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Building up a multilateral strategy for the United States: Alvin Hansen, Jacob Viner and the Council on Foreign Relations (1939-1945)

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Abstract

Between 1943 and 1947 a new economic order was founded, which aimed at implementing multilateral trade, international monetary cooperation and economic stability supported by government intervention. This paper describes the contribution provided to this process by a group of American economists working under the auspices of the Council on Foreign Relations and in close connection with the State Department. Since 1939 the Economic and Financial Group led by Jacob Viner and Alvin H. Hansen played an important role in designing strategic choices which concerned American economic interests in the post-war world and in preparing the ground for the establishment of such multilateral agencies as the IMF, the IBRD and the ITO-GATT system. In assessing Viner's and Hansen's views and proposals, this paper shows how different and competing approaches to economic theory and policy compromised and converged in supporting this outcome.

Key Words: Jacob Viner, Alvin Hansen, Bretton Woods, Council on Foreign Relations, Post-War Planning; State Department.

JEL: B31, E63, F55, F59, N12

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Introduction

The establishment of the financial and economic order after World War II is undoubtedly one of the most studied and discussed phases in the history of international economic relations. Eminent historians and economists have devoted great efforts to describe its origins, features and effects; their different views and conclusions are rarely devoid of concern for present-day diseases and prescriptions.

We'll explore those events with the peculiar perspective provided by a set of contemporary sources: thanks to the documents preserved in the Council on Foreign Relations Archive[1], we will look at the shaping of the post-war economic order through the eyes of two outstanding American economists: Jacob Viner (1892-1970) and Alvin H. Hansen (1887-1975).

Actually Viner and Hansen were not only witnesses of those events: they were engaged with the preparation of the Bretton Woods agreements and, more generally, with the shaping of the American strategy in the design of a new economic order after World War II. Their activity was mainly, although not exclusively, related to the War and Peace Study, a project set up by the Council on Foreign Relations in connection with the State Department. Several quotations traceable in the literature suggest that Hansen's and Viner's post-war planning activity was not a minor one. Yet their work within the War and Peace Study Project has received little attention, at least in the historiography of economic thought and policy[2].

The subject of this paper will be therefore Viner's and Hansen's views and contributions to the post-war planning activity of the Roosevelt Administration.

The paper is structured as follows: first we describe the institutional framework of the War and Peace Study Group; then we examine Hansen's and Viner's contribution to the general economic strategy of the administration before Pearl Harbour; we then recall, briefly, their proposals in the commercial field and devote more attention to the focal point of the paper, namely their contribution to the debate around the International Monetary Fund (IMF) and the International Bank for

[1] In addition to the Council on Foreign Relations Archive in New York and Princeton, we resorted to Viner's Papers at Princeton University Library and Morgenthau Diaries in the Roosevelt Presidential Library in Hyde Park (NY). The Council on Foreign Relations Papers are referred to in the following manner: EA (followed by a number) indicates the proceedings of discussions within the EFG; EB indicates the reports set out by the EFG. Both series of documents are published in volumes: EB is traceable in a limited set of libraries; EA is available at the Council on Foreign Relations Archive. Archival sources are quoted with permission respectively of the Council On Foreign Relations, the John Seeley Mudd Manuscript Library (Princeton University) and Morgenthau Presidential Library.

[2] Some political inquiries into WPS's activity, with great attention devoted to the Economic and Financial group, are Shoup (1975), Santoro (1987) and Domhoff (1990). Some references to Hansen's and Viner's work in WPS, concerning the Bretton Woods Agreements are also in Ikenberry (1993, p. 165).

Reconstruction and Development (IBRD). Finally we consider their general evaluation of the Bretton Woods agreements and reach some conclusions.

We observe that there is much asymmetry within the documents we examine: in the first period, roughly from 1940 to mid 1943, the War and Peace Study Group, had a good deal of influence on the State Department, and therefore on the shaping of the American foreign policy; nevertheless its contribution was mainly related to such general aims and topics as multilateral trade, full employment, and international cooperation in the commercial and financial field.

Only in 1943 did the Economic and Financial Group get involved in more technical discussion about the tools and institutions which were emerging from the official Anglo-American negotiations. Unfortunately at the very same time the group ceased to exert a strong influence on the Administration: the commercial negotiations got blocked from September 1943 till the end of the war and the financial negotiations were led by the Treasury with the State Department only in a secondary role. Despite this relative 'outcasting' of the Economic and Financial Group, many of its members continued to contribute to the negotiations, working in government committees or exerting their persuasion through the personal relationships with the main players on the stage.

However heterogeneous these documents may be, only their complete analysis will allow us to describe the contribution of Viner and Hansen to American foreign policy during World War II.

1. The State Department's post-war planning and the War and Peace Study Project.

The United Nations Conference held at Bretton Woods in July 1944 with the participation of 44 countries' delegations, is considered a turning point in the history of international economic relations.[3] It gave birth to the IMF and the IBRD, preparing the general framework for the establishment of the GATT and other international economic institutions.

This turning point was not, of course, a sudden event, but the result of an intense process of analysis, research, political debate and negotiation especially

[3] See Bordo and Eichengreen (1993), Cesarano (2001), Eichengreen (1996), Harold (1997), Kirshner (1996).

between the American and British governments. This process was brought about at considerable speed under the pressure of dramatic events.

At the end of the 1930s it was apparent that the traditional euro-centric structure of international relationships, the so called ‘balance of power system’ which had barely survived the previous war, could no longer manage the several pressures and conflicts arising around the world[4].

Even the traditional gold standard, which had governed international economic relations in the second half of XIX century, supporting the functioning of a free trade system, had been restored after the previous war only after a long process of political struggles and financial efforts, with many economic difficulties and high social costs. Moreover its resurrection was to be only temporary, and it was widely abandoned under the strains of the Great depression. In 1936 the classical gold standard survived only in Albania and few people believed it capable of a second resurrection or considered that this would be desirable[5]. Nevertheless some sort of international economic agreement was needed to avoid the resort to such practices as prohibitive trade barriers, bilateralism and competitive devaluations. The issue was not only an economic one: unemployment, economic distress, unfair trade practices were considered powerful factors in the rise of totalitarian dictatorship and military expansionism. The general political and economic instability of the 1930s induced many governments to change their mind about their previous commercial and monetary policy in seeking a way out of chaos.

In June 1940 the American public was shocked by news of German soldiers marching under Tour Eiffel. A few months had sufficed for Hitler to conquer much of the continental Europe. Only the strenuous resistance of Great Britain and its fleet divided the German Army from the United States: in September 1940 even that last bulwark seemed very likely to crumble. The old Balance of Power was now completely swept away. What sort of international order would result?

It was in this setting that the War and Peace Study project (WPS) – and the Economic and Financial Group within it – was born. Actually the WPS was not a public project: it had been set up in December 1939 by the Council on Foreign Relations, a private institution, very close to the New York business community and well-known for its twenty years of activism in the field of international studies[6]. The Council

[4] Concerning the balance of power system, see Spykman (1942), Newman (1968), Sheehan (1996).
[5] On the interwar record of the international monetary system see Drummond (1987), Flanders (1989) and Eichengreen (1992).
[6] On the activity of the Council on Foreign Relations see Council on Foreign Relations (1947), Shoup and Minter (1977), Wala (1994), Domhoff (1990).

therefore could be considered a private pressure group formed by 'internationally oriented bankers and corporate executives in New York and surrounding areas, as well as academic experts and journalists' (Domhoff, 1990, p. 115).

The private character of the WPS did not prevent it from assuming an important role within the administration: the project was set up in accord with the State Department and placed under the supervision of one of its high officials, Leo Pasvolsky[7]. The State Department received reports and recommendations from the WPS, which were delivered directly to the President and the Secretary of State, and in turn provided the WPS with information and data of its own[8].

The reasons for this close collaboration could be traced to the strong personal relationships the Council enjoyed within the State Department[9]. But there were also institutional reasons that led the State Department to rely heavily on the WPS. The State Department had in 1941 organized its own Division on Special Research entrusted to study post-war problems. Nevertheless the Division, directed by Pasvolsky under the supervision of Under Secretary of State Sumner Welles, counted on only a few officials[10]. On the contrary, the WPS, funded with a huge grant from the Rockefeller Foundation, was able to devote to post-war planning studies a wide and articulated structure, with the regular participation of more than one hundred individuals during its five years of activity[11].

Given its personal connections and institutional framework, the WPS could exert much influence on the State Department, especially in the first three years of its

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[7] Leo Pasvolsky was one of the officials most involved in Anglo-American economic planning during the war: he took part in most of the meetings held by the State Department with the British embassy, the US Treasury and the British expert delegation in September 1943. See *Foreign Relations of the United States*, 1942, VII, pp. 163-242; 1943, I, pp. 1054-1126; see also Opie (1957, p. 134) and Goodwin (1998).

[8] *Council on Foreign Relations, War and peace Study Group*, in George W. Ball papers, ca. 1933-94, Box 141, Mudd Library, Princeton University, pp. 9-10.

[9] According to Domhoff (1990, p. 115) Norman H. Davis, CFR executive director, had 'long standing and close [...] relationships with central decision makers in the State Department and White House [...]. He had direct and frequent access to [President] Roosevelt and [Secretary of State Cordell] Hull in the years between 1940 and 1942'; moreover many State Department officials, like Sumner Welles, Leo Pasvolsky, Dean Acheson, Herbert Feis, and Myron C. Taylor had been members of the Council (Shoup 1975, p. 25).

[10] According to Aaronson 'Hull established a small staff of eight under Pasvolsky to develop America's long term goals for the peace. But these employees [...] were overwhelmed with operational responsibilities. Pasvolsky and his staff devised an innovative approach to facilitate the Committee's background work. Under a grant from Rockefeller Foundation, the Council on Foreign Relations worked with the division to prepare a wide range of studies on international issues (Notter, 1949, pp. 53-6). This approach enabled the post-war planners to broaden their perspective without adding to the department's budget' (Aaronson, 1991, p. 174). According to Santoro, the personnel devoted to post-war planning were even fewer elsewhere in US government departments (Santoro, 1987, p. 187).

[11] The WPS was composed of five study groups (Political, Territorial, Peace aims, Security & Armaments, Economic & Financial), coordinated by a Steering committee and each one placed under the leadership of two 'joint rapporteurs', chosen from the most eminent scholars in each field. Each group could also enjoy the full time work of two junior researchers. George Ball papers, *Council on Foreign Relations, War and Peace Study Group*, p. 11.

activity, when an overall rethinking of the US national interest had to be worked out in order to guide short term decisions and long term strategies.

In building up a rationale for this purpose a leading role within the WPS was assumed from the beginning by the Economic and Financial Group (EFG), which was certainly well equipped for this task. The EFG was entrusted to the leadership of Alvin H. Hansen and Jacob Viner, both of them former Presidents of the American Economic Association respectively in 1938 and 1939.

It was not only their presidential titles to make Viner and Hansen well suited to represent the profession in its broader amplitude. Viner was a 'late' exponent of that classical school of international trade, which passing through John Stuart Mill and Alfred Marshall get to his own 'master and friend' Frank Taussig; he was also an outstanding member of the 'early Chicago school', which in the following years came to be known for his resistance to the 'Keynesian revolution'[12]. Hansen, he himself a resolute opponent to Keynesian ideas in the early thirties and a brilliant exponent of the 'Austrian' way of reasoning, was now regarded, after his declared conversion in 1937, as the leader of the Keynesian school in the United States[13].

In addition to Viner and Hansen, the EFG counted other distinguished economists within it: Lauchlin Currie (since January 1943); John H. Williams (only for a few months in 1940); Benjamin V. Cohen; Randolph Flanders (New York Fed); William Diebold jr. (junior researcher till 1943); Percy Bidwell; Winfield Riefler. Many of them were already working with other agencies and Viner and Hansen were no exception: Viner had been special assistant of Henry Morgenthau Jr. at the Treasury since 1934; Hansen had been adviser to the NBER and the Federal Reserve Board.

Between 1939 and 1945, the State Department received from the EFG 161 reports and recommendations: they covered a wide set of topics[14], mainly related to the impact of the war on the American economy, the desirable aims for the American economy in the post-war economic order, and the political, economic and financial means needed to achieve them.

[12] On Viner's life and work, see Robbins (1970), Samuelson (1972), Rotwein (1983), Bloomfield (1992). On the debate about the "early Chicago School" and its relations to the later Chicago School of Political Economy see for all Leeson 2003.
[13] On Hansen's life and work see Tobin (1976), Barber (1987) and Mehrling (1997, pp. 85-157).
[14] George W. Ball, papers, *Council on Foreign Relations, War and Peace Study Group*, p. 10.

2. From the Western Hemisphere to the Grand Area

In 1940-41 the main effort of the EFG was to press the Administration to adopt as its main strategy the building up of a multilateral trade area embracing most of the non-German controlled countries.

It was not an easy case to wage for: one of the most popular ideas was, at that time, the Western Hemisphere project[15]. It was a sort of trade bloc within the Pan-American continent, designed to face not only Japanese and German expansionism, but also trade discrimination on the part of the British Commonwealth. A Pan-American economic and political isolationism could appear a good safeguard against involvement in the war.

In the Summer 1940, under the leadership of Viner and Hansen, the EFG endeavoured to show the economic unfeasibility of such a project[16]: the Western Hemisphere would have required a huge reorientation of the main commercial flows of the United States toward Canada and Latin America. It was not an easy task: their demand for American goods was quite marginal in their economy, mainly oriented to the European productions; many goods and raw materials Latin America could supply would have displaced, with their low prices, American agricultural output. The result would have been a gigantic transformation of the American productive structure, with mass unemployment, distress and eradication of millions of people from their homeland. That was the darkest side of the picture Viner and Hansen were drawing, but it was not the only one: essential raw materials for the American industry (rubber, tin) were produced outside the Western Hemisphere, mainly in Asia and the British Commonwealth; moreover most of the markets for American industrial goods were in Europe or English speaking countries. The moral of the tale was quite clear: the United States could not let the Nazis conquer Great Britain and keep Europe and part of the British Commonwealth under its own economic control; they could not let Japan build up its own empire in the Pacific Area. In short, they could not afford to stay aside from the war.

[15] For a survey of the Western Hemisphere idea in American political thought, see Whitaker (1954), Callcott, W.H. (1968).
[16] Hansen (1940), Viner (1941). The most popular refutation of the Western Hemisphere project was Spykman (1942).

The alternative solution, supported by the EFG, was to build up a much wider trade area, extended to the British Commonwealth and shaped along the principles of multilateralism and economic cooperation, especially in the financial field[17].

The 'Grand Area', as it came to be called in the EFG reports, should be started as soon as possible, as a means to enhance American defensive power and maintain its living standards during the war. But it should also be a sort of acid test for the future structure of international political and economic relationships.

In the phase of uncertainty that followed the outbreak of war in Europe the Administration needed sound political and economic evaluations to guide its foreign policy and effective arguments to overcome a strongly isolationist public opinion: the EFG provided both. Moreover it set out the sort of post-war economic order the United States had to fight for. In EFG analysis and recommendations, short term and long term objectives were strictly related. American foreign policy had to be oriented to the attainment of a new world order consistent with its liberal-democratic creed and designed to serve its national economic interest. The Grand Area project seemed to satisfy both of these requirements.

3. Multilateral trade and international stabilization of employment

The first step to build up the Grand Area was to establish a military alliance with the British; but, in order to design the war aims of the future economic order, an American-British cooperation in economic and political fields had to be set up as soon as possible[18].

The EFG itself took the initiative. In Summer 1941 the EFG drew up eight points containing its proposal for an economic "charter": multilateral trade, economic cooperation, security for individuals against old age, disease and unemployment, nation's self-determination, should be the outstanding features of an alternative economic system, designed to spread higher living standards throughout the world[19]. After the great depression, laissez faire and free trade were no more a suitable

[17] EB-19, *The War and United States Foreign Policy* (19 October 1940); EB-34, *Methods of economic collaboration: introducing the role of Grand Area in American Economic Policy* (24 July 1941).
[18] With regard to Anglo-American negotiations during World War II, see Gardner (1956[1980]), Pressnell (1986) and Dobson (1995).
[19] EB-32, *Economic War Aims: general considerations*, 17 April 1941. These aims were further developed in 11 points presented in the memorandum EB-36, *Economic War Aims: Main lines of approach, preliminary statement* (22 June 1941). For a comparative analysis between this second document and the Atlantic Charter, see Santoro (1987, pp. 200-7).

message to deliver the world and a novel economic program was needed to be championed against the Nazis' 'new order'. Even the accusation of a new Anglo-Saxon plutocratic imperialism, in the form of commercial and financial exploitation, was to be answered: an economic program designed to preserve small countries autonomy and give them substantial advantages should be worked out.

The eight points of the Atlantic Charter were declared in August 1941, but they contained no statements about economic aims[20]. The declaration of an economic charter was not an easy task: different points of view and divergent national interests, competition between the rising world economic power and the previous one, inadequate knowledge of each others' problems, were not an easy ground for commitments about the future economic system.

Mutual understanding was needed and the EFG was ready to play its part. In the Fall of 1941 the EFG, together with the Royal Institute of International Affairs – a sort of British parallel of the Council, to which it was bound by longstanding intellectual exchange[21] –, organized two unofficial meetings with British economists in Washington to discuss the main issues between the two countries and the prospective problems of the post-war period[22].

The differences between the two group of experts could hardly be greater: the British had carried on their struggle against the German army almost alone, supported by the financial and material aid of the Commonwealth; their industrial system, widely devoted to warfare production, would have to meet a drastic conversion to peace production; their massive purchases of foreign raw materials had piled up considerable 'sterling balances' that would place a sudden and huge pressure on the external value of the Pound after the war. The maintenance of tight exchange controls and the Imperial preference System, probably enforced by bilateral trade arrangements outside the Commonwealth, seemed to be the only

[20] EB-42, *Economic aspects of the eight point of the Atlantic Charter* (20 October 1941).
[21] Anglo-American economic relations had been the subject of a parallel study outset in 1936-38 by the two institutions, concerning financial problems (settlement of the old war debts) and perspective for commercial cooperation. This project had been carried out especially by Herbert Feis, Winfield Riefler and Percy Bidwell, later to be deeply engaged in the WPS (CFR Papers, Princeton University, 2, VII).
[22] EA 20, EA 25. The British experts who took part in the first meeting held on September 20, 1941 were Geoffrey Crowther (at that time editor of the *Economist*), Mr Kenneth Bewley (chief of the British Supply Council of North America) and Mr Hutton (whose identity I have not been able to specify). The second meeting, on 24 January 1942, was attended by Sir Arthur Salter, Mr Tawney, Redvers Opie (economic adviser to the British embassy in Washington and a participant in the Hot Springs and Bretton Woods Conferences; later he was editor of the *Oxford Economic Papers*) and the Canadian economist Louis Rasminsky (at that time member of the Canadian exchange-control board, he took part in the Bretton Woods Conference and was Governor of the Bank of Canada from 1961 to 1973). About Anglo-American official negotiations between the Summer and the Fall of 1941, see Pressnell (1986, pp. 33-49) and Gardner (1956[1980], pp. 40-68).

available means of avoiding a dramatic collapse of the British economic system and standard of living after the war[23].

Not surprisingly multilateral trade and peaceful economic cooperation sounded ominous to most British ears: they seemed to be the final insolences of a young man who, smartly dressed and comfortably sitting on a sofa, was casually declaiming to the agonizing father the virtue of the new house he was going to build with the proceeds of his legacy. The EFG economists who, to be fair, were actually supporting a more active and sensible attitude on the part of the Administration, had hard work to do in overcoming the diffidence of their counterparts.

In October 1941 Alvin Hansen went to London to meet many economists in public service[24]: he proposed again the building up of a multilateral trade system after the war, but he coupled this aim with a wide program of public investment projects, led by an International Reconstruction Finance Corporation, funded by industrial countries in favour of developing ones. If the idle financial holdings of the United States could be put at the disposal of foreign investment projects in backward countries, these funds would increase the demand for capital goods produced in Britain as well as in the United States; under these conditions Britain could lower its trade barriers with no fear of a major balance of payments deficit, harsh deflation and dramatic falls of employment and living standards[25].

The United States, like a dam, possessed a huge idle mass of reserves which had been built up in the previous years; if they released even a minor part of that liquidity, its circulation would have brought prosperity, security and peace across the barren fields of the world.

The Keynesian message of Hansen's proposal had some chance to find a sympathetic ear in Keynes himself. As the Harvard economist wrote to Viner:

> Keynes and Henderson saw, through this type of approach, the possibility of working on to the Hull type of multilateral trade and agreed that, if a broad attack of this sort could be made on the whole problem of active employment and trade, everyone would prefer the

[23] With regard to early British forecasts on their own post-war economic conditions, see Pressnell (1986, pp. 1-5) and De Cecco (1969, pp. 53-55).
[24] Hansen was a delegate to the international conference sponsored by the British Association for the Advancement of Science. Apart form the Conference, he 'held numerous informal and unofficial discussions with people at Chatham House, PEP, London School of Economics, Lord Reith's Ministry of reconstruction, the Group of Nuffield College, Oxford, working under G.D.H. Cole, and numerous government officials, many of them erstwhile academic economists. Discussion concerned the British balance of payments in the post-war years' (EA-22, 11 November 1941).
[25] Hansen to Viner, 20 October 1941 (box 13, folder 9, JVP). See also Harrod (1951, p. 527).

broadest possible trade relations rather than the narrow bilateral arrangements (Hansen to Viner, 20 October 1941: box 13, folder 9, JVP) [26].

But other ears were also stimulated by Hansen's message, although for different reasons:

> These proposals proved to be a way of bridging to a large extent the gap between those who, like Keynes and Henderson, have been favoring continuation of exchange control and bi-lateral payments agreements for England after the war, and those [...], led by Lionel Robbins, who favor the multi-lateral trade approach. Robbins proved, I think, everything considered, my warmest supporter in these proposals (ibid.).

Hansen's informal proposals had now to find their expression in the official negotiations. The Lend and Lease Act of March 1941 provided the opportunity: in the fall of 1941 the Roosevelt administration was pressing the British government to define a sort of 'repayment' for the US financial and material aid. No monetary or material transfer was expected: the repayment should be on political grounds. The aim of the State Department was to obtain from Britain the commitment to give up any trade discrimination: this declaration would have implied the abandoning of the Imperial preference system, established in the Ottawa Agreements of 1932 between Great Britain, the Dominions and India[27].

In January 1942 the EFG proposed the State Department to sign a Joint Statement with the British: the two governments should commit themselves not only to refrain from any trade discrimination and reduce trade barriers, but also to promote, by national and international measures, 'full use of each country's domestic productive resources of men and material'[28].

The importance of the joint statement was stressed by John Miller, executive director of the WPS:

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[26] In the second draft of his Clearing Union Plan, Keynes inserted this statement: 'I believe that here is great force in Prof. Hansen's contention that the problem of surpluses and unwanted exports will largely disappear if active employment and ample purchasing power can be sustained in the main centres of world trade' (Keynes 1940-44 [1980], p. 48).

[27] About Anglo-American trade relations during the 1930s, see Rowland (1987), Lake (1983).

[28] EB-45, *Tentative draft of a joint economic declaration by the governments of the United States and the United Kingdom,* 3 January 1942. An early version of the draft had been circulated in Washington since the end of October (Hansen to Viner, 20 October 1941, box 13, folder 9, JVP). An EFG's memorandum entitled *International collaboration to secure the coordination of Stabilization policies and to stimulate investments*, EB-44 was approved on 29 November 1941 and sent directly to President Roosevelt who 'referred the matter to Secretary Hull. Hull wanted to move slowly and therefore advised Hansen to continue this work and the discussions he had been having with the State Department' (Shoup, 1975, p. 36).

The memorandum [...] is probably the most important matter which has come before any of the Groups since the Project began. If the United States begin to assume international responsibilities, it is more likely to do so in an economic than a political form. The success of this plan might be the contribution of the project to American foreign policy (EA-23, 29 November 1941, p. 12).

The article VII Mutual Aid Agreement, finally signed on 23 February 1942, after strenuous resistance from the British government[29], contained a clear commitment to the elimination of any discriminatory treatment in international trade, together with tariff reductions and other trade barriers. Moreover it asserted that:

agreed action, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumptions of goods. [....] At an early convenient date conversations shall begun between the two governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives[30].

Now the problem was to set up appropriate machinery for cooperation: that was to become the EFG's main task in the following months.

4. A set of international agencies

Between the Spring and the Summer 1942 the process of 'osmosis' between the Council's and the State Department's post-war planning reached its climax. In March a closer relationship had been formalized between the WPS and the State Department Division on Special Research, still guided by Leo Pasvolsky. Conforming to CFR's suggestions, the secretaries and researchers of each WPS group were hired half a week in Washington supporting the Division's staff, and for the time remaining continued their work on behalf of the CFR's project in New York[31].

[29] Pressnell (1986, pp. 49-58).

[30] This references about expansion of production and employment, 'inserted to allay the British fears of an American slump' (Opie, 1957, p. 137), were absent in the State Department's July draft and were introduced in the final draft after negotiations with the British Ambassador Lord Halifax and Redvers Opie (Gardner, 1956[1980], pp. 58-9). Article VII of the Mutual Aid Agreement is reproduced in Pressnell (1986, p. 372).

[31] *George Ball papers*, p. 8. The Division on Special Research was entrusted to serve an interdepartmental Advisory Committee on Post-war Foreign Policy authorized by Roosevelt in December 1941, under the Chairmanship of Secretary Cordell Hull: within the 14 members of the Committee, ten had longstanding links with the CFR, and six were involved in the WPS (Shoup, 1975, 25). According to

The time was now ready to develop concrete plans for the post war order in negotiations with the British. In accordance with Pasvolsky's detailed requests, the EFG group began to work out a complete set of proposals concerning various aspects of the post-war economic order[32].

In August 1942 the EFG delivered the State Department the project of an International Trade Agency (EB-55), elaborated by Percy B. Bidwell[33]. The ITA was entrusted to control tariff duty changes, promote multilateral trade agreements and settle disputes among member countries.

> The Authority should also supervise [...] the development and execution of national foreign trade policies in order that they may promote rather than endanger world prosperity and the maintenance of peace.
>
> The constituent nations, and those which later became members of the General organization, should submit to the Trade Authority all proposed increase in import and export duties, and also all proposed changes in quotas, licensing systems and in customs laws and regulations which interpose new or additional obstacles to international trade, thirty days before putting them into effect.
>
> [...] The authority should have power to initiate investigations and to suspend the operation of the proposed increases for a period not exceeded ninety days.
>
> [...] if [the country] does not accept the recommendations of the Authority, should be obliged to re-enact the original proposals before they become effective. The Authority should make public, promptly, a report of its findings and recommendations (EB-55, p. 2).

The EFG was well aware that the extensive powers given to the new agency were likely to cause strong opposition in national public opinions[34]. To overcome this

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Notter, in Summer 1943 Roosevelt selected from the Advisory Committee six individuals in order to have a closer group to advise him on post-war planning: the so called 'Informal Agenda group' was formed by Cordell Hull, Sumner Welles, Leo Pasvolsky, Isaiah Bowman, Myron C. Taylor, Norman H. Davis: all of them, with the exception of Hull, were members of the CFR (Shoup, 1975, p. 38).

[32] Between March and April 1942 the following six memoranda were discussed and approved by the EFG: *Problems of international relief* (William Diebold); *Labor Problems and Social Legislation* (Carter Goodrich), *Problems of International Trade* (Arthur R. Upgren), *International Commodity Problems* (Eugene Staley), *Problems of Monetary Reconstruction* (Hansen); *Problems of International Long-Term Investment* (Viner), collected together in EB-49, *Post-war economic problems*. They had been requested from the State Department's *Division on Special Research* on 28 February 1942, just five days after the Mutual Aid Agreement had been signed. In May 1942 Pasvolsky and Harry Hawkins started, on behalf of the State Department, informal meetings with British embassy officials, drawing up and sending to London an agenda of a 'dozen of topics covering the broadest possible economic field [...] known as the Pasvolsky Agenda', Opie (1957, p. 140).

[33] See also Bidwell (1943, 1944).

[34] 'Mr Maddox asked if Mr Bidwell was definitely recommending the creation of an international authority which would be able to control national tariff schedules. There are very important political and economic implications to such a decision. Mr Bidwell said that [...] real international tariff control is possible only if states give up some power. Mr Viner agreed with Mr Bidwell on this last point and urged that the memorandum stated this very clearly' (EA-31, 15 June 1942, pp. 2-3).

difficulty Viner and Benjamin V. Cohen stressed the importance of an international agreement underwriting a ‘Code of Fair Trade Practices for International Trade’: the ITA should be entrusted to promote and control the respect for that code, limiting its discretional power:

> The only way to get around this [opposition] would be to set up, so far as possible, predicable standards which would to some extent limit the Authority’s jurisdiction and protect it from the charges of political motivation. [...] Mr Cohen hopes that the development of standards might make the question before the Authority more comparable to “justiciable” than “non-justiciable” issues (ibid., pp. 4-5).

The proposal contained in memorandum EB-55, had many parallels with the Commercial Union Plan formulated, at about the same time, by James Meade for the British Department of Commerce[35]. These two proposals became the basis of the agreement reached by the British and American Officials during the first official talks held in September 1943[36].

Even the EFG’s proposals in the employment field were broadly confirmed in the 1943 Anglo-American official talks. As we shall see, they provided a set of international institution coordinated by a General economic staff, in order to stabilize employment throughout the world.

Keynes’ Clearing Union Plan and White’s IMF proposals had not been published yet, but were under discussion within government: the EFG was requested to provide suggestions for the State Department position. The man entrusted to provide analysis and elaborate proposals on this field was Alvin Hansen: his two memoranda were presented and seriously within the EFG respectively in Spring 1942 and 1943[37].

In Hansen’s view the only means to build up a sound and durable international monetary system was to adopt national and international measures able to ensure high level of employment, production and living standards in the leading industrial

[35] Pressnell (1986, p. 99). The EFG might have been acquainted with the Commercial Union Plan through Pasvolsky who had been one of the first to receive it from the US Ambassador in London, John G. Winant, in December 1942, *Foreign Relations of the United States*, 1943, I, p. 1103.

[36] The State Department officials involved in the official Anglo-American talks of September 1943 were: Myron C. Taylor (who guided the delegation), Leo Pasvolsky, Herbert Feis, Harry C. Hawkins (Chief of the Division on Commercial policy), John D. Hickerson (assistant chief, Division of European Affairs), Leroy D. Stinebower (Chief, Division on Economic studies). For a brief summary of the September discussions around employment policies, see Gardner (1956[1980], pp. 104-6, 109). The Anglo-American documents on Commercial Policy, Commodity Policy, Cartel Policy, Employment Policy, called ‘Washington principles’ are published in Pressnell (1986, pp. 390-6). The Employment Policy provisions followed quite closely EFG’s proposals of Spring 1943. For a synthesis of that discussions see Gardner (1956[1980], pp. 102-6); Opie (1957, pp. 142-3).

[37] EB-49, *Problems of monetary reconstruction* (25 April 1942); EB-64, *International adjustment of exchange rates* (6 April 1943).

countries as well as economic and social development in the rest of the world. The experience of the 1930s had clearly showed that no monetary system could survive the consequences of a deep depression:

> The main means to achieve international equilibrium are: (a) the promotion of full employment in the industrially mature countries, and especially in the United States; (b) the development and industrialization of the backward countries designed to change the structure of their economies; (c) tariff reductions in the United States.[...] In order to effectuate these [...] programs of adjustment it will be necessary to set up international institutions which will be concerned (a) with counter-cyclical policy and the maintenance of substantial full employment, and (b) with the development and industrialization of backward areas (EB-64, p. 4).

Viner and most members of the EFG agreed with him:

> No currency system, no procedures of international investment, can be expected to withstand strains of the degree which the great depression involved without cracking. No country can be expected to adhere to a liberal foreign trade policy in the face of economic storms of the severity of that of the 1930s. [...]
>
> Provision for joint international action to prevent or mitigate booms and depressions will therefore be an essential feature of a satisfactory program of post-war international economic organization. This will call especially for some measure of coordination by at least the most important countries of their fiscal policies and their internal and external investment policies (Viner 1942a, pp. 133-4).

Widening his 1941 proposals, Hansen designed a set of international economic institutions, charged to manage the new economic system after the war, namely the International Development Agency, a World Bank, a Commodity Corporation (whose objective was to stabilize prices of international raw material), an IMF or Clearing Union, an International Trade Organization. Their activity should be coordinated by a General Economic Staff.

This machinery should therefore support a coordination of national fiscal policy designed to maintain international equilibrium as well as full employment[38]. Expansionist fiscal policy on the part of surplus countries was, in Hansen's view, the best means to promote balance of payments equilibrium, avoiding to place the entire

[38] About Hansen's view on this point, see also Hansen (1941), Hansen and Kindleberger (1942) and Eckes (1975, pp. 84-5).

burden of adjustment on deficit countries[39]: the latter could escape drastic deflation policies and trade restrictions which would have otherwise impaired their living standards and level of employment, with a roundabout depressing effect on the whole world economy.

In the meanwhile these proposals, very close to the final agreement signed during the September Anglo-American experts talks[40], elicited a strong debate within the EFG and allowed Lauchlin Currie and Allan Sproul, both sceptical about the establishment of an international monetary institution, to address a basic objection to Viner's and Hansen's similar approaches (EA-39, 9 January 1943, p. 14): if national fiscal policies had such an importance in the attainment of external equilibrium and monetary stabilization; if stabilization of production and employment should be the main goal from which all others derived, why engage in such a difficult enterprise as the establishment of an international monetary agency? Why give up such a relevant part of national economic sovereignty, when all that was needed was greater freedom in pursuing full employment policies? Why not simply look for a long standing agreement with the British to harmonise their fiscal policies and stabilize their respective exchange rates?

This was not an extemporaneous criticism: Currie's and Sproul's arguments were addressed explicitly against White's as well as Keynes's monetary plans. They recalled quite explicitly John H. Williams' 'Key currencies approach'[41], certainly the most serious challenge to the establishment of such international institutions as provided by the Anglo-American proposals. Williams' approach was quite popular not only among businessmen and bankers (as Sproul was)[42], who were diffident about international financial institutions, but even among new deal reformers (like Currie),

[39] If a country had a balance of payments surplus with inflow of reserves, the government should produce a fiscal deficit in order to enhance its imports without reducing its exports; this expansionist policy should be brought about up to the point where full employment was reached and domestic prices began to raise; at that point a tight monetary policy should intervene to stop the outflow of purchasing power (EB-64, pp. 13-14).

[40] The document containing the general statements shared by Anglo-American Experts is named, at least in British records, 'The Washington Principles', Pressnell (1986, pp. 390-6). In the section on 'international co-ordination of measures for the maintenance of high levels of employment' it declared that: 'It is hoped that four new international institutions may ultimately emerge as a result of informal economic discussions: a) An international stabilization fund for currencies; b) An international investment bank; c) An international commodity organization; d) An international commercial policy organization […] About the 'Coordination of specialized international economic organization' the Washington Principles stated that 'Clearly the policies pursued by these different bodies should be […] coordinated […] and […] it is desirable that there should be some organization with wider terms of reference […] It is suggested that an advisory Economic Staff should be established as the nucleus and operative section of such an organization' (Pressnell 1986, pp. 395-6).

[41] On John H. Williams's monetary thought and policy prescriptions see Asso and Fiorito (2007) in this volume.

[42] On bankers' views see Eckes (1975, pp. 86-7).

who were supporting a high degree of national freedom from external entanglements in order to pursue full employment policies[43].

The answers provided, quite unanimously, by Viner and Hansen were technical and political in character[44]. Even if a sufficient and appropriate fiscal intervention was granted, the process to international equilibrium could not be a perfect mechanism: external stabilization loans were needed in many cases to provide sufficient time to take the domestic adjustments and prevent, in the meanwhile, undesired exchange-rate fluctuations[45].

> Mr Hansen said that the idea of the international fund is to have a pool that enables countries to secure exchange [...] regardless of whether or not they possess gold [...]. Using the agency it becomes possible to replace unilateral and competitive depreciation with a plan conceived according to the interest of all concerned. The pre-war basis was unsatisfactory, and it is obvious that we should get something better. Short term measures will be of the first importance in making basic adjustments successful by showing the need for them and by buying time to make them [...]
>
> Mr Viner put the problem this way: short-run disturbances are not hard to handle if the world is running smoothly; they are dangerous in depression or when related to political crises. In a depression it would be of great advantage to be able to ease a temporary exchange shortage (EA-39, 9 January 1943, p. 15-16).

The other argument was perhaps a more ambitious one: it was a defence of the multilateral character of the new institutions. Multilateral institutions, with their voting quotas and mechanisms of choice were certainly hard issues to deal with, but

[43] 'Mr Currie thought the whole concept of the agency rather paternalistic or avuncular. It might become the vehicle of a new kind of imperialism. The agency will have a bias against exchange controls' (EA-39, 9 January 1943, p. 16).

[44] According to Eckes, Hansen, as adviser in the Federal Reserve Board, played an important role in determining the attitude of the Board in favour of the White's plan and against the Key Currency plan proposed by John H. Williams and supported by the Federal Reserve Bank of New York: 'Consultant Alvin Hansen who was instrumental in shaping the Federal Reserve position on this issue, asserted that, if Bretton Woods failed, there was little hope for supplementary economic agreements on investments, commodities and commercial policy. And, without a network of international ties, parallel political agreements designed to assure future peace would surely fail' (Eckes, 1975, p. 119; cited also in Domhoff, 1990, p. 179).

[45] In its final version the EFG memorandum took into account Sproul's and Currie's criticisms: 'If the basic underlying condition for international economic equilibrium are present, it might be argued [...] that stability of exchange rates would automatically follow and that there would be no need for any specially designed mechanism intended to regulate the system of exchange rates. But this would imply a degree of perfection in the fundamental adjustments leading to equilibrium which cannot be reasonably expected. The essential purpose and function of an international monetary mechanism is to provide ways and means to soften the impact of disturbing forces tending to overthrow the equilibrium and to provide time for making the adjustments necessary to restore equilibrium' (EB-64, p. 8).

they were also the only means to avoid that imperialistic or paternalistic use of US financial aid that Currie was addressing.

The fact that even small and poor countries were requested to give their contribution (in the case of the Fund); that they could take part in many decisions; that they could receive the needed help other than directly from other governments or private corporations, through the channels of a truly multinational institution of which they were members; all these were, especially in Viner's view, important guarantees against an imperialistic use of international finance[46]. It was not only an altruistic attitude. The fear of a new economic domination would have prevented the establishment of such an international cooperation in the commercial field as the United States were pursuing: many countries would not have accepted to remove trade barriers and exchange controls unless they were sufficiently confident not to be exploited and dominated by more powerful ones. Actually the group was not unanimous on this point[47], but the supporters of a set of multinational agencies finally prevailed: in the EFG recommendations, an International Monetary Agency was needed to support the functioning of a new monetary order; Anglo-American leadership and effective control could not be given up; but other nations' financial and political participation had to be secured from the beginning. Now the problem was to design the lines of conduct of the new monetary agency.

5. The EFG and International monetary stabilization: Hansen's proposals discussed.

Having provided the general framework of a set of international institutions for the attainment of stabilization of employment and production, the EFG finally

[46] This point had been particularly stressed by Viner even during the discussion of Hansen's first proposal for an International Reconstruction Finance Corporation in 1941: 'Mr Viner commended Mr Hansen's memorandum for its recognition of the role of other nations than England and the United States in the organization of such an international lending authority. He urged that the difficulty be recognized even more explicitly. There is a natural uneasiness in small countries which find themselves facing two great naval powers with what looks like a financial monopoly able to impose its own conditions. To be successful the proposed body must avoid the odium of two-power imperialism' (EA-22, 1 November 1941, pp. 6, 9). See also EA-21, 11 October 1941, p. 8. Viner's view on this point did not change in the following years (Viner, 1946, 1947).

[47] 'Mr Viner thought it could be accepted as definite that no countries will surrender control over their national economies to an international agency if that agency then becomes subject to our goodwill. If that is so, said Mr Sproul, the alternative is for us to give up control over an agency in which we are Santa Claus. Mr Currie agreed, asking what national interest of the United States is advanced by participating in an agency for which we supply the money while the other countries vote its use [...]. Mr Staley agreed that there would be some difficulty in getting acceptance of an international agency, but surely it can be proved that doing things internationally we further the chances of promoting peace, so that our long run economic interests are necessarily involved. International problems must be met internationally and solved on a cooperative basis' (EA-39, 9 January 1943, pp. 13-14).

analysed the type of monetary institution the Administration should promote. Viner and Hansen had been united in defending the case for an International Monetary Agency, but when the discussion addressed the features of these institutions, the two leading economists revealed how far apart they were.

Hansen's proposals supported the British 'overdraft approach'; moreover, he opposed the return to a full fledged gold standard and proposed abandoning the monetary use of gold, at least as internal reserves, in order to ensure an adequate elasticity of liquidity supply for the whole world. In Hansen's view the time was propitious for the establishment of a fiat money system[48].

If the dollar was emancipated from any entanglement with gold holdings, the banking system would have been able to accommodate the liquidity demand of member countries without any fear of reserve depletion and capital flows. At the same time the huge gold holdings of the United States should not remain idle: they could be used to settle foreign claims and, moreover, to provide the above-quoted international institutions with adequate resources, allowing them to promote economic growth in backward areas and stimulate American exports[49].

Another desirable consequence of a US fiat money system, would have been the cessation of unlimited purchase of gold on the part of the Treasury at the price of 35$ per ounce. These purchases created internal inflationist pressures and compelled foreign countries to adopt tight credit policies in order to maintain at least the gold reserves needed to meet their international claims. The unlimited gold purchases on the part of the US and their sterilization on the part of the Federal Reserve, therefore, had worsened during the thirties the misdistribution of international gold assets and prolonged world-wide depression[50].

A fiat money system in the USA and an international currency, managed by a really multilateral banking institution like an International Clearing Union or a World

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[48] Cesarano (2001) stresses the importance of the Bretton Woods Institutions as a first step along the transition from a commodity to a fiat money system.

[49] 'It should not be overlooked that a high degree of liquidity, particularly in the leading industrial nations, is essential if we are to continue to maintain, as we should, low rates of interest in the money and capital markets. [...] The United States could implement its part of the overdraft plan without violent departure from established practice. The Treasury might buy "bancors" [...] just as it has purchased gold. Against such "bancor" balances the Treasury could similarly deposit "bancor" certificates with the Federal Reserve, thereby rebuilding its balance and thus causing no drain whatever upon the budget. [...] The public could react more favourably to the Treasury accumulating a credit in "bancors" (which represents under the International Clearing Union a symbol for international collaboration to promote trade, economic expansion, and employment) than to the policy of buying gold and burying it in a hole in the ground of Fort Knox' (EB-64, pp. 10, 12).

[50] EB-49, pp. 11-12; EA-29, p. 25 April 1942, pp. 6-7; EA-40, 6 February 1943, pp. 8-9. On the economic consequences of the US gold policy on the international misdistribution of reserves, see Eichengreen (1992).

Bank, could be the best solution to the problem of world liquidity[51] and a powerful device to support the building up of a worldwide multilateral trade system. But this perspective seemed too revolutionary and was attacked by other members of the group: Viner took the lead in the discussion, defending the monetary use of gold.

> Mr Hansen's suggestions involve a major change from what important countries have been willing to do in the past; previously they have wanted to hold gold as a reserve and this plan calls for their holding foreign currency only. [...] It is unnecessary to assume that the United States will stop buying unlimited quantities of gold at a fixed price since the whole stabilization scheme is consistent with, and notably would require, stabilized monetary values for gold as well as stabilized exchange rates (EA-29, 15 April 1942, p. 6).

The monetary stabilization scheme which Viner was referring to was, apparently, different from Hansen's. What Viner had in mind was:

> A modified international gold standard, under which, to prevent world-wide inflation or deflation, and also to permit orderly adjustment when needed of the exchange-parities of particular currencies, changes in the monetary value of gold for at least the major countries would be permitted – or perhaps ordered – by an international body operating under general rules embodied in an international agreement (Viner 1942b, p. 174)[52].

The basic problem, in Viner's view, was not scarcity or misdistribution of gold. It was the uncooperative way in which the gold standard had been managed in the previous decade to have caused the collapse of the world monetary and financial system[53]. According to the Chicago economist, the best means to restart an international flow of goods and long-term investments after the war, was not to provide a huge supply of liquidity and an artificial redistribution of gold reserves: the

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[51] In the following years Hansen came to be more concerned about the inflationary consequences of full employment policies, see Leeson (1997, pp. 468-470).

[52] Even Keynes's Clearing Union plan included such a proposal: the bancor should be tied to gold, but its gold content could be varied by the Union, Horsefield (1969, I, p. 18).

[53] There was, in Viner's position, a good deal of historical reflection: the old gold standard was, in his view, the opposite of an automatic mechanism; even in the golden age before 1914, it was a "managed" international standard, functioning through effective cooperation between the foremost central banks (Viner, 1937, pp. 388-436). This cooperation was mainly based upon a mix of common banking practices, informal consensus and personal relationships. But this informal cooperation had been revealed as too fragile to overcome the strains and imbalances of the 1920s and 1930s: conflicts over reparations and war debts, violations of the "rules of the game" (particularly on the part of the United States), lack of agreement about the aims of monetary policy, and pro-cyclical management of central banking, caused the failure of any attempt to coordinate national monetary policies. Misdistribution of gold and the spreading of deflation were but effects or, at least, manifestations of a more basic disease: the lack of international monetary cooperation. Short term capital flows, trade barriers, and the heavy load of reparations and war debts had finally caused the collapse of the international monetary system, the imposition of exchange controls and the general instability of the 1930s (Viner, 1932; 1943).

main precondition for restoring confidence and avoiding depression, was, in the long run, the stability of the international monetary system, i.e. of exchange rates (Viner 1942b, pp. 173-4).

The new institution was intended to serve this purpose, providing short term loans to support temporary deficits in the balance of payments and maintain the stability of exchange rates. More fundamental imbalances could be met with parity revisions, provided these did not afflict the stability of other member countries. A higher degree of flexibility could be assured by the power of the new institution to vary the international price of gold in order to avoid world-wide deflation or inflation (Viner, 1942a, p. 134; Viner 1942b, p. 174). Anyway, unilateral action should be banned.

Different priorities led the two EFG economists to endorse different solutions: the provision of a high supply of liquidity was more effectively guaranteed under Keynes's plan which was supported by Hansen; the restoration of exchange stability was the main purpose of White's scheme, which Viner preferred on this ground.

Despite these basic divergences, Hansen and Viner were ready to recognize that both plans, given suitable technical changes, could be made very similar, at least in strictly economic terms[54]. Nevertheless, in Viner's view, the American Treasury scheme seemed to have a greater political or practical appropriateness[55].

After several meetings and sharp discussions, a sort of broad consensus began to emerge between the two EFG leaders:

[54] In Hansen's view: 'If the stabilization fund plan provided for national contributions in local currency only, exchange would be provided without reliance on gold and the plan would be virtually indistinguishable from that of overdrafts, provided overdrafts were limited to the same amount as was required as contribution to the fund. The big difference remaining would be that under the overdraft plan exchange would be provided only as it was needed whereas the fund provides a supply from the beginning.' Even Viner conceded that 'By various means you can make the fund and overdraft plans very similar economically' (EA-40, 6 February 1943, p. 7). 'Mr Hansen said that the discussion made it seem that the difference between the two stabilization plans was less than he had believed' (EA-41, 6 March 1943, p. 5).

[55] 'Mr Viner thought that the memorandum overemphasized the case in favor of the overdraft method of stabilization as opposed to the fund arrangement. Both require the same basic commitment to be made in the first instance […]. If a Central bank claimed it had no free assets when the Clearing Union wished to draw on the line of credit, no money might be forthcoming unless a priority had been legally arranged for. A country wishing to avoid its obligations might find it easier to cancel a line of credit than to seize a deposit of the International Fund. […] We cannot assume that the integrity of London or New York money market will prevail everywhere. Some countries do not recognize a line of credit. A weak central bank might have trouble meeting its obligations even if it recognized them. The overdraft method of financing is not universally recognized; it is not used in the United States or even in Canada and Scotland. [It] leaves the decision actually to grant funds up to the country at a crucial time, when the temptation not to recognize an obligation may be great and ability to meet it reduced' (EA-41, 6 March 1943, pp. 4-5).

> Mr Hansen hoped we would tackle the gold production problem but wondered if it is so serious as is often made out. We tend to overlook the indirect advantage to the world of the great increase of monetary gold in recent years. There has been a great gain in liquidity and we may lose it if we cut off the gold flow too suddenly. [...] Mr Viner agreed that if the stabilization system works as well as we hope, it would provide sufficient liquidity. But it would be wise to see it in operation for, say, five years before dropping gold altogether (EA-42, 3 April 1943, p. 2).

Even if no formal commitment was made to it, White's scheme was clearly recognized as a more suitable one in order to attain 'substantial stability of exchange rates'. The group suggested that its liquidity provisions should be widened to $12 billion; its governing board 'should be given the power to recommend and approve the adjustment of exchange rates' and also 'to make reports and recommendations to member countries urging appropriate national policies that may involve tariff adjustments, foreign lending, control of capital movements exchange-rate flexibility, internal expansionist programs, and other measures designed to promote equilibrium'. The EFG clearly stated also the need for a General Economic Staff entrusted to:

> coordinate the operations of an international program designed to counter depressional or inflationary tendencies, to promote international world-wide expansionist and development programs, and to foster adjustments leading toward international equilibrium (EB-64, p. 1).

With these appropriate emendations, White's scheme was believed to provide a sufficient degree of flexibility to the world supply of liquidity. But loose management of international and national monetary policy should not be regarded as a safe method of preventing depression and economic isolationism.

The compromise between Viner and Hansen was shaped in the form of a rigid monetary policy coupled with an expansionist or flexible fiscal policy. Domestic as well as international affairs should be ruled according to monetary orthodoxy. Expansionist fiscal policy had a more active role to play in developing a more pacific and cooperative post-war economic system: domestic fiscal policies could be pursued by international agreement or by autonomous action and, within certain limits, with the Fund's financial support, without external drain of reserves or devaluations. Moreover international investment policies should be promoted on a wide scale, especially in the developing countries; the timing of their operations should be managed with the purpose of smoothing the international cycle, thus preventing the world from falling into a major new depression.

6. The shaping of the IMF proposal.

The discussion within the EFG about post war financial order deserves our attention not only because of the recommendations the Group was sending to the State Department, but also for the role that Viner, Hansen and other of its members were playing in other agencies directly involved in post-war planning.

As we noted earlier, Viner was Special Assistant of Henry Morgenthau Jr. at the Treasury: In January 1942 the Chicago economist was called to Washington to help Harry D. White in redrafting his first proposal for the IMF and IBRD. Viner stayed at the Treasury till the end of March and worked at the second and third draft of White's scheme[56].

In May 1942 White's scheme was approved by Morgenthau and sent to an interdepartmental committee formed by representatives of many agencies, with Adolph Berle, Herbert Feis, Leo Pasvolsky and Dean Acheson serving on behalf of the State Department. Whereas the Committee was intended to exert political control over the course of negotiations, a technical sub-committee, under the chairmanship of Harry D. White, was entrusted to discuss and refine the Treasury proposals for the IMF and the IBRD (Horsefield, 1969, pp. 25, 30-2; Eckes, 1975, p. 61-2). Two members of the EFG, Alvin Hansen and Benjamin Cohen[57], attended several meetings of the technical committee (Notter, 1949, pp. 141-3; Shoup, 1975, p. 37).

In the technical committee Hansen was one of the representatives from the Federal Reserve Board. Together with its colleagues, Emmanuel A. Goldenweiser and Walter Gardner, who had previously worked out an alternative plan for the IMF[58], he tried to introduce considerable changes in the White Scheme, as we can see from this personal letter to White:

[56] Evidence of Viner's assistance to White is in MD book 483, p. 180 (quoted also by Domhoff (1990, p. 169); book 498, p. 111; book 504, p. 212. On Viner's and White's collaboration at the Treasury from 1934 onward, see Rees (1973, pp. 43-4, 65).
[57] On Benjamin Cohen see Lasser (2002).
[58] The Federal Reserve Board Plan is described in Eckes (1975, pp. 93-5) and Horsefield (1969, I, pp. 39-40).

Since we had our conference with you, the staff at the Federal Reserve has again gone over the whole matter and Goldenweiser is sending you a summary statement of the main points.

I'm sending you this personal note since I can't come on Monday so you will know my own point of view. It seems to me that our suggestions can quite easily be incorporated into your plan. You have frequently stressed the importance of having a plan that could get the approval of Congress. In my judgement, the modification which we have suggested would help very much to get this approval, for the following reasons:

1. The American contribution would not be increased beyond the $2 billion you have suggested.
2. The contribution of other countries would be very greatly increased to $13 billion.
3. The Fund would be stronger in its gold holdings under our proposal. This, I think, would be pleasing to Congress.
4. The American voting power while small (rightly so with our relatively small contribution) would rapidly grow if we purchased large amounts of gold from the Fund.
5. The plan looks toward future limitation by the fund of new gold production. This meets one type of opposition to gold purchases (Hansen to White, 11 June 1943)[59].

Despite some divergence in their perspectives, Hansen and the other Fed specialists shared the same anxiety about the dangers connected with unlimited gold purchases on the part of the Treasury, which could cause world-wide depression as well as inflation in the United States. But White and Morgenthau were unmovable on this point, and refused to grant the Fund any real power to limit American gold policy (Eckes, 1975, p. 95).

Hansen and his colleague were not able to alter the philosophy of White's scheme, but they succeeded in obtaining some important changes in the final American IMF draft, which was to be sent to London as the basis for the official talks with the British in September 1943: the liquidity provisions were widened from five to eight billion dollars, a higher degree of exchange flexibility was permitted in the first three years of the IMF activity, the gold percentage of each country's quota was increased to 50 per cent (Domhoff, 1990, p. 176)[60]. Pressures in the same direction

[59] The letter, preserved in Hansen Papers in the Harvard University Archive, is cited in Domhoff (1990, pp. 175-6).

[60] This last provision was strongly opposed by Keynes and the British negotiators who where trying to limit their gold contribution in order to retain a higher level of foreign reserves. They were at that time proposing a gold quota of no more than 12,5%, whereas White's plan drafted in April requested 25%. Provided some exception for poor countries, the latter was the quota finally agreed at Bretton Woods (Horsefield, 1969, I, pp. 60-1).

came from Canada, where a plan designed as a compromise between the British and the American one was presented in May 1943[61].

Whereas Hansen was trying to bring White's plan a little bit closer to the British requests, Viner was doing the same with Keynes'.

In Spring 1943 Viner sent to Keynes, forwarded by Dennis H. Robertson[62], a first draft of a paper he was going to publish in the *Yale Review*, comparing the relative advantages of the British and the American Plans. Keynes wrote him a long letter, commenting on the paper point by point. A brief but very intense correspondence started: in the four letters exchanged from May to October 1943, when the final preparation of the first official talks between British and American delegation was under way, Keynes and Viner discussed in detail the functioning of the two plans, finding a good deal of agreement on many issues. The letters, published in Keynes' *Collected Writings* (Keynes, 1940-44[1980], pp. 320-35), are widely cited in the literature, but it is worth recalling here some of their contents.

In his article Viner repeated his arguments about the Fund's superiority over the overdraft plan. From this perspective Viner stressed that Keynes's plan seemed to grant an inferior role to gold than White's plan did and for that reason could be regarded as less acceptable to gold-producing or holding countries. Moreover Viner pointed out that the White plan, providing the fund with means of payment other than gold, was as able as the Keynes plan to enhance the elasticity of the world liquidity supply and prevent the risk of a new worldwide fall into deep deflation. Inflation, in Viner's view, was the danger from which neither plan seemed to provide sufficient defence (Viner, 1943, p. 210).

After some attempt to defend his own plan from Viner's criticism, Keynes admitted the legitimacy of Viner's anxiety about inflation:

> Assuredly I share your concern about possible menace of inflation, or rather [...] the possibility of redundancy of gold. Experience shows that what happens is always the thing against which one has not made provision in advance. These currency schemes are providing against the danger of an insufficiency of international money. For my own part, I should not be all surprised if, in fact, the actual danger which meets us turns out to be just the opposite,

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[61] Given the special relationships between Canada, United States and the United Kingdom, the Canadian Plan was surely effective in the progress of the negotiations. Designed as a compromise between the ICU and the IMF plan, it adopted the Fund framework, providing a greater amount of liquidity (eight billions dollars instead of five billions), a higher degree of exchange flexibility and an international monetary unit based on gold (Horsefield, 1969, I, pp. 37-42; Eckes, 1975, pp. 90-1).
[62] Viner papers, box 44, Keynes. In 1943 Robertson was appointed economic adviser at the British embassy in Washington.

namely, an excess of international currency (Keynes to Viner, 9 June 1943: box 16, folder 21, JVP).

Viner's opposition to grant large drawing rights from US financial resources was not grounded on the fear of depletion of the reserves owned by the American banking system: the real danger was quite the opposite. Many countries had lost most of their productive resources during the war and needed large amounts of food, machinery and raw materials. The greater the provision of international reserves at their disposal, the greater the demand for goods which would fall on American industry. If this was coupled with industrial conversion to peace production, bottlenecks, scarcity of raw materials, and rapid inflation, instead of full employment, were likely to be the outcome.

Thus not only from worship of banking orthodoxy did American public opinion feel the Keynes' plan as dangerous machinery:

> The absence in the C[learing] U[nion] of a rigid limit to the creditor obligations is of course very attractive per se to those who are debtor-minded but it is literally terrifying to those who anticipate being creditors. Whether inherently desirable or not, I think that limits to credit obligations will absolutely without question have to be conceded to make the new agency acceptable to all the essential countries (Viner to Keynes, 12 July 1943: box 16, folder 21, JVP).

At this argument, already exposed in the paper, Keynes was ready to concede:

> You here express the view that countries are not likely to accept an unlimited liability to be net creditors under a scheme. I should think it extremely likely that you are right about this. I have always felt that the difficulty is to find a satisfactory alternative (Keynes to Viner, 9 June 1943: box 16, folder 21, JVP).

Viner clearly stated the reasons why the British plan could not be acceptable to American opinion. On the other hand he admitted that a larger amount of resources and exchange flexibility should be permitted in the American plan, especially in the transition period.

This last point was particularly stressed by Viner: the transition period should be excluded from the activity of the new institution[63]. The heavy load of

[63] On the economic problems of the transition period see De Cecco (1969) and Bordo (1993, pp. 37-48).

extraordinary imbalances in the early years after the end of the war, could not be effectively managed by the new institution, and certainly would have caused its collapse.

Here I come to the most important point I want to raise with you. I think that discussion of both plans has been befogged by failure to distinguish between the international financial problems of the period immediately following the cessation of hostilities and those of the long run more stable future. The expectation that the US will be alone or almost alone as a creditor is plausible for the first period. Over the long pull [...] I think the US is as likely to be short as to be long of foreign short-term funds. But the difficulties re size of voting quotas, size of borrowing quotas, motives of the authors of the plans, etc. largely arise because the two plans are being interpreted primarily as plans to tide over the immediate post-war emergency period. [...] I think many apparent conflicts of opinion would disappear, and that it would be much easier to ascertain – and enlarge – the area of agreement (Viner to Keynes, 12 July 1943: box 16, folder 21, JVP).

Even on that point Keynes and the British officials came to agree with Viner:

We have not yet found the precise formula for defining the role of the plan in the early period. But you may feel confident that on this issue we are entirely of your mind (Keynes to Viner, 17 October 1943,: box 16, folder 21, JVP).

Viner was well aware of the huge financial aid the British needed to sustain their balance of payments in the transition period: only it had to be provided outside the Fund, through the traditional channels of inter-governmental loans. Viner declared on many occasions that this aid should be particularly generous (Viner, 1943, p. 213; 1947, pp. 337-8)[64].

[64] On this point, Lionel Robbins, one of Viner's closest British friends, recalled that: 'During the war my own duties as a temporary U.K. official brought me into many Washington contacts; and often, where there were enlightened counsels and sensible policies, I detected traces of his [Viner's] influence. An incident in which he was involved deserves to be placed on permanent record. In early Summer of 1943, Harry White of the US Treasury Department organized an informal international gathering of delegates returning from the Food Conference in Hot Springs. The proceedings, however were in the highest degree unfruitful. The US Treasury was not yet used to the organization of international meetings; and, apart from White's own exposition, delivered as it was from the bridge of a ship without a rudder in a stormy sea, there was little of great intellectual interest and much of political confusion. Towards the end, however, Jack, who had been asked in as an observer, was invited to comment. I do not remember the exact words in which he prefaced his candid expression of general disappointment with the perspective of the discussion. But I shall never forget the sentence in which he summed up his view of the irrelevance of the plans under discussion to the problems of the immediately post-war period. "I shall need" he said, "a bombproof shelter and you offer me an umbrella." Seldom can an economic prognosis have been more accurate' (Robbins, 1970, pp. 5-6).

At that time, Keynes, though convinced about the technical superiority of his plan, was becoming more malleable about the option of adopting other solutions, in order to achieve some sort of agreement (Skidelsky, 2001, pp. 301-2). This exchange of letters with Viner probably added arguments to the case for putting aside his own plan and trying to improve the American one. Moreover Keynes was aware of Viner's reputation within the administration and its special relation with the Treasury[65]: Viner's open mind or rigidity about certain critical points, helped Keynes to guess what would have been the attitude of the American officials and to work out a better strategy for the negotiations[66].

Looking at the first tentative agreement on the IMF achieved during the formal September talks between the British and the American delegation[67], we can say that it resembled in many respects the suggestions sponsored by Hansen and Viner during the Summer.

Keynes himself seemed to be satisfied by the outcome of the September talks. The only issue about which, writing to Viner, he revealed his annoyance was the strong conditionality the Americans were imposing for the Fund's financial help to debtor countries, a point that Viner himself had stressed in his last letter[68].

> Our view has been very strongly that if countries are to be given sufficient confidence they must be able to rely in all normal circumstances on drawing a substantial part of their quota without policing or facing unforeseen obstacles. [...] If the clearing union provisions were applied to the lower quotas now contemplated, we gravely doubt whether those concerned, particularly some of the smaller countries, would feel adequate confidence. [...] This, therefore, is a point about which, after further reflection, I cannot agree with you. No doubt it's a difficult issue (Keynes to Viner, 17 October 1943: box 16, folder 21, JVP).

The British could not deny the American request for stronger conditionality for the Fund's aid, but asked in turn a much higher degree of autonomy on the part of

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[65] Keynes asked Viner for some further explanation of the Scarce Currency Clause: 'Over here we find this feature of S[tabilization] F[und] rather obscure. Are you clear how it would work? Do you think that is a satisfactory way out?' Keynes to Viner, 9 June 1943 (box 16, folder 21, JVP).

[66] The most recent and complete analysis of Keynes's shifting from the defence of the International Clearing Union scheme to an amelioration of the IMF scheme during the late Spring and the Summer 1943, is provided by Skidelsky (2001, pp. 300-320). In this context the correspondence with Viner is regarded an important factor in Keynes' preparation to the compromise with the Americans (Ibid., pp. 303-5).

[67] The agreement is reproduced and commented in detail by Horsefield (1969, I, pp. 58-77).

[68] 'In this respect, I believe, neither plan has any historical counterpart whether in private or in public finance. I don't have any fully satisfactory solution, since I believe that the assured availability of credit upon demand is a most valuable feature of both plans. I would try to get the best of both worlds by limiting the unconditional quotas much more narrowly than you do, but making the conditional ones larger than the American draft does' (Viner to Keynes, 12 July 1943: box 16, folder 21, JVP).

each country to change its exchange rate for reason of ‘domestic political or social policy’, without interference by the Fund[69].

Viner argued against this provision: it would have seriously injured the stabilization function of the Fund. It would have also exposed national monetary authority to political and social pressures for inflation and exchange devaluation.

> As the criterion for permissible (or compulsory) changes in “normal” times, I don’t think relative trends in “efficiency wages” would suffice, although they would be important. [...] The wage criterion, moreover, accepts the business agent of the powerful trade unions as the ultimate and unlimited sovereign over monetary policy (Viner to Keynes, 12 July 1943: box 16, folder 21, JVP).

In the following months, prolonged discussions between (and within) the two sides of the Atlantic added to the “technicalities”, in order to make the IMF acceptable to the respective public opinions, and guarantee them against undue interferences in their national affairs[70].

The refusal on the part of the Americans to concede adequate and automatic liquidity to debtor countries coupled with the British determination not to give up their freedom in pursuing full employment policies threatened the accomplishment of what could be regarded as the main content of the agreement: namely, international stabilization of exchange rates.

Viner’s and Hansen’s three years long efforts to get the two sides of the ocean closer and cooperative, had reaped their first fruit. But the workability of this compromise formula risked being very narrow.

[69] Actually the formula ‘domestic and social policies’ was inserted later in the negotiations and finally subscribed at Bretton Woods. But the shape of the compromise was in that direction: ‘The essential feature of the Anglo-American compromise was that in return for accepting the US principle of limited liability, Britain won a small increase in Fund resources, a greater freedom to devalue [...], a promise of passivity at the right ‘temporarily to restrict the freedom of exchange operations’ in a currency which the fund had declared scarce’ (Skidelsky, 2001, p. 320).

[70] On the British discussions following the financial compromise of September 1943, see Pressnell (1986, 137-52), Skidelsky (2001, pp. 325-36). Concerning the American Debate, see Gardner (1956[1980], pp. 133-43). The financial compromise reached in October 1943 was published only in April 1944. In a preliminary meeting held in June in Atlantic City, further elaboration was carried on, substantially strengthening the provisions about scarce currencies (Williams, 1944). The agreement was finally subscribed, without substantial modifications, by the governments of 44 countries gathered at the Bretton Woods Conference, between 1 and 21 July, but the final decision had to be made by each country’s parliament. The US Congress began discussing the agreement in January 1945 and approved it in Summer 1945. In England, where strong opposition rose against the plan, the ratification was achieved even later (Gardner, 1956[1980], pp. 143-4).

7. EFG and the IBRD (September 1943 - July 1944)

In the EFG strategy, the other essential device to assure the functioning of the new economic order was an International Development Agency. As we have seen earlier, this new institution should provide a huge flow of investments to the world, fostering reconstruction, favouring social and economic development and increasing global aggregate demand: only international measures adequate to prevent a new world depression could convince many countries to open up their economy and take part in a multilateral trading system. Did the official Treasury proposals shape up to this?

In August 1943 Secretary Morgenthau presented to the Interdepartmental Technical Committee a Plan for an International Bank for Reconstruction and Development in order to discuss it with the British delegation[71]. During these official Anglo-American conversations the American proposal received a good deal of critical comments from Lionel Robbins and John Maynard Keynes. Therefore the project was sent back to the Technical Committee for further revision and Hansen was requested to write a memorandum stating the EFG position on this subject[72].

Hansen could not hide his disappointment about the White Plan: the proposed Bank was mainly a guarantee scheme entrusted to encourage private foreign investments; the rate of interest was to be set at the market level; the projects should yield sufficient profits; the capital goods should be bought in the country where the loan was raised; White's proposals stressed the reconstruction and short term character of the new institution[73].

In Hansen's view the right approach to meet the great need of foreign investment in the post-war world was quite the opposite. Hansen did not reject the

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[71] The Treasury proposal for an International Bank for Reconstruction and Development had been worked out by Harry D. White together with his Exchange Stabilization Fund Plan as early as Spring 1942, but it had not been released by Morgenthau, who preferred to refine and discuss the IMF plan first. Only on 18 August 1943 did Morgenthau present the Project to other Departments and asked the Interdepartmental technical committee to refine it in order to get it ready in mid September for discussion with the British delegation (*Foreign Relations of the United States*, 1943, I, p. 1083). The project, rapidly worked out by White with the help of Emilio Collado and John Parker Young, two State Department officials (Asher and Mason, 1973, 17), was finally presented in September 1943. It was strikingly less ambitious than the Plan which White drafted in Spring 1942 (Eckes, 1975, pp. 101-3; Gardner, 1956[1980], p. 110).
[72] Hansen probably received the Treasury draft from Pasvolsky who got it in mid September from White's Technical Committee and took part in the discussion with the British experts (*Foreign Relations of the United States*, I, 1083, 1092). After a preliminary discussion on 16 October 1944 (EA-48), Hansen drafted a memorandum which was discussed by the Group from November 1943 to January 1944 and finally issued on 8 January 1944.
[73] See also Eckes (1975, p. 131).

private investments inducing function of the Bank, but wanted it to be supplemented with other commitments:

Basic public development projects which could earn only a low rate of interest could be financed by bonds sold in the capital market of the capital surplus countries and guaranteed by the development bank. Other projects which entailed the possibility of a return inadequate to pay market rates on public guaranteed issues might nevertheless be thoroughly sound from the stand point of the whole world economy in increasing productivity and standards of living and by reason of their general expansionist and developmental effects upon the entire economy of the borrowing countries (EA-49, 13 November 1943, p. 14).

Moreover the Bank should employ its resources not only in making loans, given their dangerous rigidity in case of adverse business fluctuations, but in guaranteeing new equity issues of private corporations engaging in development projects (Ibid., p. 14). The Harvard economist was decidedly contesting the Treasury approach:

Mr Hansen remarked that Lord Keynes had made the point that unless the International Bank took such risks, if, instead, lending were to be based strictly upon "banker" principle, the volume of loans would be small. He mentioned that the Treasury proposal did rest squarely and rigorously on the "banker" principle. [...] Mr Hansen said that the reference [in a recent Treasury statement] to the "budgetary position of the member Government guaranteeing the loan" had a nineteenth-century ring and seemed to imply the borrowing country would need to have a balanced budget (Ibid., p. 16).

We can see that Hansen's comments and proposal followed quite closely those of its British critics, which Hansen showed himself to be well acquainted with[74].

Many EFG members shared Hansen's broader perspective, well grounded in the group's previous analysis. Nevertheless a politically acceptable solution had to be found, in order to overcome the strong opposition which was likely to come especially from the banking community, and to obtain Congressional approval.[75] Public opinion in the United States was indeed becoming more and more sensitive about

[74] Anglo-American discussion about the proposed Bank are published in *Foreign Relations of the United States*, 1943, I, pp. 1092-6. Keynes's criticisms are reported also in Eckes (1975, p. 103) and they resembled quite closely Hansen's comments. Only a few months later Keynes came to appraise the opportunities the American plan for the Bank could provide for developing countries with only a minor financial effort on the part of England (Eckes, 1975, pp. 122-3).

[75] In the following months even Hansen's position became less adverse to the Treasury proposals (see EA-58, 29 July 1944, p. 7). His own position might have been influenced by the positive appreciation that Keynes himself expressed from March 1944 onwards about the Bank's guaranteeing functions (Opie, 1957, p. 145).

government intervention; it was also anxious about giving away US financial resources in order to serve foreign countries' needs (Gardner, 1956[1980], p. 98).

Hansen's proposal on equity investments and special interest rate provisions were finally approved by the Group, with several technical amendments, and after a long discussion briefly reported on record. The final Hansen memorandum was shaped as a mixed formula between guaranteed and direct loans, private and public projects, remunerative and not remunerative investments, development and reconstruction purposes. Only the "export-tied" character of the loans, quite apparent in the September Treasury draft, was quite unanimously rejected by the Group: it was an apparent betrayal of the multilateral approach the EFG was waging for. Viner in particular was particularly rigid in refusing any compromise on this point:

> Mr Viner pointed out that the bulk of the proceeds of Loans become diffused and generalized. A capital exporting country was not necessarily in the same measure a capital goods exporter. France, for example, lent capital abroad but not capital goods. If borrowing countries were to be limited, with respect to foreign loans, to that volume of capital goods, the result would inevitably be a drastic reduction of the investments under discussion (EA-49, 13 November 1943, pp. 15-16)[76].

The last point stressed by the EFG was that the operations of the bank should have an anti-cyclical timing. Invited by Eugene Staley and Viner[77], Hansen agreed to add a paragraph dealing with this problem in his memorandum. It was the last attempt on the part of EFG to give life to an international stabilization agency in the new economic order:

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[76] The same arguments had been used by L. Robbins during the Treasury Plan discussion: 'Mr Robbins said it was impossible to make a distinction between proceeds spent in one country and proceeds spent in another country; that in the last analysis the process was interwoven. For example, in most projects the bulk of expenditures are for local labor and supplies; yet the project may stimulate imports and expenditures in various countries' (*Foreign Relations of the United States*, 1943, I, p. 1094). Anyway, Lauchlin Currie's and Eugene Staley's efforts succeeded in introducing in the EFG final report some exception to the general rule of multilateral trade in the use of loans (EA-50, 11 December 1943; EA-51, 8 January 1944): 'In a period of unemployment in the heavy goods industries, the government of a country like the United States, for example, might be permitted to make loans or direct investments which would require the purchase of equipment in the United States' (EB-65, p. 4).

[77] 'Mr Staley asked whether the memorandum should include suggestions regarding counter cyclical timing, such as especially favourable rates for time order. Mr Viner said he could see no solution to the problem of the synchronization of anti-depression policy other than through the action of an international bank with a large capital investment fund. Consider how much more workable such an approach was as compared with attempts to tie solution into separate fiscal policies pursued by several different countries' (EA-50, 11 December 1943).

The International Development and Investment Bank should itself be prepared to engage in vigorous counter-cyclical programs. The international pool of funds, consisting in the first instance of the capital fund of the Bank should, in times of depression, be enlarged substantially by the flotation of new issues by the Bank in capital markets, where funds for foreign lending and investment are available on favourable terms. Particularly in periods of depression, guarantees of private funds and the flotation of new issues should be undertaken on a large scale (EB-65, 8 January 1944, p. 4)[78].

Looking at the final American proposal for the institution of the International Bank for Reconstruction and Development, underwritten after a brief discussion and a few changes at Bretton Woods, we can notice its resemblance with some of the EFG's proposals. Development as well as reconstruction was the declared aim, the mixed formula of direct and indirect loans was confirmed, and tied loans were almost completely ruled out. But the conservative character of the new institution was apparent (Gardner, 1956[1980], pp. 117-9; Eckes, 1975, p. 132). The Bank's direct lending functions were intended to be marginal; the immediate capital contribution from member countries was minimal; although its guaranteeing functions would have allowed a multiple investment of its capital endowment, the total amount of the Bank's loans and guarantees could not exceed 100 per cent of it[79]; its lending operations should be selected with due regard to the capacity of borrowers to repay appropriate interest rates.

The American and British governments, though for different reasons, had strongly supported the establishment of such a conservative institution. Its appeal for creditors should be secured by the soundness of its assets and the security of its operations. The British, who did not expect to engage in the Bank's operations, were satisfied to give it just a minor contribution. Even American bankers could be reassured that the new International Bank was established not to compete with them, but, instead, to support and share the risk of their foreign ventures.

Therefore the more progressive features suggested by Hansen and the EFG were dropped. Tied loans were retained for 20 per cent of the Bank's direct loans[80]

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[78] The need for an international stabilization agency was also stressed by Viner (1946, p. 334).

[79] For a synthesis of the Bretton Woods discussions on this point see Eckes (1975, pp. 155-7). White opposed such a restrictive measure, but finally accepted this proportion in order to overcome Congressional and bankers' opposition.

[80] 'Mr Hansen said [...] As to the bank, the capital was divided into two parts; the paid-in portion was 20 per cent, the unpaid part 80 per cent, and the tied-loans feature, prominent in the original Treasury draft, applied only to the former', EA-58, 29 September 1944, p. 7. See also Eckes: 'The Bank might make direct loans, provided recipients agreed to spend the funds in the country supplying the currency' (1975, p. 132). Actually this interpretation given by Eckes and Hansen did not enjoy an explicit statement in text of the agreement. It was probably a personal view about the way some of the

while provisions regarding the anti-cyclical timing of international investment, low interest rates for high social and economic value projects, and equity investments on the part of the Bank, were driven back to the world of Utopia or delayed in the hope of better times to come.

8. The post-war planners and the post-war world

Meeting in October 1944, Hansen, Viner and most of the other EFG members declared their satisfaction about the final outcome of the Conference[81]. Their words betrayed some feeling of national pride:

> Mr Hansen said the work of the conference had been largely a gigantic drafting job. It had been a big task to work out quotas, decide how exchange rates had to be set, settle when provisions were to come into effect, etc. [...] Mr Hansen felt that in all important controversies the Treasury and the State Department had won out all around. The Fund had become more conservative and more liquid. Other countries had wanted an unabridged right to draw on the Fund. As the scheme now stood, they enjoyed no such right [...] the scheme means very cheap short-term money.
>
> Regarding the relation of exchange rate changes and devaluation to internal conditions, Keynes felt strongly [...], that the Fund should refrain from telling member countries how to run their economic affairs, but the American delegation won out: the Fund may make reports on relevant economic conditions and developments within member countries. In fact, on the score of both the Fund and the Bank, America's money bags prevailed (EA-58, 29 September 1944, pp. 7-9).

The EFG members hoped that the IMF and Bank, as they now stood, could be able to overcome bankers' opposition and attain Congressional approval: so they were eager to lend their voices in support of the Bretton Woods institutions[82].

Actually the outstanding value of the Agreements was not their technical perfection (about which EFG economists had much to remark), but their political relevance: in the hope of the post-war planners, Bretton Woods was just a first step in the building up of a peaceful, cooperative and multilateral economic system.

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provisions, for example the right of a member country to avoid the Bank selling bonds in its own market, was likely to be used.

[81] See also Hansen's and Viner's contribution to the Irving Trust Company symposium on the Bretton Woods Conference: Hansen (1944b) and Viner (1944).

[82] Viner (1944) and Hansen (1944a; 1945a, b).

It is proper, especially for economists, to appraise the Bretton Woods Agreements from a strictly technical point of view, in terms of their ideal appropriateness, independent of special time and political circumstances, for their technical special purpose. But final judgement should be based on a much broader, and less exacting, range of considerations. These agreements were but a first instalment of what, if the negotiations progress favorably, will undoubtedly be a long series (Viner, 1944, p. 232).

It is also my conviction that the details of the plan are relatively unimportant. What is important is that an international institution should be set up with broad powers to act. Such an international institution will succeed or fail, not by reason of the specific detailed sections contained in the statutes, but rather by reason of the wisdom and statesmanship of the Board of Governors (Hansen, 1945b, p. 86).

The post-war planners had been stubbornly resolute in pursuing a first victory on their part. Finally it arrived: even if the score was not an exciting one, it was a promising beginning. Better results should be wished for better times[83].

But for many of them that match revealed to be the last one: new players entered the game and the game did change[84]. Government intervention through multilateral institutions were arousing growing opposition in American public opinion. From the beginning the Truman Administration reverted to traditional patterns of prudent and bilateral bargaining in the commercial as well as in the financial field[85].

Moreover, given that no help would come from the IMF in the face of their balance of payments turmoil in the immediate post-war period, the British had to ask the United States government for a Stabilization Loan. That was the occasion for the US State Department and Treasury, no more guided by Cordell Hull and Henry Morgenthau, to press for a sudden abolition of any trade discrimination on the part of the British, i.e. of the 'imperial preference system' (Gardner, 1956[1980], pp. 188-99). They finally obtained, in return for the $ 3,75 billion loan, the establishment of

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[83] 'No one familiar with the political realities of the time is likely to argue that a more ambitious scheme could have been approved.' (Hansen, 1965, p. 177).

[84] According to Aaronson, in the fall of 1942 the State Department's post-war planning activities began to be entrusted to 'operational' officials, under Harry Hawkins' Division on Commercial Policy (Aaronson, 1991). A tighter control on the commercial field could be desirable in order to compensate the priority the U.S Treasury had gained in the financial field. This shift of relative power within the State Department in favor of operational control might have lessened the influence of Pasvolsky and his CFR aides.

[85] The Trade Agreement Act passed by Congress in 1944 allowed the President to negotiate only selective tariff reduction, which should be proven to give substantial advantages to the American economy without seriously injuring any domestic industry (Gardner, 1956[1980]), pp. 151-61). Any across-the board tariff reduction was ruled out, to the great disappointment of the British (Penrose, 1953, p. 107).

current account convertibility for the Sterling Pound within a year, much earlier than the Bretton Woods Agreement requested (Gardner, 1956[1980], pp. 213-21). The British balance of payments crisis was mainly the outcome of this untimely provision. American bankers, who in 1944 had been disappointed in their desire to see a devalued pound, finally succeeded in 1949 (De Cecco, 1969, pp. 56-7).

For many years to come the Bretton Woods institutions were to be “frozen” and new developments ruled out (Gardner, 1956[1980], pp. 286-99). Nevertheless some of the proposals the EFG had formulated in the previous years were not to be completely unfruitful, at least in the long run: the International Finance Corporation (1956) and the International Development Agency (1961), envisioned in some of their earlier proposals, were finally realised a decade or more afterwards.

In the meanwhile, the emergence of the Soviet threat renewed the urgency to take care of Europe’s economic diseases. Those large funds the US Administration had refused to grant at Bretton Woods were provided on a multiplied scale few years later in order to support European reconstruction: they were given in exchange for political and social stability. In 1951 the European Payments Union finally realized such a multilateral clearing system to promote trade and economic growth in Europe. Multilateralism finally survived, although in a different role, scale and timing than the new deal post-war planners had dreamed for it.

Concluding Comments

After this analysis of the documents preserved in the CFR’s Archive we can well appreciate all their value: the insights provided by this source enrich substantially our knowledge about the contribution given by Viner and Hansen (and other EFG’s economists) to the post-war planning activity of the Roosevelt administration during World War II. In this respect a number of conclusions can be stated quite clearly.

First we can point out the importance of an institutional framework as such provided by the Council on Foreign Relations: the EFG non-governmental character gave its members a certain degree of independence of judgement; its formal link with the State Department and the personal attachments with many other agencies assured the EFG a good deal of influence, at least in the first three years of activity; its international scope gave it the opportunity to develop a program of informal meetings with other government officials and economists, preparing the ground for more formal negotiations. We have seen the role of these factors in allowing the EFG to press effectively the administration toward a multilateral strategy for the post-war world and to move some of the early steps in Anglo-American understanding.

But the EFG general aim was not only the building up of a multilateral trade system: it was also a wide program of international reforms designed to prevent the new economic system from falling under the strains of a new depression. Despite a world war – or even thanks to it – the New Deal was still under way and was trying to obtain, although after considerable delay, its yield. In the long run international stabilization was needed to defeat depression, but even the reverse was true: international exchange of goods, services and capital could be developed and maintained only if ‘internal’ equilibrium was secured at least in the major countries. Hansen, the American ‘Keynesian’, and Viner, the apologist of the classical approach to international economics, well represented the two poles of this strategy.

Their divergent viewpoints and theoretical backgrounds emerged clearly on several issues; nevertheless they were unanimous on the “core” of their effort: not only in championing a multilateral trade system and stabilization policies, but also in supporting the case for multilateral *institutions* to manage and develop the new international order.

Moreover their discussion within the EFG revealed a sort of alchemic box, from which a new economic policy formula could be onset: Hansen’s ancient fear of world and national depression had come to be at odds with Viner’s growing anxiety about world and national inflation. The outcome was to be a flexible fiscal policy coupled with a rigid monetary policy. This middle way attitude, exerted on many other issues, contributed in preparing the ground for a compromise between White and Keynes, the United States and Great Britain.

If the tale stopped in September 1943, or more generously, in July 1944 we could say that Hansen and Viner, as well as other post-war planners, had accomplished their mission: they had been able to overcome isolationism, bilateralism, the imperialistic use of international economic relations, scepticism around the feasibility of international institutions; they had been able to impose on their politicians the grand rational design of a novel economic world order, shaped along the lines of a neoclassical-Keynesian synthesis. Up to a certain point this was true, and it cannot be considered a poor outcome. But, as we have seen, that was not the end.

We should not be surprised. Sixty years have elapsed since Bretton Woods: the cold war grew up and faded away, several international institutions were born besides the IMF and IBRD, old-fashioned colonialism came to an end; technological improvements transformed this world in a close community. Despite all these developments multilateralism is still a fragile creature, easily overcome or exploited by older and deep rooted attitudes.

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