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American in the Shadows: Harry Dexter White and the Design of the International Monetary Fund

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Abstract

Two economists designed the main features of the charter of the IMF during World War II: John Maynard Keynes and Harry Dexter White. Several of those features are attributable primarily to White, including the adoption of fixed but adjustable exchange rates, the funding of operations with national currencies deposited by member states, extending credits through currency swaps rather than conventional loans, making these credits subject to policy conditions, and encouraging members to retain capital controls as an option for use in difficult circumstances. This study of archival material helps to uncover White's role in this design process.

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[1] Forthcoming in Robert Leeson (Editor), *Archival Insights into the Evolution of Economics* (New York: Palgrave Macmillan, 2006). James Boughton is Historian of the International Monetary Fund. He wishes to thank Robert Leeson and Roger Sandilands for helpful comments on an earlier draft. This paper expresses the author's personal views, not those of the IMF.

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The charter for the International Monetary Fund (IMF) was drawn up in stages, starting in 1941 and culminating in an international conference held at Bretton Woods, New Hampshire, in July 1944. The discussions and the drafting were led by John Maynard Keynes, the head of the British delegation at Bretton Woods, and by Harry Dexter White, the principal member of the U.S. delegation. Keynes's role in the process is well established through his published writing, his collected correspondence, and numerous memoirs and biographies.[2] White's role, in contrast, has long been obscured by the fragmentary state of his own documentation and by the fact that he was the leader of a team of U.S. Treasury economists rather than a clearly dominant actor. To isolate his personal contribution requires delving into archival records with some diligence.

Establishing White's contribution to the design of the IMF is important for at least three reasons. First, without a full understanding of White's role, it is impossible to properly assess that of Keynes. Since Keynes—easily the most famous and iconic economist of the twentieth century—continues to be the subject of endless analysis and controversy, simply regarding White as an input to Keynesiana is sufficient reason to undertake the task. Second, the IMF has become the leading international financial institution in the world and a major object of scrutiny and controversy. An understanding of the intellectual and political origins of the institution is essential for a fair and accurate assessment of its role and history. Third, White himself is a far more important figure in the history of economic thought than is generally recognized. Since the design of the IMF was his greatest practical contribution, it is worth taking the trouble to trace his steps.

I. HARRY DEXTER WHITE

White's contributions as an economist are obscure because he spent almost all of his professional life either in the U.S. Treasury or in the IMF. Moreover, that career was short—just 13 years from his arrival at the Treasury in 1934 to his premature retirement from the IMF in 1947—owing to a late start in his education and to his life being cut short by ill health. White was born in Boston in 1892 to Jewish immigrant parents from what was then the Lithuanian region of the Russian empire. As a young man, Harry White (he would add "Dexter" as a middle name only later) worked in one of the family hardware stores and then served in the U.S. Army during the Great War. Only then did he devote himself to higher education. He graduated from Stanford University in 1924 and then went to Harvard for graduate studies in economics. By the time he completed his Ph.D. at Harvard, he was 38 years old. On the strength of his outstanding record as a student—his dissertation won the university's David Wells Prize and was published by Harvard University Press (White, 1933)—he was able to stay at Harvard with the title of instructor in the Economics Department for another year, after which he accepted a position as associate professor at Lawrence College in Wisconsin.

[2] Three major biographies—Harrod (1951), Moggridge (1992), and Skidelsky (1983, 1992, and 2000)—and a thirty-volume collection of his writings are only the core of a vast literature.

The critical moment in Harry White's career came soon thereafter, in 1934, when Jacob Viner asked White to work for him at the Treasury in Washington. The initial offer was for a three-month project analyzing the effects of the January 1934 increase in the dollar price of gold. That job segued into a permanent position as an economist in the Division of Research and Statistics, which was headed by George C. Haas. White quickly progressed up the bureaucratic ladder, eventually becoming assistant secretary (then the chief policy position under the secretary) of the Treasury. After the IMF agreement was ratified at the end of 1945, President Harry S. Truman named White to be the first U.S. Executive Director at the Fund. White's health then deteriorated rapidly, and he resigned just over a year later, after suffering a heart attack while on an IMF mission with Robert Triffin and other staff in Ecuador. He then worked intermittently as a consultant on central banking and monetary policy issues, mainly for the Mexican central bank, until his death from a third heart attack in 1948.[3]

As this biographical sketch suggests, Harry Dexter White's canon of publications was quite small. Aside from his dissertation, he contributed to the third edition of Frank Taussig's classic book on tariffs and trade protection (Taussig, 1931), wrote a review essay on Haberler and Ohlin for the *Quarterly Journal of Economics* (White, 1934), and wrote three articles on currency stabilization and the IMF (White, 1943, 1945, and 1947).[4] Only his dissertation gives any inkling of his economic philosophy (see Flanders, 1990, pp. 236-41), and it was written before White really developed as an economist. Consequently, to understand the extent to which his thinking was innovative and ahead of the mainstream of the profession, and what he contributed to the evolution of economic institutions, one must turn to the archives.[5]

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[3] For detailed biographies, see Nathan White (1956), Rees (1973), and Craig (2004). White (p. 71) is the source for information on Harry White's second heart attack, in the late summer of 1947. Craig (p. 201) speculates that White's dissatisfaction with U.S. policies and his concerns over ongoing investigations of his loyalty to the United States may have been factors in his decision to leave the IMF in 1947, in addition to his declining health. There is, however, no direct evidence for that conclusion. Although White publicly disguised his health problems so as not to jeopardize his subsequent consulting career, he maintained privately that his health was the sole reason for his departure. The mission to nine South American countries that White led from February 7 to March 15, 1947, is described in several different files in the IMF archives in Washington. His illness, which eventually forced an early termination of the mission, is recounted in a report in the IMF file C/Ecuador/810. The information that the illness was a heart attack and that it precipitated White's retirement is from a file on White (file number 101-4053), prepared by the U.S. Federal Bureau of Investigation (FBI), which is open to the public in the FBI's Freedom of Information Act Reading Room in Washington.

[4] Much later (in 1983), Edward M. Bernstein—White's principal assistant in the technical design of the IMF—claimed that he wrote White's 1945 article in *Foreign Affairs*. The claim appears in an oral history transcript, Black (1991), p. 61.

[5] Also see Boughton (2004).

II. The Archives

The most well known and readily accessible archive on White is the collection of Harry Dexter White papers in the Seeley G. Mudd Manuscript Library at Princeton University.[6] This collection of 13 boxes of documents written from 1930 to 1948 was donated to Princeton by White's widow, Anne Terry White. It comprises the papers that were in his possession when he died. It is therefore neither a comprehensive nor a systematic introduction to White's writings, but it does serve as a useful introduction by suggesting what he probably felt was worth saving. For example, it includes an unpublished paper that he prepared while studying at Harvard in 1932, written jointly with fellow students Lauchlin Currie and P. T. Ellsworth, advocating a policy of deficit spending to combat the Depression. As Laidler and Sandilands (2002) have shown, the paper is prescient in arguing for a comprehensive package of expansionary monetary and fiscal policies as a way of maintaining macroeconomic stability.

A second and more systematic archive of White's papers is in the U.S. National Archives at College Park, Maryland.[7] This collection comprises 21 boxes, the first 13 of which are a chronological file maintained by White's secretarial staff at the Treasury from 1934 to 1946. The materials include memoranda and other internal papers drafted by White or his staff, most of which were sent to the secretary of the Treasury, Henry Morgenthau, Jr. The last eight boxes contain related staff memoranda and records of meetings in which White participated at the Treasury. As a record of White's thinking about economic policy, however, the key materials are in the first two boxes, which cover 1934-39. In March 1938, White was promoted to chief of the newly created Division of Monetary Research. From that date on, most of the memoranda produced in the Division were drafted initially by his staff. White normally approved and signed the documents before sending them to the secretary, and in many cases he redrafted them to some extent, but only the final documents have been preserved. White's own contribution therefore cannot be isolated. Before he became division chief, White was often the original author, and his own thinking emerges more clearly.

The third archive for this purpose is the Institutional Repository of the International Monetary Fund in Washington, D.C.[8] This archive, which has been open for public use since 1994,

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[6] For a description, see http://libweb.princeton.edu/libraries/firestone/rbsc/finding_aids/hdwhite.html.

[7] Record Group 56: General Records of the Department of the Treasury; 56.12.3, Records of the Assistant Secretary relating to monetary and international affairs. Textual Records: Records of Harry Dexter White including a chronological file, 1934-46; memorandums, 1934-46; records relating to U.S.-French financial negotiations, 1946; and lists of assignments and activities, 1939-41. See http://www.archives.gov/research_room/federal_records_guide/. Blum (1959), which is based on the nearly 800-volume collection of Henry Morgenthau, Jr.'s diaries and Treasury papers at the Roosevelt Library in Hyde Park, New York, provides invaluable context for the College Park materials.

[8] See http://www.imf.org/external/np/arc/eng/archive.htm.

includes materials pertaining to the preparatory work for the Bretton Woods conference, ratification of the Articles of Agreement by the United States and other original member states, and the work of the Fund thereafter. Some of this material—notably two drafts of White's plan and two of Keynes's plan for the IMF—was published as a supplementary volume in Keith Horsefield's (1969) history of the origins and early years of the IMF. Some items, however, including a 1948 scheme that White drew up to rectify the inadequacy of funding for the IMF,[9] remain unpublished.

III. The Design of the IMF

What can we learn from these archives about White's contributions to the original design of the IMF? That design[10] included several features that either were new to the international financial system or that restored practices that had been lost or diminished since the start of the Great War in 1914:

- International trade was to be based on a gold exchange standard, with exchange rates to be fixed in relation to gold and with stocks of gold to be held by governments or central banks as monetary reserves.
- The U.S. dollar was to be the de facto core currency in the system. From the outset, official holdings of dollars would serve as a second form of monetary reserves, the dollar would be the primary vehicle for settling international payments, and most states would determine the par values of their currencies in relation to the dollar rather than in relation to the equivalent gold content of the dollar. Over time, other currencies would become strong enough to supplement dollars for these purposes.
- Exchange rates were to be "fixed but adjustable," with large changes in rates being acceptable only to correct a "fundamental disequilibrium" in international payments. The IMF was to be the arbiter of whether such a correction was appropriate, although its powers to sanction member states for unapproved changes were limited.
- The IMF was to serve as a central repository for a portion of each member state's gold and foreign exchange (mainly U.S. dollar) reserves, with the amount to be deposited based on a quota formula linked to the country's output and international trade.
- To help member states cope with disequilibria that were less than fundamental, the IMF was to stand prepared to make this pool of resources temporarily available to any member that needed funds to finance a deficit in current payments, in amounts that were

[9] "Proposal for Amendment of Fund Agreement to Increase Level of World Trade," Executive Board Document No. 347 (October 14, 1948). IMF Institutional Repository, S1140, "White Plan." Also see "Rough draft of a statement that might be used to introduce the proposed amendments on the agenda," Harry Dexter White papers, Princeton (hereinafter, "Princeton papers"), Box 11, Item 27f. The manuscript includes a typed date, "4/20/48," at the end but is signed and dated "HD White May 19, 1948" at the top of the first page.

[10] For the original IMF Articles of Agreement, see Horsefield (1969), pp. 185-214.

limited in relation to the member's quota, subject to interest charges and other fees. Although these transactions were the exact financial equivalent of loans, they were legally distinct from loans in that there was no loan contract. Instead, the borrower would "purchase" foreign exchange from the IMF in exchange for its own currency and then later "repurchase" its currency with the foreign exchange.

Each of these features had a specified purpose aimed at helping promote the growth of international trade and the stability of international payments. The overall aim was to restore multilateral trade and payments and open competition after a long era of disruptions characterized by autarky, bilateral arrangements, and mercantilism. In broad perspective, these goals were widely shared during World War II among economists and officials in all of the leading Allied countries. The detailed strategy, however, involving questions of sequencing and timing, affected vital national interests and raised serious controversies.

In "fighting for Britain," to adopt Robert Skidelsky's phrase, Keynes was seeking to create an institution that would provide maximum financing automatically in support of a British economic recovery from the devastation of the war. At the same time, he was seeking to delay the dismantling of the Commonwealth's preferential trading system and the release of blocked sterling balances held in countries within the sterling currency area. White and his American colleagues were aiming for a more rapid move to a fully open multilateral trading system and for more limited and controlled access to financing of payments deficits (see Boughton, 2004).

The fact that White won virtually all of his key battles with Keynes over the design of the IMF obviously reflects the vastly stronger economic position of the United States at the close of the war. Nonetheless, the shape and strength of White's arguments were not just a product of his time and place. They also reflected his personal development as an economist both at Harvard and in the Treasury (Boughton, 2002). To understand the effects of that development on the IMF agreements, one must turn to the archives.

A. The Role of Gold in the System

The Princeton archive includes two lengthy studies by White on the role of gold in the U.S. and international monetary systems. The first, prepared in the space of a few months in 1934, is a 450-page treatise on the benefits for the U.S. economy of adhering to the gold standard, conditional upon a willingness to adjust the price of gold in "periods of stress."[11] Written at a time when economists generally divided into advocates of a strict gold standard with fixed rates of exchange between currencies and those who favored fiat systems and managed rates, this essay—which was never circulated outside the Treasury—pointed toward an innovative middle road. Although the mechanics of this approach were still vague, it at least prefigured the "fixed

[11] "Selection of a Monetary Standard for the United States," report submitted to Jacob Viner, (22 September 1934). Princeton papers, Box 1. The reference to adjustment in periods of stress is on p. 232.

but adjustable" gold exchange standard that was a centerpiece of the IMF design that emerged from Bretton Woods a decade later.[12]

White returned to this topic in the early 1940s, at the same time as he was developing his detailed plan for the IMF. Over the space of some four years, apparently writing in his spare time, White produced a manuscript of around 300 pages that he called "The Future of Gold." The manuscript at Princeton is the only known version, but it is not a finished draft, and there is no way of knowing whether White intended to publish it. It fleshes out his earlier ideas on a state-contingent monetary policy based flexibly on gold, and it might have been influential had White not abandoned it in 1944.[13]

While the Princeton archives are valuable principally for uncovering the development of White's views on the role of gold and the adjustable peg, the National Archives offer a trove of information on various aspects of the design of the IMF. These include the necessity for broad international agreements as a replacement for the bilateral diplomacy of the 1930s, the possibility of extending credit to countries without engaging in formal loan contracts, and the necessity for capital controls as a backup plan for limiting the inherent instability of an open multilateral trading system.

B. The Necessity of Multilateral Agreements

The last general attempt at multilateral cooperation on international finance before World War II was the World Economic Conference, held in London in 1933. That effort broke down over disputes on how comprehensive an agreement was needed (Clarke, 1973). After that failure, the most notable cooperative effort was the Tripartite Agreement among the United States, the United Kingdom, and France in September 1936. Although that agreement probably prevented the devaluation of the French franc from leading to a spiral of compensating devaluations by Britain and other countries, it did not engender a lasting framework for further cooperation. That gap was not filled until the establishment of the IMF at the end of the war. What role did White play in advancing this agenda?

White's entry into international financial diplomacy came on his first overseas trip, when the U.S. Treasury sent him to London in May 1935 for meetings with British Treasury officials. This trip was precipitated by concerns that the British were about to allow the pound sterling to

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[12] Bordo and Kydland (1995) argue that the classical gold standard was implicitly a conditional rule, under which governments and markets understood that the standard would be abandoned temporarily in wartime and that abuses would be disciplined internationally by the Bank of England's power to control access to international capital. During the interwar period, however, economists analyzing the gold standard typically viewed it as a simple rule.

[13] Two drafts are in the Princeton papers. The earlier of the two, in Box 4, is hand-dated "2/25/40" at the top of Section IV. The more complete version, in Box 3, includes a typed date, "8-4-42," and a hand-written date, "Feb. 44," in pencil.

depreciate markedly. White's analysis indicated that the prevailing rate of $4.86 was not overvalued, and he and his colleagues were worried that a depreciation would overshoot and put substantial pressure on U.S. exporters. In meetings with Keynes and other Treasury officials, White argued for stabilizing the pound in the range of $4.60 to $4.70, which he thought would be sustainable and not seriously problematic for the United States. He apparently did not make a strong impression, and although the pound did not depreciate as the Americans had feared, the episode probably helped convince White that bilateral negotiation on financial policy was not terribly effective.[14]

In the months following White's trip to London, he began looking for ways to minimize the potential fallout on the U.S. economy if the pound did drop sharply in value. This led him to conclude that the key was to develop close trade linkages with as many other countries as possible and, in particular, to convince those countries to peg the values of their currencies to the dollar. In a long note to George Haas, the Division Chief, in October 1935, White argued that this strategy would generate a virtuous cycle of stability and growth:

> "Though it doesn't matter very much whether New York or London does the most foreign acceptance business, it is important to have as many currencies as possible linked to the dollar rather than to sterling, if the rate between dollars and sterling is not fixed. The more currencies tied to the dollar (i.e., exchange rates fixed to the dollar), the less power will British authorities have to influence American monetary policy. The more international business a country does, the more likely will it be to attract other currencies in its orbit of influence, and the more currencies it attracts the greater will be its international business."[15]

As the immediate danger of a sterling depreciation seemed to pass, White shifted his attention to the French franc. Although the value of the franc was of relatively minor concern to Washington by itself, a devaluation could trigger a response by Britain, for whom trade with France was much more important. In May 1936, when France was one of just four countries still adhering to the gold standard, White began urging the Treasury to develop a contingency plan if France should devalue the increasingly overvalued franc. "The crux of the matter," he wrote to

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[14] The Princeton archive (Box 1, Item 4a) includes two reports on this trip, in the form of memoranda from White to Haas: "Personal Report on London Trip" (June 13, 1935) and "Summary of Conversations" (same date). For White's assessment that the pound was not overvalued, see his earlier memorandum to Haas, "The Sterling Situation" (May 31, 1935), at College Park (Box 1). On the negative reaction by British officials to White's visit, see Drummond (1981, p. 192). Blum (1959, p. 139), conveys a more positive impression. Blum's account is based on Morgenthau's diaries and refers to the reactions of British businessmen as well as officials, whereas Drummond cites British Treasury archives.

[15] "The United Kingdom of Great Britain (Draft submitted to Mr. Haas October 18, 1935)," College Park, Box 1.

Morgenthau, "is the behavior of sterling." Moreover, the way to avert the threat, in White's view, was to present a united Anglo-American front. To that end, the Treasury staff was considering a proposal to help the Bank of England build up its official reserves by allowing it to buy gold in the U.S. market.[16] If Britain had a large enough reserve to defend its currency, then the two Anglophone countries together could convince the French that devaluing would lead to retaliatory measures. As White put it, "France would hardly dare now to devalue to a lower level than that which both the United States and England indicated was the maximum they would permit without taking steps to defend their respective currencies."[17] After some hesitation, however, White realized that permitting England to buy gold in the U.S. market would do little to reduce pressure on exchange markets, and he recommended against it.[18]

By late June, 1936, White's view proved correct, as the newly elected French government under Léon Blum stated publicly that it was prepared to devalue only if it could be assured that other major countries would maintain their parities. That led to negotiations among the U.S., British, and French treasuries and thus to the Tripartite Agreement three months later. Morgenthau himself played the key role in negotiating the agreement, but White served as a consistent advocate within the Treasury for finding a multilateral, cooperative solution to the perceived misalignment of the three major currencies.[19]

White's multilateralism had a strong influence on the design of the IMF. The seeds of a multilateral stabilization fund may be found in a series of U.S. Treasury memoranda in December 1937. Several Latin American countries, notably Cuba and Mexico, were having difficulty servicing their substantial debts to U.S. and other bondholders. That problem was not new—much of Mexico's external debt had been in default since 1914—but the drift toward a new war in Europe was making the consequences more severe as the debtors began to look to the Axis countries—Germany, Italy, and Japan—for financial assistance. To counter that influence, Morgenthau developed a proposal for the U.S. government to help Latin America restructure its external debts. Since direct interference in bond markets was impracticable,

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[16] U.S. policy at the time permitted gold sales only to countries adhering to the gold standard.

[17] Memorandum from Haas to Morgenthau, drafted by White, "French Devaluation" (May 25, 1936); College Park, Box 1. The specific proposal relating to the Bank of England is in this final 38-page draft but not in the original 23-page draft dated May 8. It appears therefore that someone, probably Haas, prompted White to be more specific about how he hoped to enlist the British in the effort to dissuade the French. The "crux" quotation is from p. 24, and the "hardly dare" passage is on p. 35.

[18] Untitled memorandum from Haas to Morgenthau, drafted by White (June 4, 1936); College Park, Box 1.

[19] Blum (1959, pp. 155-76) describes the negotiations from Morgenthau's perspective. On White's role, see Rees (1973, pp. 60-62). Neither the Princeton nor the College Park archive offers any primary evidence on White's role in the discussions.

White steered the secretary toward an alternative plan to provide direct financial assistance by purchasing silver and thus maintaining a stable price for this key export and (in Cuba) monetary base.[20]

Six months later, White expanded this silver-purchase proposal into a plan to establish an Inter-American Silver Bank. By this time, the United States had accumulated a large stock of silver bullion that was in danger of dropping in value because no country in Latin America other than Cuba was on a silver standard.[21] By propping up the price, the administration could serve both its own narrow interests and the interests of other silver-producing countries throughout the region.

Although this particular idea was not pursued further, it resurfaced less than two years later as a proposal to establish an Inter-American Bank, without the link to silver. White was one of the principal drafters (along with his counterpart at the State Department, Assistant Secretary Adolph Berle) of a plan for an institution that would have combined many of the functions that eventually accrued to the IMF and the World Bank. The plan was approved at an international conference in Havana, Cuba, in February 1940 under the chairmanship of U.S. Under Secretary of State Sumner Welles, but a sufficient number of Latin American republics failed to ratify it, and the treaty died a quiet death.[22]

C. Loans that Are Not Loans

White acted quietly throughout the late 1930s to convert the Exchange Stabilization Fund (ESF) from a fund to stabilize the gold value of the U.S. dollar into a fund to help stabilize the dollar more directly against other currencies, including those of Latin American and other developing countries. The ESF had been established by Congress in January 1934 as a component of the Gold Reserve Act that devalued the dollar in relation to gold. Using a stock of earmarked gold, the Treasury was authorized to intervene in foreign exchange markets to stabilize the price of gold. The following year, White suggested that the discretion accorded to the secretary of the Treasury by the Act provided an opportunity to use the ESF more broadly to further U.S. international financial interests. "In fact, one may go further and say that any earnest attempt to

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[20] White to Mrs. Klotz [Morgenthau's secretary], "Secretary's proposal for the record" (December 11, 1937); Haas to Morgenthau (drafted by White), "Mexico" (December 22); and Haas to Morgenthau (drafted by White), "Preliminary notes for Mexican program" (December 28); all in College Park, Box 2. For the context of the silver-purchase proposal, see Blum (1959, pp. 493-97).

[21] White to Morgenthau, "Plan to promote the monetary and industrial use for silver and to make important use of some of our silver assets" (June 27, 1938); College Park, Box 2.

[22] See Emilio Collado, oral history interview (July 11, 1974), Truman Library website: http://www.trumanlibrary.org/oralhist/collado2.htm. Rees (1973, p. 104) has an overview based primarily on papers and testimony for U.S. Senate committee hearings in the early 1950s.

carry out the intent of Section 10(a) [of the Gold Reserve Act] would involve occasional operations in domestic and foreign security and money markets, as well as operations directly on the exchange market."[23]

Within two months of White's proposal, the Treasury began using the ESF to enter into repurchase agreements with developing countries, beginning with Mexico in January 1936. Using silver as collateral, the Mexican government exchanged pesos for dollars for a specified period, to be repurchased at the same exchange rate plus an interest charge. The dollars for this operation were obtained by the Treasury from the ESF.[24] That operation was kept secret, but in July 1937 the Treasury entered into two similar agreements, one with Brazil (secured by gold) and one with China (secured by silver). In November 1938, White proposed generalizing this practice, primarily to provide financial assistance to Brazil and other Latin American countries.[25] Although Morgenthau was skeptical,[26] White kept raising the idea in specific cases, including for Chile in 1940 and Liberia in 1942.[27]

The Liberian case serves as an informative example of how White balanced his advocacy of U.S. national interests with his concern for the broader implications of U.S. policy actions. In 1939, the Firestone Tire Company—which controlled the production and export of natural rubber in Liberia—proposed to pay its employees there with U.S. rather than the British coins that were then in general circulation. When the U.S. State Department asked Treasury for an opinion, White responded that he had no objection. Then in 1942, the State Department

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[23] The quotation is from p. 30 of an unaddressed draft memorandum titled "Monetary Policy," which White drafted and submitted to Haas on November 13, 1935; College Park, Box 1.

[24] This operation is described in detail in Bordo and Schwartz (2001). For the history of ESF, see Schwartz (1997) and Henning (1999).

[25] Note prepared by White and Herman Oliphant (General Counsel of the Treasury) and sent to Morgenthau on November 5, 1938; College Park, Box 2.

[26] When White sent the note listed in the preceding footnote to the secretary, Morgenthau set it aside and asked that someone else review it. Blum (1964), however, attributes the idea of lending to Brazil through the ESF to Morgenthau, and he states that White "thought that Morgenthau should not proceed without express congressional approval" (p. 53). The apparent implication that White was reluctant to use the ESF for this purpose is belied by the archival record, since it clearly was White who proposed the idea in the first instance.

[27] Memorandum from White (and drafted by White) to Morgenthau, "Chile's Request for Assistance" (September 12, 1940); and untitled memorandum from White to Morgenthau (drafted by a member of White's staff, Frank O. Southard) dated May 27, 1942; College Park, Boxes 3 and 7, respectively. The proposal for Chile was a repurchase arrangement similar to those used earlier in Mexico and other countries. For the context of this arrangement, see Blum (1964, pp. 320-23).

proposed to extend this plan by providing large amounts of U.S. coins to the Liberian government and thus further drive British coins out of circulation. White opposed this scheme on the grounds that it would bring trivial benefits to the United States and would risk greatly offending the British. After two months of debate, however, he devised a compromise under which the Treasury would use the ESF to buy up to £250,000 ($1 million) in coins from the Liberian government and then either issue the British coins to U.S. troops stationed in Northern Ireland or sell them to the U.K. Treasury.[28] Eventually a $2 million ESF credit was extended to Liberia on a stand-by basis. It was not drawn upon, but in 1943 the Liberian government made the U.S dollar legal tender.[29]

As Bordo and Schwartz (2001) have shown, the expanded use of the ESF for repurchase arrangements became the inspiration and prototype for the White Plan for the IMF in 1942. The Keynes Plan for an International Currency Union (the competing scheme for creating a multilateral stabilization fund) envisaged that each participating state would be assigned a quota in terms of an international currency unit ("bancor") and would be entitled to draw overdrafts against that quota. It thus was derived from the structure of the British banking system and provided a fairly straightforward process for lending to participants. The White Plan, drawn up independently around the same time, also envisaged assigning each participating state a quota, but in this scheme the participant (or member) would *deposit* a portion of the quota in its own currency and the rest in gold. Members would then draw on the pool of resources by exchanging more of their own currency for the foreign exchange (i.e., U.S. dollar) equivalent. As in the ESF arrangements of the 1930s, there would be no loan contract and thus no formal creditor-debtor relationship between the provider of the dollars (the ESF or the IMF) and the recipient country. Economically, the transaction amounted to a loan that would have to be repaid with interest.

White's experience with ESF lending also convinced him that the IMF should not extend credits automatically. His initial plan of April 1942 suggested that the Fund should respond to requests from borrowing countries by first making a careful independent assessment of the policy changes that the country should make to correct the underlying causes of its balance of payments problem. Only if the country was prepared to make those policy changes would the Fund approve the request. Keynes objected to this idea and argued in favor of automatic lending

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[28] These developments are described in memoranda from White to Morgenthau, "Liberian proposal to purchase U.S. currency" (October 9, 1939); from White to [Daniel W.] Bell (Under Secretary of the Treasury), "The need for more coins in Liberia" (March 16, 1942); from White to Bell (drafted by J. S. DeBeers), "Letter from Mr. Berle on Liberian Coinage" (April 23, 1942); from Southard and DeBeers to White, "Meeting on Liberian coinage in the State Department, May 8, 1942" (May 9, 1942); and from White to Morgenthau on May 27, described in the preceding footnote. As noted above, Adolph Berle was assistant secretary of State. The May 8 meeting at the State Department was with Harvey Firestone, Jr., president of the eponymous tire company.

[29] On the ESF credit, see Henning (1999, p. 14 and Table 1).

to any country with a balance of payments "need," subject to ex post policy conditions only if the borrower failed to take appropriate measures on its own and was unable to repay the loan on time.[30] White eventually agreed to go along with Keynes on this issue. The final Articles of Agreement did not provide explicitly for policy conditions on IMF lending, and it was only in the 1950s that the Executive Board introduced the conditional lending that gradually became standard practice.

D. The "Intelligent Control" of Capital Flows

Another central feature of the IMF is the provision in Article VI of the charter that encourages member countries to impose controls on capital flows. If a country faces a balance of payments deficit on account of a large and sustained outflow of capital—as opposed to a deficit in the current account—the Fund is enjoined from lending for the purpose of financing such a deficit, and it is empowered to require the country to impose controls as a precondition for borrowing. In practice, this provision has never been invoked. Starting in 1956, when the United Kingdom asked to borrow from the Fund to cope with a speculative outflow during the Suez crisis, the Fund has justified such lending as necessary to prevent a capital deficit from spilling over into the current account (Boughton, 2001). In the 1940s, however, when private-sector cross-border capital flows were of limited scope and importance, the current and capital accounts of the balance of payments were much more clearly separated.

The strong pro-control wording in Article VI owes more to Keynes than to White. Keynes drew a clear line between good capital flows—those that financed trade or real investment—and those that were speculative or volatile or that promoted capital flight. His February 1942 plan for the Fund cited the encouragement of international cooperation in the formulation of capital controls as an important and general advantage of the proposed institution (Horsefield, 1969, p. 13). In contrast, the more nuanced practice regarding capital flows has been more in line with White's thinking, as revealed both by his original plan for the Fund and his earlier work at the U.S. Treasury.

Although White's view of capital controls evolved over time, his considered opinion was that controls were a necessary evil that should be used with discretion so as to avoid discouraging useful flows. As he concluded in his Ph.D. dissertation on the French international accounts, "some measure of the intelligent control of the volume and direction of foreign investments is desirable" (White, 1933, pp. 311-12). That same year, he wrote to his thesis advisor, Frank Taussig, that he was exploring the idea that the best way for the United States to reap the benefits of international trade while protecting itself from external shocks was through "centralized control over foreign exchanges and trade" (Rees, 1973, p. 39). Once he joined the Treasury staff a year later, he toned down this enthusiasm considerably, arguing in 1934 that

[30] See Horsefield (1969) on White (p. 42) and Keynes (p. 24).

capital controls should normally be unnecessary but should be kept actively in reserve to be used in case of a speculative attack.[31]

By 1935, the United States was facing massive gold inflows from Europe and elsewhere, and these flows were thought to be creating problems for domestic monetary stability. White drafted a memorandum to Morgenthau in which he attributed the bulk of the inflow to speculation, safe-haven demand, and a normal return of gold that had been moved out of the country in the two years prior to the January 1934 devaluation. Although White did not regard this inflow as a major problem, he did offer suggestions for controlling it, either by taxing foreign purchases of U.S. securities or by finding some more direct means of control that would avoid the "derangements that might be caused by sudden withdrawals of gold by foreigners."[32] Three years later, when the French balance of payments was continuing to worsen in spite of the continuing weakness of the franc, White again advocated controls as the preferred solution, but only because the alternatives—further devaluation or import controls—were even less desirable. The "imposition of exchange controls over non-commercial transactions … seems to us now, as it has in the past, to be the best of the bad choices," he wrote to Morgenthau.[33]

This view of capital controls as "the best of the bad choices" was manifest in White's plan for the IMF. As a general principle, White suggested that all of the Allies should be eligible to become members of the Fund, provided that they agreed to "abandon ... all restrictions and controls over foreign exchange transactions with member countries, *except with the approval of the Fund*" (emphasis added). After setting out the rationale for the completely free movement of capital, he noted that there were "times when it is in the best economic interests of a country to impose restrictions on movements of capital, and on movements of goods. ... The task before us is not to prohibit instruments of control but to develop those [controls that] will be most effective in obtaining the objectives of world-wide sustained prosperity" (Horsefield, 1969, pp. 63-64).

IV. Concluding Observations

The overarching message from the archival evidence is that Harry Dexter White played a dominant role in the design of the IMF, not only because he was in a prominent position in a powerful Treasury, but also because he had shown himself to be an innovative, flexibly

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[31] White's terminology for this recommendation was "permanent control with only periodic restrictions." See "Selection of a Monetary Standard for the United States," op. cit., Chapter XVII.

[32] Memorandum from Haas to Morgenthau (drafted by White), "Cause of gold imports, 1934-1935" (November 19, 1935); College Park, Box 1. The quotation is from p. 9.

[33] Memorandum from White to Morgenthau, "What should our answer be to the British Treasury as to our attitude toward further depreciation of the franc?" (April 30, 1938); College Park, Box 2.

responsive, and forward-looking economic thinker. Many of the ideas that he set out in internal memoranda were half-formed and badly in need of refinement, and his own thinking tended to shift and evolve in response to feedback from colleagues and others. Nonetheless, this responsiveness also enabled him to develop fresh solutions that—more often than not—ultimately carried the day.

White's role has long been underestimated and misunderstood. John Maynard Keynes has, of course, always cast a long shadow. Keynes's first biographer observed that the British had tended to think wrongly of White "as some dim scribe, some kind of robot, who wrote … an inferior version of the Keynes plan" for the IMF (Harrod, 1951, p. 537). A later biographer simply gave up trying to understand White's role, concluding that it was, "like almost everything else in his career, mystifying" (Skidelsky, 2000, p. 424).

Closer to home, White's boss, Henry Morgenthau, admired and trusted him greatly (as did Keynes and Harrod). When the Japanese attack on Pearl Harbor drew the United States into the war, Morgenthau immediately elevated White and put him in charge of all international economic policy at the Treasury. "I want it all in one brain," he declared, "and I want it in Harry White's brain" (Blum, 1967, p. 89). In truth, of course, White was no match for the intellect and imagination of Keynes, as he himself well understood. White's insistence on multilateral discussions no doubt in part reflected his personal discomfort at battling *mano a mano* with the great man. When planning the Bretton Woods conference, Keynes pleaded for a bilateral meeting of the U.S. and U.K. Treasuries, whose governments would then become the "founder states" of the new institutions. When White insisted on a conference of all of the allied nations, Keynes whined that it would be a "most monstrous monkey house" of a gathering, from which nothing useful would emerge.[34] In the event, however, White's natural inclination for multilateral negotiation meshed well with his personal desire to maximize his chances of guiding the outcome. The conference of 44 delegations from every continent succeeded in three weeks in creating two institutions, the IMF and the World Bank, that have played key roles in the international economy for sixty years.

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[34] Letter to Sir David Walley (30 May 1944), in Keynes, *Collected Writings XXVI*, p. 42.

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