonetheless, changing the currency's value has a more gradual and muted impact on national consumption and wages than imposing major domestic austerity measures, softening the blow of the balance-of-payments adjustment somewhat. Unlike austerity measures, a devaluation does not force a direct reduction in consumption or wages. Nonetheless, it accomplishes a similar goal, typically with a less immediate social cost and typically over a longer time period.

However, the Bretton Woods negotiations presupposed a limited use of the devaluation option. This meant that countries with payments imbalances—surpluses or deficits—would have to adjust. Yet this requirement was exactly what the new system was supposed to avoid, given its political toxicity in the gold-standard era. The compromise that was worked out was that the system would rely on an international institution to smooth the path of adjustment so that governments could avoid the most severe social and political costs. To facilitate adjustment, the IMF would provide balance-of-payments financing to countries in difficulty. The fund would lend money to a government in difficulty so that it could avoid a devaluation and use the borrowed funds to cushion the impact of whatever adjustment measures might be adopted. IMF financing could therefore allow for a more gradual adjustment process; or even, if the shock was short-lived, it could simply get the country over a temporary difficulty.

Once there was a plan for an international institution that would lend money to countries facing payments difficulties, the obvious questions were on what terms it would lend and what it would require of the borrowers. It is commonly observed that the burden of adjustment is asymmetric. Countries in surplus can run surpluses indefinitely, simply holding on to their earnings; but countries in deficit cannot run deficits indefinitely unless they can borrow indefinitely, which few can. This means that they either must adjust—by imposing domestic austerity or by devaluing—or find a source of financing. And the financing source has the whip hand in imposing conditions on the lending, whether in terms of the interest rate and maturity, or in broader terms of the actions expected of the borrower.

The implication is that the way in which the IMF would provide its balance-of-payments financing could make all the difference to the functioning of the system—and especially to the measures expected of potential deficit countries. And it set up a major potential source of disagreement between countries that expected to be in surplus, thus providing funds to the IMF, and those in deficit, thus needing to borrow from it. The most prominent expected surplus nation was the United States; the most prominent expected deficit nation was the United Kingdom. And so the two principal architects of the system had powerfully different interests in how it might work.

AMERICANS AND BRITONS UNITE AND FIGHT

Keynes and White, and the governments they represented, agreed on a great deal: the need for a World Bank, the importance of an open international economy, the desirability of policy flexibility for democratically elected governments. But they had many reasons to disagree about exactly how the new international monetary order would work—and, in particular, on how much the IMF would be able to ask of countries that turned to it for financial assistance.

The central debate was between the British and American representatives, led by Keynes and White.[17] The terms of the debate were predictable. The United Kingdom expected to run current account deficits for the foreseeable future and to have difficulties restoring some semblance of international confidence to the pound sterling; as a result, it anticipated being a borrower from the fund. As a prospective borrower, it had every reason to want the fund to be relatively free with its resources and to attach as few strings as possible to them.

The United States, on the other hand, anticipated being in surplus and being a major international lender. The dollar was also the one currency that remained reliable and that was expected to return quickly to some relationship with gold. As a prospective lender, the United States had powerful incentives to limit other countries' access to the resources the United States would be providing, and to provide them only upon assurance that they would be carefully marshaled. In other words, the British wanted to avoid the burden of adjustment being placed on deficit, borrowing countries—like the United Kingdom—while the Americans wanted to make sure that the burden was not borne by the surplus, lending countries—like the United States.

This fundamental conflict of interest, and of opinion, drove the difficult Anglo-American negotiations. The British, led by Keynes, wanted a fund that would create an international currency, which Keynes called "bancor," that could be used by all countries. The Americans saw this as a license for the IMF to print money and dole it out to profligate nations and allow them to buy valuable American goods with unreliable "funny money." White and the Americans insisted on a "contributory" IMF, one that every member state would pay into with gold and major currencies, so that every country would be required to help underwrite the fund. Not surprisingly, given the unique status of the US dollar, this would place the dollar—not an artificially created international currency like bancor—at the center of the international monetary system.

By the same token, the British wanted the IMF to impose few or no conditions on countries borrowing from it. In Keynes's words, it should be "entirely passive in all normal circumstances, the right of initiative being reserved to the central banks of the member countries." Even more pointedly, the British cabinet instructed its representatives to oppose anything that might force borrowers to adopt "a deflationary policy, enforced by dear money and similar measures, having the effect of causing unemployment; for this would amount to restoring, subject to insufficient safeguards, the evils of the old automatic gold standard."[18]

The Americans were insistent that the fund had to exercise relatively tight control over the economic policies of countries that had access to its resources. After all, the United States would be the principal contributor to the fund. Keynes deplored the American view, which he accurately characterized as believing that the IMF "should have wide discretionary and policing powers and should exercise something of the same measure of grandmotherly influence and control over the central banks of the member countries, that these central banks in turn are accustomed to exercise over the other banks within their own countries."[19]

It was clear from the start that the United States had most of the bargaining chips at Bretton Woods and would maintain them in the new postwar world. And so while the conference itself left somewhat vague just how rigorous IMF conditionality would be, it surprised nobody that over the subsequent decade or so the fund evolved in the direction desired by the Americans.[20] Keynes and most of the other non-American delegates were not enthusiastic about the way the idea for the fund had developed since its inception, but they realized that there was little choice in the matter. The United States was the principal shareholder of the new organization, the dollar was the foundation stone of the new international economic order, and American preferences were bound to prevail.

THE BATTLE IS JOINED—AT HOME

While the non-American delegations grudgingly accepted an IMF that they regarded as likely to be too harsh in its insistence on restrictive economic policies, the situation in the United States was very different. The battle for Bretton Woods within the United States was bitter and primarily because some of the most powerful American political forces thought the fund was likely to be so lax as to be irresponsible. The Bretton Woods Agreements faced substantial opposition in the United Kingdom for precisely the opposite reasons—that it would be too stringent.

In the United States, opposition to Bretton Woods focused on the International Monetary Fund. Given the subsequent evolution of the fund, it is somewhat surprising that it was New York's international bankers who led the charge against the IMF. They saw the institution as a continuation of New Deal–era interventionism by meddlesome governments. The financial community believed that postwar monetary stability required a return to orthodox principles. As Winthrop Aldrich of the Chase National Bank put it, what was required was simple: "the checking of domestic inflationary forces, the resumption of gold payments, and the removal of all foreign exchange controls." *The New York Times*, close to the financial community, argued against the need for any elaborate international agreements: "The greatest contribution that America can make to international cooperation is to . . . balance the budget as soon as possible after the war, and . . . to stabilize the dollar in terms of a fixed quantity of gold."[21]

There was even more rabid opposition from those Americans who remained sympathetic to interwar isolationism. The Hearst newspaper chain led the charge, accusing Keynes of wanting to "preside at the liquidation of the American Republic," and calling the Bretton Woods institutions "a planned and controlled world state."[22] The battle continued in Congress, where the most common charge was that the IMF was a scheme to dole out American money to undeserving foreigners. As one opponent told a congressional hearing, "They put in lei, lits, lats, and rubles, and they take out dollars."[23]

The American administration, first that of Franklin Roosevelt and, after his death, that of Harry Truman, worked hard to win over both the public and Congress to support of the Bretton Woods Agreements. The task was simplified by the general view that they were part of a postwar settlement to avoid the catastrophic failures of the interwar period. Dean Acheson, who had headed the State Department's team at Bretton Woods and had worked on the monetary portions of the agreements, told Congress: "We cannot go through another ten years like the ten years at the end of the Twenties and the beginning of the Thirties, without having the most far-reaching consequences upon our economic and social system."[24] The administration insisted on the argument that the agreements were part and parcel of securing the peace and avoiding the disasters of the interwar years.[25] On July 19, 1945, the Senate passed the enabling legislation by a wide margin, and on July 31 President Truman signed it into law.

In the United Kingdom, the new institutions also excited opposition. British hostility to the Bretton Woods Agreements had two sources. The first was the predictable concern that the IMF's demands on a country in persistent deficit, such as the United Kingdom, would severely impinge on its sovereignty. This fear was compounded by the fact that many in Britain believed that the Bretton Woods Agreements would weaken the imperial ties between the United Kingdom and its colonies. This was in part because the agreements foresaw an early return of the pound sterling to general convertibility. A return to sterling convertibility would effectively end the system of "sterling balances" that the United Kingdom had instituted in the empire in the interwar period, which tied the colonies monetarily to the mother country. The threat to colonial monetary relations was especially sensitive in the United Kingdom, for there was a widespread feeling in Britain that the United States was openly hostile to the maintenance of the British Empire as a viable entity. The feeling was of course well-founded.

Nonetheless, Keynes and other supporters of the agreements made the case strongly to Parliament and public opinion that the system was the best Britain could obtain in a world economy dominated by the United States.[26] As a member of the House of Lords said during the debate, "We fought at Dunkirk, but to-day we are surrendering what I conceive to be our just rights. We are surrendering them to the power of the dollar. . . ."[27] After bitter debates, with strong opposition from members of both the Labour and Conservative Parties, the treaty was eventually ratified.[28] The Bretton Woods system was in place.

CONCLUSION

American economic leadership was crucial both to the design and implementation of the Bretton Woods institutions, which at some level reflect the overwhelming economic and diplomatic power of the United States in the aftermath of World War II. However, it is an exaggeration to argue that the United States imposed the Bretton Woods system; American and British policy makers consulted and compromised over all aspects of the agreements, and other countries contributed as well. The aura of international collaboration that began at Bretton Woods and prevailed for decades afterward undoubtedly helped establish the pattern of institutionalized multilateral cooperation that is one of the hallmarks of the post–World War II international political economy.

International cooperation at Bretton Woods was all the more remarkable inasmuch as it required a leap of faith in the workability of institutions that had been designed *de novo* by professional economists. To be sure, the designs relied upon an understanding of how previous international monetary and financial relations had worked—or failed. Nonetheless, it still seems extraordinary that the relatively abstract principles upheld by John Maynard Keynes and Harry Dexter White were able to translate into an international order whose broad outlines have defined the world economy for seventy-five years.

Notes

1. An outstanding summary of the history of modern international monetary relations is Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2nd ed. (Princeton, NJ: Princeton University Press, 2008). Two excellent volumes of essays on the gold standard are Tamim Bayoumi, Barry Eichengreen, and Mark Taylor, eds., *Modern Perspectives on the Gold Standard* (Cambridge: Cambridge University Press, 1997); and Barry Eichengreen and Marc Flandreau, eds., *Gold Standard in Theory and History*, 2nd ed. (London: Routledge, 1997).

2. For a summary of the interwar experience, see Jeffry Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W. W. Norton, 2006), chaps. 6–10. A classic study of interwar attempts at stabilization and their failure is Charles Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton, NJ: Princeton University Press, 1975). Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1992) is a masterful and definitive study of the collapse of the interwar monetary order.

3. The canonical statement of the current consensus is Eichengreen, *Golden Fetters*, which also provides great detail on the views of policy makers at the time.

4. Today countries in and around the Eurozone that undertake this form of adjustment process are said, aptly, to be carrying out an "internal devaluation," i.e., to be reducing domestic wages, prices, and income while keeping the exchange rate constant. Then as now, the economic costs can be very high.

5. Two important summaries of analyses of the process are Ben Bernanke and Harold James, "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison," in *Financial Markets and Financial Crises*, ed. R. Glenn Hubbard (Chicago: University of Chicago Press, 1991), 33–68; and Robert Margo, "Employment and Unemployment in the 1930s," *Journal of Economic Perspectives* 7 (1993): 41–59.

6. Donald Sassoon, *One Hundred Years of Socialism: The West European Left in the Twentieth Century* (New York: New Press, 1996) is the definitive study of the rise of the socialist movement.

7. Marriner Eccles, appointed by Franklin Roosevelt as chairman of the Federal Reserve in 1934, was a prominent and early proponent of the newer perspectives. He served as Fed chair until 1948. There were others in Roosevelt's "Brain Trust." See, e.g., William Barber, *Designs within Disorder: Franklin D. Roosevelt, the Economists, and the Shaping of American Economic Policy, 1933–1945* (Cambridge: Cambridge University Press, 1996).

8. As quoted in Frieden, *Global Capitalism*, 152–54.

9. W. A. Brown, *The International Gold Standard Reinterpreted, 1914–1934* (New York: National Bureau of Economic Research, 1940); and Ragnar Nurkse, *International Currency Experience: Lessons of the Inter-War*

Period (Geneva: League of Nations, 1944). Their view of the sources of stability of the prewar system and instability in the interwar period remains predominant. For the canonical presentation of a modernized version, see Eichengreen, *Golden Fetters*.

10. Frieden, *Global Capitalism*, 249.

11. Herbert Feis, *Europe the World's Banker 1870–1914* (New Haven, CT: Yale University Press, 1930); and Eugene Staley, *War and the Private Investor* (Garden City, NY: Doubleday, Doran, 1935).

12. John Ruggie has dubbed the synthesis that emerged "embedded liberalism," meaning that it was a commitment to a welfare state embedded in something approaching a liberal economic order. John Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2.

13. For recent analyses of the Bretton Woods Conference, see, among many others, Ed Conway, *The Summit: Bretton Woods, 1944* (New York: Pegasus Books, 2014); Eric Rauchway, *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace* (New York: Basic Books, 2015); and Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton, NJ: Princeton University Press, 2013).

14. See Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca, NY: Cornell University Press, 2014) for a detailed analysis of the emergence of plans for the World Bank at Bretton Woods.

15. See, for example, Juan Flores Zendejas and Yann Decorzant, "Going Multilateral? Financial Markets' Access and the League of Nations Loans, 1923–8," *Economic History Review* 69, no. 2 (2016): 653–78.

16. Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: Macmillan, 1978) covers both the controversial and uncontroversial aspects of the proposals.

17. Conway, *The Summit*; Steil, *Battle of Bretton Woods*; and Van Dormael, *Bretton Woods*, cover the preparations and debates in detail. For historical documents, see "The White Plan" and "The Keynes Plan," in the "Historical Documents" section of this book.

18. Quoted in Sidney Dell, *On Being Grandmotherly: The Evolution of IMF Conditionality* (Princeton, NJ: International Finance Section, Department of Economics, Princeton University, 1981), 2–3.

19. Ibid., 1.

20. Dell, *On Being Grandmotherly* is the classic analysis.

21. As quoted in Rauchway, *Money Makers*, 205 and 207.

22. As quoted in ibid., 206.

23. Conway, *The Summit*, 296.

24. Quoted in Fred Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977), 40. On the more general attempts to convince Americans of the desirability of international economic engagement in the aftermath of World War II, see Frieden, *Global Capitalism*, chap. 11.

25. See Henry Morgenthau, "Bretton Woods and International Cooperation," in the "Historical Documents" section of this book.

26. See "Speech by Lord Keynes on the International Monetary Fund Debate," in the "Historical Documents" section of this book.

27. Quoted in Steil, *The Battle of Bretton Woods*, 285.

28. For more, see Andrew Bailey, Gordon Bannerman, and Cheryl Schonhardt-Bailey, "Bretton Woods: The Parliamentary Debates in the United Kingdom," in the "Historical Documents" section of this book.