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The World Bank, Stabilization Loans, and Balance of Payments Financing: “Lost”
Pieces of the Bretton Woods Liquidity Architecture

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Abstract

There has been much written about the historical origins and evolution of the liquidity
architecture in the Bretton Woods system. Yet surprisingly little of the conventional narrative
examines the vision that Keynes and White had for the Bank in the liquidity architecture and the
key role it came to play, particularly in the context of the dollar shortage. This paper is in part an
effort to rediscover these “lost” aspects of the history of the Bretton Wood system. This paper
also explores an interesting puzzle: Why did the World Bank eventually abandon its clear
authority in liquidity provision? The likely reason, this paper demonstrates, is the emergence of
a project-oriented culture within the Bank that delegitimized the provision of stabilization and
balance of payments loans. The emergence and impact of this project-oriented culture is also
shown to have had important consequences for subsequent liquidity debates in the 1960s.

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There has been much written about historical evolution of liquidity in the Bretton Woods System. At the risk of oversimplification, the conventional narrative tends to be as follows. In the aftermath of the interwar years, a consensus emerged that a source of international credits was needed to provide the necessary liquidity to facilitate world trade and payments, to maintain exchange rate commitments, and to avoid the deflationary consequences of the interwar gold-exchange standard. After a series of negotiations—principally between John Maynard Keynes, representing the British, and Harry Dexter White, leading the Americans, the International Monetary Fund (IMF or Fund) was established to serve this role. Though documenting in detail the debates on the size of the IMF’s resources and the extent to which these resources should be made available unconditionally, the conventional narrative also tends to depict the IMF as the sole focus of Keynes and White’s efforts to create an institution to provide liquidity.

In context of the dollar shortage following the Second World War, this narrative depicts the IMF as an institution that is largely incapable of and irrelevant to the provision of sufficient liquidity. Instead, it is the United States—through European Recovery Program (ERP or Marshall Plan) aid, and later through its balance of payments deficits—that serves as the main source of liquidity provision. This narrative then details the emergence of concerns about U.S. deficits and attempts to manage the dollar glut by expanding the IMF’s resources, developing additional lending facilities outside the Fund, and creating a new reserve asset.

While this narrative captures a number of significant features of the historical evolution of liquidity in the Bretton Woods system, it tends to underemphasize the vision that the founders of the other Bretton Woods twin—the International Bank for Reconstruction and Development

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1 Liquidity may be defined simply as the sum of all gold and international reserve stocks and all readily available international credits. The literature on the Bretton Woods system is voluminous and includes: Best (2005); Block (1977); Bordo and Eichengreen (1993); Eichengreen (1996); Helleiner (1994); Eckes (1975); James (1996); and Strange (1976).
(IBRD or Bank) had for it in this area and the role that it came to play, particularly in the context of the dollar shortage.\textsuperscript{2} As I document below, both Keynes and White intended for the IBRD to serve as an important piece of the international liquidity architecture, providing both long-term stabilization loans and general purpose balance of payments financing and that initially the Bank does fulfill some of these roles.\textsuperscript{3} In an often underappreciated period in the evolution of the Bretton Woods system, it is the IBRD that provides critical balance of payments loans that bridged the financing gap in Western Europe prior to the provision of ERP aid. Then, rather puzzlingly, the IBRD's role in liquidity provision fades away, such that by 1957 it is no longer financing payments imbalances. Perhaps even more puzzling is the failure of the IBRD to ever provide a loan for long-term stabilization. The likely reason for these developments, I argue, is the emergence of a project-oriented culture within the Bank that delegitimized the provision of stabilization and payments loans. Later, in the context of the debate on managing liquidity in the 1960s, although policymakers initially focus their efforts on augmenting the availability of credit, the Bank is never meaningfully considered.

The rest of the paper proceeds as follows. First, I discuss the construction of the liquidity architecture in the Bretton Woods system, paying particular attention to the role – neglected in the conventional narrative – Keynes and White envisioned for the Bank. The second section then explores the critical role the Bank played in providing liquidity during the dollar shortage. The next section then details the development of a “project-oriented culture” within the Bank in the 1950s that facilitated its removal from the liquidity architecture. I then

\textsuperscript{2} Not surprisingly, the Bank's historians – particularly Oliver (1971, 1975) and Mason and Asher (1973) – discuss this in some detail. Though still relatively thin, James (1996:46, 52) provides the best treatment by scholars of the Bretton Woods system.

\textsuperscript{3} By long-term stabilization loans I mean those loans that reconstitute or stabilize a country's gold and foreign exchange reserves rather than those loans that finance continuing payments deficits.
conclude by briefly tracing the liquidity debates in the 1960s, noting the peculiar absence of proposals to involve the Bank.

CONSTRUCTING THE BRETTON WOODS LIQUIDITY ARCHITECTURE: THE CONVENTIONAL NARRATIVE

There is an extensive literature exploring how the views of Keynes and White on liquidity were institutionalized in the IMF’s Articles of Agreement and the principal debates only require brief discussion here. In the period of post-war planning, there was generally shared recognition that an adequate supply of liquidity in the form of prearranged credits was necessary for countries to maintain their exchange rate commitments without abandoning full employment policies. Adequate liquidity was also necessary to facilitate the expansion of world trade and payments without fuelling inflation. As indicated, the conventional narrative documents the debates that took place regarding the size of the IMF’s resources and the extent to which these resources should be made available unconditionally.⁴

In the end, agreement was reached to endow the IMF with $8.8 billion via quotas assigned to member states roughly based on the size of their national economies, but considerable ambiguity remained concerning the issue of access.⁵ Language was crafted in such a manner that allowed both the Americans, who favoured conditional access, and the British, who pressed for unconditional lending, to claim victory (Gardner 1980:113-114). However, as discussed below, in subsequent years it would be the American view that would prevail.⁶

Unfortunately, the conventional narrative is generally confined to discussions and negotiations over the Fund. Missing from these accounts is a discussion of how the founders of the Bretton Woods System envisioned and fought for a role for the Bank to play as well. Though

⁴ The two most detailed accounts remain Gardner (1980) and Van Dormael (1978).
⁵ For an analysis of ambiguity in the Bretton Woods system, see Best (2005).
⁶ See also Xenias (this volume).
Keynes and White always envisioned the IMF as taking the lead role in the provision of short-term stabilization loans, one critical aspect missing from this narrative is how both envisioned the Bank playing a supporting role as well. Lost in the conventional narrative then is an appreciation for how Keynes and White saw the IMF and Bank as playing mutually-supportive and complementary roles in the provision of liquidity.\(^7\) As a result, the views of Keynes and White on the Bank’s role in the liquidity architecture are generally not well understood and are often left underexplored. A fuller understanding of liquidity in the Bretton Woods system thus necessitates an exploration of how Keynes and White envisioned the IMF and Bank’s roles in the Bretton Woods system jointly and not in isolation.\(^8\)

THE BANK’S ENVISIONED ROLE IN THE LIQUIDITY ARCHITECTURE

For White, as documented below, the Bank’s role in the liquidity architecture seems to have been a matter of first principles, as he make mention of it in his earliest proposal for the Fund and the Bank. On the other hand, Keynes’s view of the Bank as part of the liquidity architecture was likely a tactical decision. For Keynes a key goal in the post-war planning negotiations was to secure a generous and automatic supply of liquidity so that governments could pursue full employment policies relatively free of balance of payments constraints. Until 1944, Keynes, according to Harrod (1951:575-576), had “somewhat neglected” the issue of the Bank and instead had concentrated his energies on fighting for a version of his International

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\(^7\) I am not suggesting that the conventional narrative does not recognize that Keynes and White envisioned the Fund and the IBRD playing mutually-supportive and complementary roles in the provision of short-term stabilization and long-term development loans. Rather, I am arguing that what is lost in the conventional narrative is an appreciation for how the founders both saw the IMF and the Bank playing a role in the provision of stabilization and balance of payments financing. Oliver (1971:34) suggests that White came to realization between early 1940 and 1941 that the same organization should not be charged with short-run stabilization and long-term development. For White’s views on the logic of this separation, see (1975b:281-282 [White 1942]).

\(^8\) As Harrod (1951:551) observes, “One has to remember that White originally conceived his Fund in conjunction with an extremely ambitious International Bank.”
Clearing Union proposal. However, in 1944, after agreement had been reached between the Americans and the British on the Joint Statement regarding the Fund, it seems likely that Keynes recognized the Americans were not going to accede fully to his preferences on liquidity and he then turned his attention to ensuring the Bank could provide as much resources in this area as possible (James 1996:47, 53; Van Dormael 1978:198).

**American Planning for a World Bank**

To understand the construction of the Bank's role in the liquidity architecture, one must first recognize that the IBRD – in contrast to the IMF - was essentially an American proposal and thus was shaped largely by the views of the American delegation to Bretton Woods (Mason and Asher 1973:13; Oliver 1971:9-10; 1975:130; Harrod 1951:533). All of the preliminary work on the IBRD had been done within the American government. Prior to the Atlantic City meeting in June 1944, the Bank's historians describe the input of other countries as “perfunctory” (Mason and Asher 1973:12). It is not until just prior to this meeting that the British government offered the first substantial comments by a foreign government on the proposed international bank.9 Their draft – which was subsequently referred to as the “Boat Draft” since it was crafted as the British delegation travelled from London to Atlantic City on the *Queen Mary* – was shown to the Americans just prior to the Atlantic City meeting.10 After comparing the Boat Draft with the American draft, White concluded: “They seem to be in accord with the general approach that we have proposed, though there are some substantial differences which will have to be ironed out at

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9 To be sure, the British offered comments on the American proposals, but no attempt was made prior to the Boat Draft to offer a formal draft proposal.

10 As Harrod (1951:575-576) notes: On the Queen Mary “it was decided to have meetings on the subject of the International Bank, which had hitherto been somewhat neglected. Keynes’ enthusiasm was fired. A draft was prepared.”
Bretton Woods. It seems we are not as far behind on the Bank proposal as we had thought” (Mason and Asher 1973:13).11

Before considering how the Bank’s role in the liquidity architecture took shape at Atlantic City and Bretton Woods, it thus seems important to examine the origins of the American proposal. As was the case for the American proposal for what later became the IMF, White was the central figure. Although others within the American government concerned with post-war planning had turned their attention to the possibility of an international bank and would be involved in elaborating the American position, it was essentially White’s April 1942 “Proposal for a United Nations Stabilization Plan and a Bank for Reconstruction and Development of the United and Associated Nations” that shaped subsequent discussions (Mason and Asher 1973:15; Oliver 1975:137).

Conflicting Visions for the Bank: Specific Projects v. Stabilization and Balance of Payments Loans

In establishing the IBRD the principal intention of the Americans was to create an institution that would facilitate the flow of long-term international capital movements, which they feared would be in short supply in the immediate post-war era (Mason and Asher 1973:18; Oliver 1971:17-22; 1975:104-110, 155). The American view as to how the Bank’s long-term investment capital should be employed was in turn shaped by the interwar years and the discussions of the proposed Inter-American Bank (Horsefield 1969a:10-11; Mason and Asher 1973:25; World Bank 1957:6; 1960:4; 1968:4-5; Oliver 1975:78, 253; Van de Laar 1980:47). This view, however, was to some extent conflicting.

11 Also see Mason and Asher (1973:20).
On the one hand, White and others in the American government wished to avoid such ill-considered financing as the balance-of-payments loans of the 1920s, when the use of the proceeds was generally left unspecified. During this period American investors had purchased bonds for general purpose financing – what the Bank would later call program loans – in many Latin American and European municipalities. These investments rarely contributed to the productive capacity of borrowers and were often made without reference to creditworthiness.

In the view of the American delegation, this type of investor behaviour was partially to blame for the large-scale defaults of the 1930s. The Americans thus wanted to ensure that future long-term lending by the proposed Bank would avoid these errors. Loans were to be made for specific and productive purposes (Oliver 1975:113, 119). The initial 1942 White Plan – which he had formulated largely on his own – thus contained language directing that a “loan is made only after a careful study and written report by a competent committee on the merits of the project and the loan” (Oliver 1975:291 [White 1942]).

On the other hand, White also wanted the proposed Bank to play some role in the liquidity architecture, though the role he envisioned for the Bank would become more limited as the discussions and negotiations unfolded. The role White had envisioned for the Bank was shaped in part by earlier discussions on the proposed Inter-American Bank (IAB), which though it never came into existence, had important similarities with the institution envisioned in White’s proposals. The IAB plan was a project of the State Department, but the Treasury Department

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12 See also Oliver (1975b:299-300 [White 1942]). There is some disagreement in the literature as to which version of the White Plan was the initial one. Gardner (1980:74) notes an undated typescript version that was brought forth in “early 1942” and entitled “Suggested Plan for a United Nations Stabilization Fund and a Bank for Reconstruction of the United and Associated Nations.” Gardner (1980:74) then suggests White devised March 1942 and April 1942 versions that “are virtually identical.” Oliver (1975:110) notes that White was circulating a draft within the American government as early as late summer or early autumn 1941. Mason and Asher (1973:14) and Horsefield (1968a:12) note that White spelled out some critical features of his proposals in a December 1941 memorandum entitled “Suggested Program for International Allied Monetary and Bank Action.” Unless otherwise indicated, references to the initial 1942 White Plan are to the April 1942 version that was the first draft brought to the attention of President Roosevelt (Oliver 1975:111).
and White were also involved in the discussions (Oliver 1975:92-93, 110; Mason and Asher 1973:16; Gardner 1980:73). The IAB was envisioned as being charged to "Assist in stabilizing the currencies of the American Republics; encourage general direct exchanges of the currencies of the American Republics; encourage the maintenance of adequate monetary reserves; promote the use and distribution of gold and silver; and facilitate monetary equilibrium" (Horsefield 1969a:11). The IAB would also "Function as a clearing house for...the transfer of international payments, make loans, buy and sell the securities of any of the member governments or their political subdivisions or private entities, guarantee credits in gold and foreign currencies, discount bills and other credit instruments, accept deposits, and perform normal banking functions" (Mason and Asher 1973:16).

Thus, in many respects, the IAB plan closely resembled the functions of a stabilization fund, a world central bank, and a commercial bank. Later, many of these functions were incorporated into the IMF. Yet the IAB’s mandate to stabilize monetary systems and currencies was also carried over into White’s 1942 plan for the Bank. In White’s initial draft, he noted that at the end of the war “monetary and banking reserves will be depleted” and “there will doubtless be opportunities [for the Bank] to make loans for the purpose of providing metallic reserves or otherwise strengthening the monetary systems of the borrowing country” (Oliver 1975:298, 304 [White 1942]). White envisioned the Bank as providing metallic reserves (gold) to borrowers as a means “to promote monetary stability” (Oliver 1975:304 [White 1942]). White (Oliver 1975:304 [White 1942]) also argued these loans “should bear lower rates of interest and longer terms of repayment than loans made for other purposes.” White (Oliver 1975:304 [White 1942]) provided three reasons for his views:

13 See also Oliver (1975b:291, 297, 304 [White 1942])
14 See also Oliver (1975b:292 [White 1942]).
In the first place, such loans do not yield profits to the borrowing country of a character which are easily measurable. The charge on the budget of servicing of the loan is a burden that can justified only on general grounds. The encouragement to make loans for such purposes would be greater were the interest very low. Secondly, it would help defeat the purpose of the loan in high interest rates were charged, inasmuch as the burden caused by the loan would in that case tend to vitiate rather than to strengthen the benefits the loan might otherwise have. Finally, it might be said that in many cases the risk involved in lending metallic reserves for a monetary system under proper circumstances are less than other types of loans.

White's initial vision of the Bank also provided it with many of stabilization fund and world central bank-like functions that had been given to the IAB, including dealing in gold and member government securities, acting as clearing house, discounting and rediscounting central bank or government commercial paper, as well as offering its own paper to governments for discount (Oliver 1975:293-294 [White 1942]; 1971:28-29; 1975:112-117, 122; Gardner 1980:75). White also envisioned the Bank to play a role in the supply of short-term capital for financing international trade (Oliver 1975:291, 297 [White 1942]; 1971:27; 1975:113). As one of the Bank's historians (Oliver 1975:114) notes, White's initial plan would have given the Bank the power to "assist in financing current account international trade as well as long-term investment."

The most unconventional element in White's initial plan was granting the proposed Bank the authority to issue non-interest bearing notes that would be backed by subscriptions of gold and local currency from member governments (Oliver 1975:292, 304-311 [White 1942]). As noted Bank historian Robert Oliver (1975:114) observes: "White obviously intended that these notes should serve, like gold, as...a medium of exchange."\(^{15}\) White's proposed Bank, however, would not act in similar fashion as Keynes's (1930) plan for a supranational bank or to Robert Triffin's (1960) proposal for a world central bank. In contrast to these proposals, White's International Bank notes would not be regulated with an eye for world price stability and would

\(^{15}\) See also Oliver (1975:123)
not serve as a monetary reserve. One analyst (Oliver 1971:35) estimates that had the proposed Bank notes been incorporated into the Bank’s Articles and governments were subsequently willing to accept and hold them the Bank would have been endowed with a liquidity-creating capacity of at least $60 billion.

**Watering down the White Plan: Discussions within the American Technical Committee**

In May 1942 President Roosevelt authorized the pursuit of discussions of White’s proposal in an interdepartmental group known as the “Cabinet Committee.” The Cabinet Committee was served by the American Technical Committee (ATC), a group White chaired and consisting of experts from a variety of agencies, including the Departments of Treasury, State, and Commerce, the Securities and Exchange Commission, the Export-Import Bank, the Federal Reserve, and the Foreign Economic Administration (Mason and Asher 1973:17; Oliver 1975:142-150). This ATC would be responsible for drafting future versions of the American position.

White’s initial plan for the Fund and the Bank was shared with some British officials – including Keynes – in the July 1942 (Oliver 1975:372). Keynes’s plan for the International Clearing Union (ICU) was in turn shared with the Americans in August. The Americans were initially puzzled by Keynes’s idea to locate the authority to issue an international currency within the ICU. In US Treasury and State Departments’ very first set of questions addressed to the British asking for clarification of Keynes’s proposal the asked: “If any international agency is to

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16 Oliver (1971:30) notes: “White did not have much sympathy with the gold standard as a regulator of the supply of money; either at the national or the international level. But he had great respect for gold as an international medium of exchange. This may explain why he did not propose that national currencies should be based on his International Bank notes, though he was interested in supplementing gold as an international medium of exchange provided that the creation of these notes was related to a corresponding increase in productivity.”

17 Also see Oliver (1971:30-36; 1975:115-117, 138).
have the authority of issuing an international currency, would it not be more appropriate to reserve such authority for the International Bank?” (Dell 1984:166). However, after an exchange of notes between Keynes and the ATC, it was agreed that the Fund should be considered before the Bank (Harrod 1951:541, 543).

Yet the ATC continued work on the Bank and White’s initial vision for its role the liquidity architecture remained. According to Oliver (1975:139), a December 1942 preliminary draft of the Bank proposal was “almost identical.” The major change being that the International Bank notes - now referred to as “Unitas” - could be redeemed for gold on demand only by the Fund. Whereas in the initial plan borrowers could demand gold from the Bank in exchange for Bank notes, in the December 1942 version governments could only request the Fund exchange the Unitas for a foreign currency and not gold. White wanted the Unitas to finance international transactions without subjecting the Bank to a loss of gold reserves.

The December 1942 draft was the last version White devised where the Bank was given the power to issue notes and significant modifications were made in the late summer of 1943. Oliver (1975:139) suggests that White simply came to realization that if governments were unlikely to be willing to accept and hold Bank notes when they were redeemable in gold on demand, it was even more unlikely they would have been willing to do so if the notes could only be exchanged at the discretion of the Fund.18 Gardner (1980:77), on the other hand, emphasizes how the domestic balance of power after the 1942 Congressional elections had shifted on economic grounds to a conservative coalition of Republicans and Southern Democrats. “Unrepentant New Dealers,” according to Gardner (1980:77), “were being ousted by more conservative leaders recruited from the ranks of finance and industry...[As a result,] “the more

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18 When asked in the Technical Committee meeting about the removal of the Bank’s power issue Unitas notes, White replied: “We have not developed any device short of 100 percent gold backing which would make the issuance of currency by the Bank acceptable” (Oliver 1975:143).
ambitious aspects of the Bank plan were gradually eliminated.\textsuperscript{19} In any event, the most significant liquidity inducing power that the Bank would have been granted was removed. Yet, as depicted in the conventional narrative, this did not mean that Keynes and White did not see the Bank playing any role at all.

White prepared another draft in August 1943 and circulated it to some British officials and the ATC. Although the Unitas remained in this draft, it was to be used only as an internal unit of account and the Bank could no longer issue Unitas notes to finance its loans (Oliver 1975:141). In ATC discussions and subsequent drafts as late as April 1943, White, however, continued to envision and push for the Bank’s resources to be used for “providing metallic reserves or otherwise strengthening the monetary systems of the borrowing country.”\textsuperscript{20} However, other ATC members generally opposed granting this authority to the Bank (Mikesell 1994:31). The August 1943 draft also contained operational procedures for the Bank to provide short-term financing for trade (Oliver 1975:141).

Subsequent drafts were prepared in September 1943 for discussions with the British and a draft was eventually made public in November. This is the first draft that fails to explicitly indicate the Bank had a role to play in strengthening the monetary systems of member states or provide short-term financing (Oliver 1975:156, 157). The key opposition within the ATC had been directed at White’s proposal to lend gold at negligible rates of interest (Oliver 1975:158). Other ATC members were convinced of the need to abandon the proposal due to a belief that the measure would not receive support from the US Congress or the banking community. Some ATC members also saw it as the Fund’s responsibility to provide the loans White had proposed

\textsuperscript{19} Oliver (1975:158) also suggests that some members on the Technical Committee regarded the proposal as impossible to sell to Congress.

\textsuperscript{20} As stated in paragraph 5 of the April 1943 version of the White Plan and cited in Mikesell (1994:31). Also see Oliver (1975:146).
giving the Bank the authority to provide. The idea to give the Bank the capacity to provide short-term financing was dropped because it was viewed as the responsibility of the Fund (Oliver 1975:157, 164). Nonetheless, the November 1943 draft did contain language indicating the Bank could provide financing for “programs and projects,” thus leaving open the possibility that the Bank could be involved in the provision of stabilization and general balance of payments loans (Mason and Asher 1973:19, 24).

Crafting the Bank’s Articles: The Boat Draft, Atlantic City, and Bretton Woods

Discussions with a number of countries on the proposed Bank continued through June 1944 when the British presented the Boat Draft. The Boat Draft made many specific proposals most of which did not conflict with the American draft in important respects (Oliver 1975:179; Mason and Asher 1973:13). The British recommended that the Unitas be deleted as the unit of account, which the Americans had already done in April (Oliver 1975:174, 180). The British also pushed for specific statements to be written into the Bank’s Articles that would empower it to make stabilization loans to strengthen domestic monetary systems and to make general balance of payments loans (Oliver 1975:175-176; Mason and Asher 1973:24; Mikesell 1994:33). The Boat Draft emphasized loans for “specific projects of reconstruction and development” but it went on to state that in special circumstances and in agreement with the Fund the Bank could “make or guarantee a loan which provides the borrowing country with gold or foreign exchange with the purpose of establishing its exchanges and allowing a breathing space for the recovery of its economy and balancing of its international payments.”21

The ATC had dropped these types of specific statements from White’s initial plans in late 1943 and did not wish to revisit the issue. In June 1944, White prepared a memorandum to

21 As cited in Oliver (1975:175) and Mason and Asher (1973:24-25).
Secretary Morgenthau summarizing the suggestions he received from various delegations at Atlantic City and the initial reaction of the American technical experts (Mason and Asher 1973:20). The first item on the memorandum appears as follows:

A number of countries wish to have the Bank make loans in gold for currency reserves.

The U.S. technical advisers are opposed. 22

As a result, for the most part this issue was generally avoided at the Atlantic City meeting (Oliver 1975:180).

The final Articles agreed to at Bretton Woods were a revision of the American draft written in April 1944. In spite of the position White had taken in his initial drafts, the American delegation – thinking that Congress would prefer a more “conservative” Bank – generally opposed granting the Bank the authority to make stabilization and general balance of payments (Oliver 1975:19; Mikesell 1994:49). 23 On the issue of providing loans to strengthen monetary and exchange systems the American technical advisers concluded: “The establishment of the Fund and the provision of foreign exchange resources in this manner is the most economical and most efficient method of securing public confidence in the stability of exchange rates....[And], for this reason...it would be desirable to avoid loans of this character through the Bank for Reconstruction and Development” (Oliver 1975:194). On the issue of general payments support the American advisers indicated greater flexibility, acknowledging “that it would be desirable in some instances to provide loans of this character” but also indicating that such loans “should be carefully safeguarded from abuse and should be extremely limited in amount” (Oliver 1975:194).

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23 A detailed exposition of the view of the American technical experts on these issues was made available to the Bretton Woods delegations in Questions at Issue on the Bank, Issue No. 1 and No. 2 and reproduced in Oliver (1975:193-194).
Keynes and others, however, continued to fight to give the Bank the authority to provide these loans (Mason and Asher 1973:24; Mikesell 1952:197). Opening the first session of the Bretton Woods conference commission on the Bank, Keynes, who served as chairman of the commission, stated that an important duty of the Bank was “to develop the resources and productive capacity of the world…so as to order its operations as to promote and maintain equilibrium in the international balances of payments of all member countries” (Mason and Asher 1973:62, emphasis added). Despite American misgivings, the British suggestions – which garnered some support from other nations at Bretton Woods (Oliver 1975:193; Mikesell 1994:40) – were to some extent introduced into the final Bank’s Articles.

One important modification to the American draft was the additional language, presented here in italics, indicating that one of the purposes of the Bank was: “To promote the long-range balance growth of international trade and the maintenance of equilibrium in the balance of payments” (Oliver 1975:184). Another important modification – indicated again in italics – was also added: “Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.” This passage – which came to known as the specific project provision – thus not only bowed to American concerns that Bank loans be tied to specific and productive purposes but also reflected the concerns of other states that the Bank be able to provide stabilization and general balance of payments loans. After Bretton Woods, both White and Keynes confirmed that the “special circumstances” language was indeed intended to confer on the Bank the authority for such lending (Shihata 2000:778, fn13).

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24 Article I, Section III.
25 Article III, Section 4, Clause VII.
Securing Ratification and the Bank’s Role in the Liquidity Architecture

Upon finalization of the Bretton Woods Agreement it was sent to various national parliaments for ratification. Various aspects of the agreement were vigorously debated in a number of national parliaments. For our purposes, the key issue is the extent to which the Bank was viewed as part of the liquidity architecture. This issue was dealt with most extensively in the debates in the US Congress. Principal opposition to Agreement came from the American Banking Association (ABA) who presented an alternative plan to combine the Fund and the Bank. The idea for the Bank, the ABA felt, was sound, because it “embodies satisfactory principles and procedures, and if we assume good management, the institution should be able to operate soundly and effectively.”26 The ABA and other banking associations, however, could not accept the Fund and wanted the Bank to assume the task of stabilizing exchange rate and providing investment (Oliver 1975:216).

The battle to secure ratification lasted for nearly five months, ending in July 1945. A key moment in the debate occurred in late March when the Committee on Economic Development (CED) proposed a compromise that enabled the banking community and the administration to resolve their differences. In 1944 the Research Committee of the CED – headed by the Presidents of the Reserve Banks of Boston and St. Louis and which included Paul Hoffman, who subsequently became Administrator of the Marshall Plan, among its members – examined the Bretton Woods plans and issued a report (CED 1944) that concluded the plans were not sufficiently broad to include the provision of long-term stabilization and general balance of payments loans. The Committee feared that the special circumstances language in the specific project provision was perhaps not expansive enough to accommodate such loans. Their report stated (emphasis added):

26 New York Times, 5 February 1945 p. 21
There will probably be a need for long-term loans of a type which there is no provision present under either the Bank or the Monetary Fund. The Bank’s loans, as at present provided, are to be for specific projects of reconstruction and development; but there will probably be a number of countries that will need some more general form of loan assistance than these specific projects imply – loans designed to provide for imports of a variety of goods and services in a general restoration of a country’s powers of production and trade... The managers of the Fund require and deserve the protection of clarity of their operation that would come from clear authority to the Bank to make loans for stabilization purposes when they are justified.”

This conclusion was widely shared in the American banking community. The ABA’s President, Rudolph Burgess, had testified during the Congressional hearings on the Bretton Woods plans that “some stabilization programs will call for long-term loans”27. The CED’s compromise proposal was thus to endorse the Fund and the Bank but to recommend that the Bank should be allowed to make long-term stabilization and general balance of payments loans while the loans of the Fund should be restricted to countering short-term exchange rate fluctuations. The banking community’s view dovetailed with the interest of some members of Congress who sought to ensure the IMF’s resources would not be used to provide loans for relief or reconstruction (Gardner 1980:134, 263; Mikesell 1952:197). The result of the CED’s compromise proposal – which the ABA accepted in May - would be to reduce somewhat the importance of the Fund in providing liquidity. In the event, Section 12 of the Bretton Woods Agreements Act, as adopted by Congress, directed the US Governor and Executive Director of the Bank:

> to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of reconstruction and the reconstruction of monetary systems, including long-term stabilization. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans.28

Thus, ironically, it is the US Congress – which members of the ATC had believed would reject such powers for the Bank and thus removed from them from White’s plan – that ultimately

27 Testimony of W. Randolph Burgess, President of the American Bankers’ Association, before the United States House of Representatives Committee on Banking and Currency, 21 March 1945, as cited in Dell (1984:166).
directs the administration to ensure the Bank remained part of the Bretton Woods liquidity architecture. In Keynes's view the proposal of the US Congress appeared obviously correct: "The interpretation that the Bank is free to make stabilization loans is entirely unexceptionable from our point of view. It is just how we always understood it" (Moggridge 1980:194-195). Keynes later elaborated his view claiming, "there can be no doubt that the Bank both has and was intended to have, the necessary authority [to make or guarantee loans for...the reconstruction of monetary systems, including long-term stabilization loans.] We could without hesitation support the Americans, both in the matter of interpretation and also in voting for a change in the constitution, should it come to that" (Moggridge 1980:198).

In accordance with the Bretton Woods Agreements Act, the American governor raised the issue at the inaugural meeting of the IMF and the IBRD at Savannah, Georgia in March 1946. The governors in turn agreed to refer the issue to the Bank's Executive Boards for interpretation.29 The Board's decision, however, was rather ambiguous. Within the Bank its Committee on Interpretation issued a report that was subsequently supported by the Board. The report concluded:

"Under Article III, Section 4 (vii) of the Articles of Agreement [the specific project provision], the Bank, while primarily expected to make or guarantee loans for specific projects of reconstruction and development, does have the authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans, even if such loans are not for specific projects of reconstruction and development."30

29 The governors also referred the IMF's Board the question of whether the Fund's authority extends beyond providing temporary assistance to members facing balance of payments imbalances. An analysis by the IMF's Legal Department and subsequent Board interpretation quickly resolved the issue. In 1946, the Board agreed that the IMF's resources could only be drawn against to provide "temporary assistance in financing balance-of-payments deficits on current account for monetary stabilization operations" (Horsefield 1969b:385). See also "Interpretations Requested by Resolutions Nos. 5 and 6 of the Inaugural Meeting of the Board of Governors, Prepared by the Legal Department, September 1946, Executive Board Document No. 55 (IMF Archives).
Ultimately, however, the report offered no firm directives or guidance on how to use this authority and left “the Bank [management and staff] to decide whether special circumstances exist which justify it in making or guaranteeing such loans.”\textsuperscript{31} The Bank’s Board thus confirmed that the IBRD was indeed part of the liquidity architecture, but left it open to future interpretation as to the conditions under which such lending might be permissible.

**LIQUIDITY PROVISION DURING THE DOLLAR SHORTAGE: THE CONVENTIONAL NARRATIVE**

Prior to the achievement of current account convertibility in Western Europe in 1958, gold and the U.S. dollar — which under the Bretton Woods Agreement was pegged to the price of gold — was the principal vehicles through which payments could be settled. The availability of liquidity was thus dependent on the Fund’s pool of resources and the supply of dollars and gold. White and others within the American government initially viewed the IMF’s pool of resources — $7.5 million after the first payment of quotas\textsuperscript{32} — as sufficient to deal with most of the world’s payments problems (Cohen 1983:325; Boughton 2002; White 1945). This belief, however, was quickly shown to be entirely unrealistic. At the end of the war, Western Europe and Japan’s gold and dollar reserves were depleted and both faced severe balance-of-payments deficits (Milward 1984:48; Solomon 1976:14; Bordo 1993:38-39). Thus, for most of the years immediately following the war the international monetary system suffered from a dollar shortage.

During the discussions and negotiations on the Bretton Woods Agreement, the American position on liquidity had been torn between two conflicting goals. On the one hand, US

\textsuperscript{31} Report of the Executive Directors to the Board of Governors on the Interpretation of the Articles of Agreement (World Bank 1946:26)

\textsuperscript{32} Boughton (2002:17) notes that the initial IMF quotas were reduced from $8.8 billion to $7.5 billion because some countries — notably the Soviet Union — decided not to join.
policymakers associated with more Keynesian leanings recognized that the monetary system required a generous supply of liquidity to enable the Europeans to relax controls on trade and payments while at the same time pursue policies directed toward full employment (Van Dornael 1978:52; Gardner 1980:76). On the other hand, US policymakers sharing more orthodox views wanted to ensure a more market-oriented supply of liquidity along the lines of the gold-exchange standard (Block 1977:55; Gardner 1980:319; Helleiner 1994:52). These orthodox officials— who gained prominent positions in the new Truman administration—were also anxious to avoid inflationary pressures and to not underwrite the payments deficits of European states. Whereas the former view led to an emphasis on increasing liquidity in the system, the latter view prioritized blocking efforts to expand liquidity and stressing the use of traditional adjustment measures (devaluation and deflation) by deficit countries. This tension in American policy would have significant implications for the evolution of the liquidity architecture in the Bretton Woods system.

Reflecting the strength of orthodox views, American policymakers first sought to pressure the British to achieve sterling-dollar convertibility (Gardner 1980).33 One reason for this policy being that as a second convertible currency, sterling would ease demand for dollars and provide a more market-oriented source of liquidity then Keynes and his supporters envisioned. The failure to achieve convertibility and the payments crisis that gripped Western Europe was triggered by massive capital flight and the unwillingness on the part of governments to deflate to restore equilibrium (Eichengreen 1993; Helleiner 1994:52-58; Eckes 1975; Milward 1984:466).

White—who served as the American IMF Executive Board Director from May 1946 to March 1947—came to realization in early 1947 that he had been wrong in seeking to place strict

33 The logic of the attempt at sterling convertibility was based on John Williams’s (1943) “key currency” plan.
limits on the Fund’s resources and sought to overcome its expected shortage by proposing an amendment to the Fund’s Articles. This proposal, White claimed, would enable the Fund “to provide an international medium of exchange to supplement the IMF resources for the purpose of making possible increases in international trade among member countries” (Boughton 2002:18 [White 1948]). Under White’s proposal – which was never formally considered by the Fund’s Board – the IMF would have been authorized to increase temporarily its reserves in the form of “Trade Dollar Accounts.” These Trade Dollar Accounts could be spent in most countries but ultimately (after the dollar shortage) the newly created reserves would have to be returned to the Fund.

Despite the dollar shortage and the payments deficits facing Europe, the Fund’s financing role in the early years of the Bretton Woods system was relatively minor and what little drawings there were tended to be by developing countries (Cohen 1983:325; James 1996:75; Boughton 2000). In fact, in 1950 not a single member state drew on the IMF’s financial resources (Horsefield 1969:276). A major reason for this state of affairs was that the IMF’s capacity to lend was paralyzed by debates that persisted among its member states about the use of its resources.34 While the West European states continued to favour the Keynesian approach of automatic and unconditional lending, US policymakers – taking a more orthodox approach – argued for lending only after governments had agreed to policies that would eliminate the payments deficit (Horsefield 1969:189, 224, 242, 245, 278-282; James 1996:78-83). Using its pre-eminent position of the IMF’s Board, the US also blocked many attempts to use Fund resources until the debate on conditionality was resolved in its favour (Southard 1979:16; Block 1977:110-112).

34 For a thorough treatment of this issue, see Xenias (this volume).
Although eventually providing financing to Western Europe via the ERP, U.S. policymakers also pushed through a decision on the Board that effectively barred recipients from using IMF resources (Horsefield 1969:217-220; Southard 1979:16). ERP recipients would eventually be permitted to use Fund resources once the debate on conditionality had been resolved in the US’s favour (Horsefield 1969:326). However, it was not until 1952 that the Board finally reached agreement on procedures governing lending (Horsefield 1969:227-228).

European governments were thus caught in a bind in 1947. Their dollar and gold reserves were being rapidly depleted and the IMF was incapable of providing sufficient liquidity. Here the conventional account then shifts to the role of the ERP in providing the liquidity Europe required. While the ERP indeed played a significant role in financing the immediate post-war payments deficits in Europe, this is only part of the story. In the coming years U.S. policymakers would provide Europe with $13 billion of payments financing through the ERP (James 1996:74; Helleiner 1994:58-62; Milward 1984). However, in 1947 the shape, content, timing, and form of U.S. aid was still in the process of formulation.\(^{35}\) It is at this moment when the Bank became a significant actor in providing liquidity for the Bretton Woods system.

(RE)DISCOVERING THE BANK’S ROLE IN THE DOLLAR SHORTAGE

The Bank’s provision of liquidity in the Bretton Woods system is linked to evolution of internal debates about the appropriateness of its role in this regard. It is these internal debates that we now turn. The Bank began its operations with a bit of rocky start with its first president resigning only four months after the Bank opened its doors. The Bank was to be managed by a president and vice-present with equal authority over lending operations given the Loan and

\(^{35}\) The Economic Cooperation Act that established the ERP was not enacted until 3 April 1948. The US had also provided Europe aid through the United Nations Relief and Rehabilitation Administration (UNRRA) and other channels but this also proved insufficient.
Research Departments (World Bank 1946:8; 1947:21; Mason and Asher 1973:74). Initially, while the Loan Department was staffed mainly with bankers and lawyers, the Research Department was manned primarily by economists (Kapur et al. 1997:456). Interdepartmental conflict was to be resolved in the Staff Loan Committee (later renamed the Loan Committee) that was made up of the principal department heads and chaired by the Bank’s Vice President. Relations between the Loan and Research Departments were never harmonious and early in the Bank’s history there was a “battle of ideas” about how its resources should be used (Mason and Asher 1973:74).

Paul Rosenstein-Rodan, the Assistant Director of the Research Department and a leading development economist of the era, was the principal voice of the economists. In place of specific projects – which he saw as plagued a “fungibility problem,” that is, financing investments that a government might have undertaken on its own – Rosenstein-Rodan favoured the general purpose or programs loans that had been a part of White and Keynes’s vision for the Bank (Rosenstein-Rodan 1943; Kapur et al. 1997:128; Oliver 1975:272; 1995:56fn16). It was idle, Rosenstein-Rodan contended, for the Bank to concern itself with borrower creditworthiness and specific projects. Rather, it should calculate the financing necessary to sustain a desired growth rate and make massive loans on a continuing basis (Oliver 1975:272). For the bankers and lawyers in the Loan Department – who viewed creditworthiness as the key factor determining a borrower’s eligibility for financing – this advice, according to one of the Bank’s historian (Oliver 1975:272) – “seemed like nonsense.”

John J. McCoy became the Bank’s second president in March 1947 and immediately faced the issue of what the Bank’s role in Europe should be. Many European governments had

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36 The Research Department was renamed the Economics Department in 1948.
37 See the language in World Bank (1949:9), which was crafted by two Bank economists (Kapur et al. 1997:127fn148). Due to the emergence of the project-oriented culture, this language was never repeated.
turned to the IBRD for loans yet within the Bank no one really knew where to begin, what types of questions to ask, and what sort of investigation to undertake (Mason and Asher 1973:153). The Bank was still very much in its infancy and its organizational culture, that is, the formal and informal ideologies, norms, language and routines that govern Bank operations, had yet to be established and were still under debate. Though recognizing that Europe needed a massive disbursement of aid, McCoy was uncertain as to whether it should be in the form of project or program loans.

In this environment, the Research Department staff successfully persuaded McCoy to recommend four program loans to the Board for disbursement (Mason and Asher 1973:51-52). By 1948, the Board had approved all four loans. The significance of these loans in the conventional narrative is usually left either unexamined (Bordo and Eichengreen 1993; Best 2005; Block 1977; Helleiner 1994; Eckes 1975; Strange 1976) or understated (Eichengreen 1996:108). Although ERP aid would soon dwarf the amount the Bank loans provided, the impact of these loans should not be assessed in terms of their amount relative to the ERP over time. Rather, their impact should be gauged based on their amount relative to alternative sources of financing available prior to the ERP.

From the end of the war through the implementation of the ERP in spring 1948, sources of reserves and credit were in short supply, as attempts at sterling convertibility had failed and Marshall Plan aid had yet to arrive. European countries did draw on the Fund for some financing, but these credits were relatively small in comparison to the resources the Bank supplied. It is here that the impact of the Bank’s loans can be fully appreciated. Whereas prior

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38 By April 1947, the Bank had received formal applications for financing from six European countries: France, Denmark, Poland, the Netherlands, Czechoslovakia, and Luxembourg (Oliver 1975:241). In August 1947, the Bank received a formal application from Italy (Oliver 1975:244). The applications from Poland and Czechoslovakia were initially considered by the Bank, but ultimately no loan was made due to American opposition (Oliver 1975:244-246; Mason and Asher 1973:170-171).
to the initiation of the ERP the Bank provided $497 million in general payments financing to Western Europe, the Fund disbursed only $264.1 million. One of the Fund’s historians (James 1996:73) identifies the Bank’s contribution to the provision of liquidity at this time, “though quite limited in quantitative terms,” as “strategically significant.” Indeed, though lost in the conventional narrative, the Bank staff seem to have been aware of the critical importance of these loans. In the IBRD’s third Annual Report (1948:8) the Bank staff observe: “These loans, by permitting the borrowing countries to sustain for a time the necessary volume of essential imports, helped to prevent a disastrous drop in production and possible economic collapse.” Thus, these loans allowed, as Keynes had wanted, a “breathing space” for these countries to begin the road toward economic recovery and payments equilibrium.40

Between 1950 and 1957 the Bank’s Board approved an additional eleven program loans to five countries totalling $523.5 million (Mason and Asher 1973:264fn11, 269-275). These loans were for the most part driven by the successful efforts of Bank economists to persuade the Bank’s President Eugene Black, who had replaced McCoy in July 1949, to recommend them to the Board for approval (Mason and Asher 1973:268-269; Kapur et al. 1997:134).41 During this period, the Bank’s Board tended to greet the approval of program loans with great enthusiasm (Mason and Asher 1973:271-273). To be sure, there were always a few Board members who were sceptical of program lending. Yet none of these program loans triggered any debate on the Board about their legitimacy (Mason and Asher 1973:270, 272).

39 See World Bank (various years) and Horsefield (1969b:460-463). The Bank also provided an additional $90 million in program loans to Western Europe during the Marshall Plan era (1948–1951).
40 These loans, however, were not the long-term stabilization loans to which White had referred in earlier drafts and for which Keynes had fought for at Atlantic City and Bretton Woods.
41 See also the memorandum from Economic Department Director Leonard Rist to President Black promoting the virtues of program loans (Mason and Asher 1973:269).
REMOVING THE BANK FROM THE LIQUIDITY ARCHITECTURE: THE EMERGENCE AND IMPACT OF THE PROJECT CULTURE

The 1947-1948 program loans, however, marked the highpoint of the influence of economists on Bank lending policy. Over the next four years their views within the Bank would become increasingly marginalized. As the Bank's operations evolved, their views would be supplanted by an alternative perspective prioritizing specific projects as the norm.

The bankers and the lawyers in the Loan Department had generally objected to the Board's approval of program loans. Their arguments gained a sympathetic ear in the form of Vice President Robert Garner, to whom McCoy delegated considerable responsibility (Mason and Asher 1973:51; Oliver 1975:239). As Vice President, Garner was also chair of the Staff Loan Committee and, as one Bank historian (Oliver 1975:239) notes, was "probably more responsible than any other single person for the evolution of the Bank through the mid-fifties." Garner did not understand and had little need for the Bank's economists.\footnote{Oliver (1975:239) notes that Garner would blue pencil terms like "capital-output ratio" out of reports, calling them "economeeze."} He also generally opposed program loans and felt the Bank should confine itself to financing specific capital infrastructure (Kraske 1996:55, 90-91; Oliver 1975:239-240).

In 1948, the Loan Department's Assistant Director persuaded Garner to remove the Economics Department from having any responsibility over Bank lending operations (Oliver 1975:273). As a result, the ideas of the bankers and lawyers tended to prevail and Bank lending became oriented toward financing specific projects (World Bank 1949:7, 8; Mason and Asher 1973:155, 458-461; Oliver 1975:25, 246; Kapur et al. 1997:105-106). The emergence of this project-oriented culture and the Bank's subsequent removal from the liquidity architecture was reinforced by a realignment of Bank personnel between 1949 and 1960, what the Bank's
historians (Kapur et al. 1997:457) label “a virtual revolution in Bank staffing.” Driven in part by the need for technical expertise to evaluate capital infrastructure projects, the Bank recruited engineers on a massive scale, altering the personnel profile of the Bank in a “pro-projects direction” (Kapur et al. 1997:458). As engineers, these new staff members tended to view development as being a sequence of new physical structures or projects that had to be put in place and thus favoured specific project loans (Moseley 1991:29; Sadove 1967; World Bank 1957:14).

In 1952 the development of this project-oriented culture was further strengthened when the Bank’s internal departments were reorganized (Mason and Asher 1973:75; King 1974). According to one Bank historian (Oliver 1995:173), “The primary reason for the reorganization of 1952 was to give the loan or operations (area) departments more power, and the research or economics department less power.” The most powerful department in the Bank became the new project-oriented Technical Operations Department while the Economics Department lost its departmental status (Van de Laar 1980:217; Kapur et al. 1997:129-130, 458-461; Oliver 1995:100, 158). The creation of the TOD also facilitated the recruitment of additional engineers and project specialists, thus further strengthening their views within the Bank (Mason and Asher 1973:75; Van de Laar 1980:18). Although some economists, such as Rosenstein-Rodan, left the Bank, many joined the other departments. Those that remained tended to adopt the project-oriented culture (Kapur et al. 1997:129-130; Oliver 1995:100).

In this project-oriented culture staff recommendations for program loans tended to be rare and met by opposition (Mason and Asher 1973:271). Whereas program loans constituted 73.2 percent of Bank financing from 1946 – 1950, these loans constituted only seven percent of
approved loans from 1951 – 1957.\textsuperscript{43} Looking back on its first decade of operations, the Bank’s Annual Report (1955:32) notes: “The most typical pattern of lending has been and will continue to be a series of single loans, made over a period of time, to finance imports for a variety of single projects.”

Despite the arguments by Bank economists, the project and capital infrastructure-oriented Technical Operations Department was reluctant to submit program loans to the Board for consideration (World Bank 1948:16-17; Mason and Asher 1973, 468; Oliver 1975:291; Crane and Finkle 1981:520). The Board – which was earlier enthusiastic about such loans – also lacked the capacity to initiate such loans (Mikesell 1952:200). As the Bank’s operations evolved higher levels of technical expertise were required to draft project loans and Board members found it increasingly difficult to object to staff recommendations (Asher 1983:421, 1990; Ayres 1984:66; Woods 2000:140). As Asher (1983:421, emphasis added) notes: “In practice, the Executive Directors veto a project only under extraordinary circumstances and have virtually no opportunity to initiate the consideration of specific projects.”\textsuperscript{44}

With the authority to initiate loans firmly in the hands of project-oriented staff, the Bank effectively removed itself from the liquidity architecture, approving no program loans between 1957 and 1966. Moreover, not one long-term stabilization loan was ever provided by the Bank. The “special circumstances” language in the specific project provision was a legal requirement but open to interpretation, thus reflecting the dominant norms and ideas of the Bank’s culture. “By the end of the 1950s,” the Bank’s historians (Kapur et al. 1997:8, 9) observe, “the culture of the Bank had become project-led” and “this project culture...had a marked effect on the Bank’s history.” In particular, the Bank’s project-oriented culture was not permissive of the monetary

\textsuperscript{43} Author calculations based on World Bank (various years).
\textsuperscript{44} Asher 1983, 421, emphasis added.
stabilization and program loans Keynes and White had initially envisioned and as a result, as one observer notes (Dell 1984:165), “the Bank’s clear authority in this regard was allowed to atrophy.”

THE EVOLUTION OF THE LIQUIDITY IN THE BRETTON WOODS SYSTEM

Although the IBRD had provided the necessary financing at a critical moment during the dollar shortage, it was aid from the Marshal Plan and subsequent US balance of payments deficits that would eventually lead to a redistribution of world monetary reserves and provide sufficient liquidity for the system (Milward 1984; Bordo 1993).\textsuperscript{45} This state of affairs was of course contrary to the initial vision of Keynes and White who had expected the IMF and IBRD credits to satisfy the world’s demand for liquidity. The dollars shortage was also overcome with assistance from the effects of European currency devaluations in 1949 and the establishment of the European Payments Union in 1950, which paved the way for the achievement of current account convertibility in 1958 (Kaplan and Schleiminger 1989; Eichengreen 1993; Triffin 1957:chpt 5, 6; Bordo 1993:45; Eichengreen 1996:105-106).\textsuperscript{46}

In the 1960s, the issue of liquidity in the Bretton Woods shifted from concern about a dollar shortage to concern about a dollar glut. This period in the Bretton Woods system has been treated extensively in conventional accounts and here I simply highlight the principal events. Although Keynes and White had intended for all currencies to be equal, by the end of the 1950s, the dollar had emerged as the key international currency. The growth of dollar

\textsuperscript{45} To be sure, there were other noteworthy proposals to increase liquidity during the dollar shortage. Throughout the 1950s, there were proposals – usually strongly supported by South Africa – to raise the price of gold (Horsefield 1969b:191-194). There were also a proposal from the United Nations Economic and Social Council (1949) for countries suffering from an economic downturn to compensate other countries for their reserves lost due to a decrease in import demand in the recessionary country (Horsefield 1966a:287-288). The IMF staff also proposed a doubling of the IMF’s quotas in 1949-1950 (Horsefield 1969a:287-288). U.S. policymakers rejected all of these proposals (Block 1977:112-113).

\textsuperscript{46} The EPU and the Organization of European Economic Cooperation (OEEC) also both offered members a limited amount of credits to finance payments imbalances (Diebold 1952:34-107; Cooper 1968:209-210).
liabilities was now the principal mechanism through which the world financed the growth of trade and output and avoided deflation (Mundell 1969:481; Triffin 1960). After 1957, the persistence of US balance of payments became a source of concern.47

The liquidity debate that resulted in the 1960s was initiated by Robert Triffin (1960).48 Triffin argued that the level of world reserves was insufficient and that this liquidity shortage was due to the inadequacy of gold reserves. He noted that the prospects for the growth of world gold stocks were dim and likely to be inadequate to finance the growth of output and trade. This shortfall in reserves could not be fully satisfied through IMF credits and would have to come via the American payments deficit. The famous Triffin dilemma resulted because with continuous deficits, US gold stocks would decline in a relative and absolute sense to dollar liabilities and ultimately threaten a convertibility crisis. However, Triffin (1960:63) warned that the US would seek to close the deficit before this crisis occurred, creating a massive liquidity crisis, and enhancing the prospect for global deflation.

As mentioned earlier, Triffin's solution - though never implemented - was to convert all existing reserves into an international currency and have the IMF serve as the world's central bank, providing ample liquidity. Three types of solutions to the liquidity problem were proposed and implemented: expanding the IMF's resources, developing new resources outside

47 Interestingly, an IMF report (Horsefield 1969c:349-420 [IMF 1958]) in the late 1950s concluded that the level world reserves was adequate but might not be sufficient in the 1960s after the return to convertibility and faster economic growth. Its solution was an increase in IMF quotas.
48 Eichengreen (1996:116) notes that Triffin observed as early as 1947 the tendency for the Bretton Woods system to meet its demand for liquidity through the growth of foreign dollar liabilities, making it dynamically unstable. This tendency would only remain attractive for as long as there were no questions about the convertibility of the dollar into gold. See Triffin (1947). For a collection of various perspectives on the liquidity debate, see Officer and Willet (1969).
the IMF and creating a new type of international reserve asset, the special drawing right (SDR).  

The Fund’s resources were expanded with an increase in member quotas in 1959, 1965, and 1970 (Horsefield 1966a:446-452; 575-583; 1966b:357-363; De Vries 1976:287-305). Agreement in 1961 among the ten main advanced market economies on the General Arrangements to Borrow (GAB) – which enabled the IMF to borrow additional amounts of their national currencies - also provided the IMF with a credit line of $6 billion (Horsefield 1966a:507-516; James 1996:161-165). New resources were also developed outside the Fund via an extensive network of “swaps” arranged between the advanced market economies that could provide assistance to help governments in the event of a payments crisis. The first of these arrangements was the Basle Agreement reached among Belgium, France, West Germany, Italy, the Netherlands, Sweden, and the United Kingdom in March 1961. In 1961, this agreement was subsequently strengthened by participation of the US (De Vries 1976:14). The growth of cross-border capital flows also offered the possibility for some advanced economies to borrow from private international creditors.

It is interesting to note that throughout the debate on liquidity in the 1960s, there is little evidence of arguments to involve the Bank’s resources. While the Bank had clear authority to provide financing that would have supplemented efforts to expand the IMF’s resources, there

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49 US authorities also engineered changes to its gold conversion policy. In 1961, the London Gold Pool was formed among the US and seven leading central banks who agreed to buy and sell gold in order to maintain the dollar price of gold at $35.00 an ounce. In the face of market pressure, the Gold Pool was disbanded in 1968 and a new two-tier arrangement was created. Thereafter, monetary authorities agreed to transact only amongst themselves at the official $35.00 price. That same year, US monetary authorities removed the 25% gold requirement against notes. See Strange (1976:71, 77-78).

50 In a “swap,” each central bank would extend to the other a bilateral line of credit. US monetary authorities would typically borrow to purchase dollars held abroad instead of selling gold (Bordo 1993:59). To repay the swaps, US monetary authorities would issue Roosa bonds – named after Robert Roosa, US Treasury Undersecretary for International Affairs in the 1960s, long-term bonds denominated in foreign currencies. The Roosa bonds enabled US monetary authorities to avoid a loss of gold.
was little attempt to involve it in any meaningful way. Although during this time debates were taking place within the Bank about its role in providing payments financing and it did provide such financing on a limited basis (Chwieroth 2006), there was no attempt to link these internal Bank debates to broader debates about the liquidity architecture. Perhaps the development of the Bank's project culture had rendered such a proposal unthinkable. In any event, though enhancing the Fund's resources, creating swap arrangements, or potentially involving the Bank would increase the amount of credits available, it could not tackle the fundamental issue of the need to substitute a new reserve asset for the dollar.

The major innovation in the liquidity architecture of Bretton Woods that sought to deal with this issue was the development of the SDR in 1968 (Odell 1982; James 1996:165-174; De Vries 1976:chpt 1-9). Interest in the creation of a new reserve asset to solve the liquidity problem began to emerge in the mid-1960s (Grubel 1963; IMF 1964; Ossola 1965). The SDR was established as a separate account within the Fund and allocated to members based on their quotas. Unlike the dollar, which was backed by gold, the acceptability of the SDR stemmed from the obligation of other members to accept it. The SDR, however, could only be used to finance payments deficits and there was a minimum average balance members were required to hold over a five-year period.

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51 I uncovered only one proposal - put forth by British banker Maxwell Stamp (De Vries 1976:19) - that involved the Bank in any meaningful way. The Stamp Plan involved the IMF creating a new form of credit by issuing certificates denominated in dollars and based on gold at $35 an ounce. These certificates would be convertible into currencies the Fund held. Member countries would then accept these certificates in settlement of international obligations. The Fund would lend certificates to the International Development Association - an affiliate of the World Bank - for 50 years. The IDA would then allocate them to developing countries under an agreed program. Though not specifically aimed at dealing with the Triffin dilemma, another proposal - floated by Irving Friedman, Economic Adviser to the President under George Woods and then for a brief time under Robert McNamara - involved the Bank providing, directly or in cooperation with consortia of donors, supplementary foreign exchange to carry out agreed development plans that faced potential disruption due to a short-fall in export earnings. See Friedman (1968) and Mason and Asher (1973:214-215)
The SDR was activated in 1970 after the US had achieved a payments surplus the two years prior, a condition the French had extracted in the negotiations (Dam 1982:165-166). By this time, however, the problem the Bretton Woods system faced was no longer one of inadequate liquidity but rather one of inflation. US domestic and military spending had led to an excessive supply of dollars in the international monetary system and inflation, not deflation, was now the key issue. The injection of more liquidity, in the form of the SDR allocation, was not what was needed in this inflationary environment. As Eichengreen (1996:120) notes: “The inevitable delays built into negotiations meant the policymakers were solving yesterday’s problems with counterproductive implications for today’s.” These inflationary pressures, the decision of several European governments to no longer intervene to maintain the value of their currency vis-à-vis the dollar, and rumours of a run on US gold reserves led Nixon to close the gold window in 1971. The Bretton Woods system of fixed but adjustable exchange rates came to end with the move to generalized floating in 1973 – 1974.

CONCLUSION

Keynes and White always envisioned the IMF and the IBRD as playing mutually-supportive and complementary roles in the provision of liquidity in the Bretton Woods system. Unfortunately, this vision has been somewhat lost in the conventional narrative and with it the key role the Bank was intended to have and eventually did come to play in this area. In revisiting the construction and evolution of the Bretton Woods liquidity architecture, I have sought to correct for this under-emphasis and under-appreciation of the Bank’s role and thus complement the conventional narrative.
The evidence indicates that a fuller understanding of the Bretton Woods system requires a more systematic focus on the founders' views about the Bank and the impact it ultimately had on the provision of liquidity, particularly in the early years of the dollar shortage. One of the most interesting puzzles of the Bretton Woods system is the Bank's subsequent removal from the liquidity architecture. Indeed, conventional international relations theory – both rationalist and constructivist strands (Nielson and Tierney 2003; Barnett and Finnemore 2004) – expect international organizations to seek to expand their operations into new areas. The Bank's behaviour in this regard thus contradicts these expectations, as it virtually abandoned its clear authority to provide stabilization and balance of payments loans in the 1950s and does not reclaim some of this authority until the creation of the Structural Adjustment Loan in 1980. I have shown that the emergence of the Bank's project-oriented culture had a decisive impact on these developments. The emergence and impact of this project-oriented culture also provides us with a better understanding of the evolution of the Bretton Woods system.

In particular, the "failed" origins of the Bank as a liquidity provider via long-term stabilization and balance of payments financing helps us make sense of the significance of the later debates about the creation of the SDR. As White had anticipated, the monetary systems of Europe had been severely weakened by the war and required the provision of reserves to strengthen and stabilize them. If the Bank had been willing to make long-term stabilization loans – particularly in the form of metallic reserves as initially envisioned by White – it would have likely lessened the incentive for Europeans to accumulate dollar reserves. These stabilizations loan might also have accelerated the European move to convertibility.

In the event, however, the IBRD failed to provide any stabilization loans, instead providing limited, though significant, balance of payments financing via dollar credits. The
Bank’s limited financing capabilities in the early years of the dollar shortage could not match the financing the ERP provided and the system evolved into a dollar exchange standard. The Bank’s abandonment of its liquidity-providing authority also helps make sense of the later debates about the SDR. In particular, the removal of the IBRD from the liquidity architecture served to enhance the significance of these debates. In the absence of a source for long-term stabilization loans – which may have modified the evolution of the system away from a dollar exchange standard – the creation of an asset to substitute for the dollar became the only long-term solution to the Triffin dilemma. This certainly heightened the stakes of the debate (Odell 1982).
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