WINNING THE ARGUMENT, LOSING THE DEAL

At the Bretton Woods talks that shaped the post-Second World War financial world, British economist John Maynard Keynes was charged with securing terms that best suited his country. Economist and author **Benn Steil** argues in his recent book, *The Battle of Bretton Woods*, that while Keynes was the most brilliant economist of his era, he fell short when it came to negotiating. Steil writes that Keynes, "Had an effortless facility with words that might have made him a master diplomat, had he actually been more concerned with converting opponents than with cornering them logically and humiliating them." Harry Dexter White, a dogged American technocrat, ensured that the talks produced the result America wanted

At the end of June 1944, while Allied troops were advancing on all fronts in Europe, fevered preparations were being made back in the majestic White Mountains of New Hampshire for the most important international gathering since the Paris Peace Conference of 1919.

The talks there, at Bretton Woods, would look beyond the carnage of war to establish a new world order founded on commerce and cooperation.

Before it began on July 1, U.S. Treasury Secretary, Henry Morgenthau was elected president of the conference. Central to the Treasury's blueprint for winning over the more pliable skeptics in Congress was cultivating the press with a degree of access and openness unprecedented for a major international political event; the administration was determined not to repeat past mistakes with hostile media men.

The perception in the American press was that the U.S. delegation was intellectually outmatched by their British counterparts, led by the world-renowned revolutionary economist John Maynard Keynes, a facund, servant-reared scion of Cambridge academics. Keynes at Bretton Woods was the first-ever international celebrity economist. The American media could not get enough of the barbed, eloquent Englishman, who was both revered and reviled for his brash new ideas on government economic intervention. Keynes had assaulted the intellectual orthodoxy of the economics profession the way that Einstein had done with physics two decades earlier.

Leading the American side was senior Treasury official and economist Harry Dexter White, a brash, dogged technocrat raised in working-class Boston by Lithuanian Jewish immigrants.

The colorful and nationalist *Chicago Tribune* captioned Keynes's photo with the words, "The Englishman Who Rules America," and groaned that he "overshadow[ed] all other figures" at the conference. Harry White the paper mocked as being among Keynes's "ardent admirers and disciples." For his part, White bristled at the suggestion that he was a mere American echo chamber for Keynes's newfangled ideas, conceding to the press only that "[a]ny economist who is not acquainted with his work is a dodo."

Keynes was determined to apply the key insight of his *General Theory* – that the very existence of money at the heart of the economy wreaked havoc with the self-stabilizing mechanisms that classical economists believed to be at constant work – in the design of a new global monetary architecture, built around a new international reserve currency. That would be a threat to the global supremacy of the U.S. dollar and White was determined to keep it from seeing the light of day.

His visionary monetary schemes notwithstanding, Keynes had ultimately come to the United States with the mission of conserving what he could of bankrupt Britain's historic imperial prerogatives – what little room for maneuver it would be allowed in what seemed sure to be a dollar-dominated postwar world. His unlikely emergence as Britain's last-ditch financial ambassador – its chief voice in the Bretton Woods, Lend-Lease, and British loan negotiations – was grounded in the repeated failure of his country's politicians and mandarin class to make headway in what amounted to increasingly desperate begging operations in Washington.

White's role as the chief architect of Bretton Woods, where he outmaneuvered his far more brilliant but willfully ingenuous British counterpart, marks him as an unrelenting nationalist, seeking to extract every advantage out of the tectonic shift in American and British geopolitical circumstances put in motion by the Second World War.

While Keynes's ideas have endured the test of time better than the Bretton Woods monetary system, the conduct and result of the talks illustrate that you can win the argument but still lose out if the other side is holding most of the cards, as the Americans were against a financially strapped Britain. The following excerpt from *The Battle of Bretton Woods* gives a flavor of those talks.

Harry Dexter White's long-standing obsession was making the dollar as good as gold. To the extent that could be done by decree at Bretton Woods, he intended to use a new International Monetary Fund as his vehicle. John Maynard Keynes, however, had fiercely resisted White's earlier attempts to give the dollar any form of special status.

So it would have to be done out of his sight. White's committee process was perfect for this.

As with Operation Overlord in Normandy, White's dollar strategy relied on deception and enemy errors. He accomplished the first critical maneuver on July 6, at a meeting of the Fund Commission's Committee 2. The Joint Statement working document indicated that the par value of a member country's currency, which would be agreed with the Fund when the country was admitted, would "be expressed in terms of gold." The Americans submitted "Alternative A" text which said that the par value would instead "be expressed in terms of gold, *as a common denominator, or in terms of a gold-convertible currency unit of the weight and fineness in effect on July 1, 1944*." The text had never, however, been approved by the British; Keynes had never even seen it.

White deputy Eddie Bernstein explained that the suggested revision was "insignificant," but "so worded to show no obligation to sell gold was implied." It was obvious that "there will exist a gold-convertible currency by definition within the terms of the agreement," he said. Keynes had prior to the conference repeatedly insisted that the term "gold-convertible currency" could have no fixed meaning, and was therefore unacceptable. Yet no one in the Committee meeting raised an issue with this, and the revised text successfully went up to the Fund Commission.

"The Commission meeting this afternoon is extremely important," White told his superior, Treasury Secretary Henry Morgenthau at a July 13 morning strategy session. "That is where we either fish or cut bait on most of these things." What "things" he left unclear. White never raised the issue of the dollar's role in any American delegation meeting, despite it being the most important one to him; he was determined to handle it below the radar, through his carefully chosen operatives.

At the 2:30 PM Commission meeting the matter of the inscrutable "gold-convertible currency" naturally came up. The Indian delegate wanted to know what exactly it was: "I think it is high time," he interjected during a lengthy technical discussion in which White had invoked the term, "that the USA delegation give us a definition of gold and gold convertible exchange." At that point, Dennis Robertson, the British delegate on the Committee, apparently imagining that the issue was one of mere bookkeeping suggested that "payment of official gold subscription should be expressed as official holdings of gold and United States dollars." This change would, he remarked incautiously, require wording changes elsewhere in the agreement. Bernstein concurred with Robertson that "gold convertible exchange" was hard to define, and that getting a definition "which would be satisfactory to everyone here … would involve a long discussion." But as a "practical" matter, he explained, since national monetary authorities could freely purchase gold for dollars in the United States, and international holdings of currencies which might be used to purchase dollars were small, "it would be easier for this purpose to regard the United States dollar as what was intended when we speak of gold convertible exchange."

John Maynard Keynes (left) and Harry Dexter White in 1946

Photograph: Getty Images

White must have had difficulty concealing his flush of excitement. With Keynes preoccupied managing the World Bank proceedings, Robertson had walked straight into White's trap. He now made his second critical maneuver, peremptorily ending the Commission's discussion of the matter. "Unless there are any objections," he said, "this question will be referred to the Special Committee." No objections being raised, he quickly passed on to another issue.

The next morning, 9:30 AM on July 14, Morgenthau began a meeting of the full American team by reporting cheerily that White had "worked up until three o'clock this morning with the Drafting Committee on the Fund and he feels [the text] is in excellent shape." Morgenthau had no idea what exactly that meant, and likely no interest. But among the achievements of the committee, comprised entirely of White's technicians, was strategically replacing "gold" with "gold and U.S. dollars" throughout the 96-page Final Act. White never submitted the changes for consideration in Commission One, yet they would become an important part of the IMF Articles of Agreement. Keynes would only discover them after his departure from Bretton Woods.

"Britain is 'Broke'", the *New York Times* blared on July 7. "It is no use to beat about the bush," said Minister of Labour Ernest Bevin. "We have spent everything in this struggle and I am glad we have." British bombers were that day dropping 2,500 bombs on Caen, in preparation for its recapture over the next two days, while the Americans were liberating Saipan Island in the Pacific, with nearly 4,300 Japanese dying in a final "banzai" charge on U.S. troops.

The *Times* article said that "pessimistic reports ... from Bretton Woods about the future of the Monetary Conference were noted [in London] as discouraging auguries for ... the difficult task" of boosting Britain's export opportunities.

Keynes continued to attack the idea of Britain taking a private loan from American bankers as an alternative to signing on to a deal at Bretton Woods. The *Times* quoted "the British financial expert and advocate of deficit financing and cheap money" as saying that the program being advocated by banking opponents of the conference, which would involve lending Britain $5 billion, was "too good to be true." White himself hit back at banker critics, telling the press that the only losers from a Bretton Woods deal would be the "buzzards" in the foreign exchange markets.

Tensions within the British "family," as the *Times* sarcastically referred to the Empire, were embarrassingly put on display at the conference. Lionel Robbins [economist and British delegate] on July 2 recorded "a special confabulation between Keynes and the Indian representatives on the sterling balance question which ... threaten[ed] to be a sore point throughout the Conference." India, the *Times* reported, later "created a 'scene'" in front of the other delegations by demanding that the Fund provide some means of turning Britain's huge sterling debt to India into dollars. At nearly $12 billion, Britain's Indian debt alone was 50% greater than the entire proposed Fund capitalization. Egypt joined India in insisting "on some international magic to give their pounds the ability to purchase something that is wanted"; pounds being worthless as long as Britain's industrial capacity was focused on war production rather than supplying creditors with useful exports. Robbins called it "not particularly pleasant having to stand up before the assembled nations and defend a position in which we are unable to pay our debts on terms acceptable to our creditors."

The United States had been blessed by a unique confluence of events with a momentary window in which it could, in return for its now-vital financing services, not only put an end to competitive devaluation and trade protectionism – the scourge of the 1930s, from the Administration's perspective – but permanently eliminate the old European powers as rivals and obstacles on the global stage.

John Maynard Keynes died less than two years after the conclusion of the Bretton Woods Conference. He suffered a fatal heart attack on April 21, 1946, aged 62.

Harry Dexter White died aged 55, two years after Keynes, on August 16, 1948. He too suffered a heart attack. Three days earlier he had testified before the House Un-American Activities Committee, where he denied being a communist. It later came to light that White had been passing sensitive information to the Soviet Union during his time with the U.S. Treasury.

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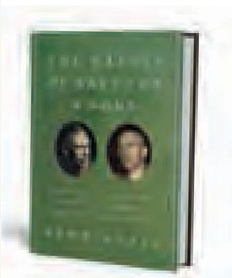

These excerpts are taken from *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order,* by Benn Steil.

BENN STEIL ON...

JOHN MAYNARD KEYNES

Keynes's writing sustained one supreme constant: biting disdain toward those who remained wedded to either old heresies, as he saw them, or old orthodoxies.

The General Theory of Employment, Interest and Money (1936) is one of the most influential works of economic thought, and arguably the most intellectually audacious, ever published. As a critique of the classical nineteenth-century liberal belief in the social solidity of the free market, it was, given its vastly superior intellectual rigor, far more devastating than Marx's *Das Kapital*. Yet its message could not have been more different; whereas Marx and Keynes both saw in capitalism the seeds of its own demise, Keynes was convinced that it could – and indeed for the good of society must – be saved through judicious government intervention, particularly in the form of timely large-scale public investment.

It is difficult to overestimate the impact the *General Theory* had on the economics profession, particularly in the United States.

HARRY DEXTER WHITE

White was on the tall side of short (five feet six), stocky, and moonfaced, with round rimless spectacles, blue eyes, and a trim, black mustache not infrequently likened to that of Germany's dictator, Adolf Hitler. Though colleagues ... greatly respected his work ethic and command of detail, "He could be disagreeable," Treasury Secretary Henry Morgenthau reflected years later. He was "quick-tempered, overly ambitious, and power went to his head." He was also impatient, blunt, and sardonic. White's principal assistant at Bretton Woods, Edward Bernstein, described him as "temperamental" and "foul tempered."

The son of a peddler, he had an epiphany at age thirty, in his second attempt at an undergraduate degree. Having failed entrance exams in civics and American history the first time around, he was nonetheless incubating a growing passion for politics. Economics was a means to that end. "[P]retty soon I realized that most governmental problems are economic," he told a friend years later, "so I stayed with economics." Harry was onto something.