Harry Dexter White and the International Monetary Fund

Harry Dexter White profoundly influenced both the design of the IMF and its development, yet his important work is not widely appreciated today. The fiftieth anniversary of his death offers an opportunity to review his accomplishments and career.

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BOTH OF the founding fathers of the Bretton Woods institutions died of heart attacks while at the peak of their intellectual powers and before they could see the IMF and the World Bank grow into the pillars of the postwar economic system: John Maynard Keynes (at left in the above photograph) at age 62 in April 1946, and Harry Dexter White (at right) at age 55 in August 1948. Keynes, of course, was not only the preeminent economist of his day but also a cultural icon, as much a graduate of the Bloomsbury Group as of Cambridge University. The fiftieth anniversary of his passing was commemorated by a host of conferences, articles, and books.

White, in contrast, stayed in the background throughout most of his life, and the danger exists that his achievements will be, to paraphrase Abraham Lincoln, "little noted nor long remembered." But, in a more mundane phrase, he certainly had his "fifteen minutes of fame." In November 1953, more than five years after his death, his face was on the cover of *Time* magazine, his name was on the front pages and in the editorial columns of newspapers around the world, and questions about his 1946 appointment as an Executive Director at the IMF led to an ugly battle in which three U.S. presidents—the then incumbent, Dwight D. Eisenhower; his predecessor, Harry S. Truman; and a future president, Richard M. Nixon—became engaged. Understanding what Harry White stood for and what he had accomplished was impossible in those circumstances. The fiftieth anniversary of his death offers an occasion to reassess his contributions.

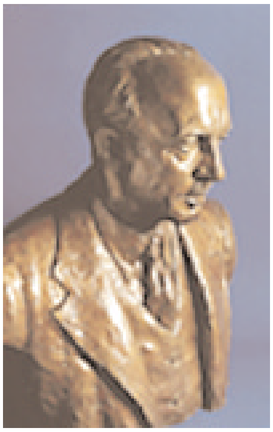
Without question, Harry Dexter White was one of the two great intellectual founders of the IMF and the World Bank. As the chief international economist at the U.S. Treasury in 1942–44, he drafted the U.S. blueprint for the IMF that competed with the plan drafted for the British Treasury by Keynes. The final compromise adopted at Bretton Woods, New Hampshire in July 1944 retained much of the flavor of the White Plan: it defined the IMF not as a world central bank but as a promoter of economic growth through international trade and financial stability. When the IMF began operations in 1946, President Harry S. Truman named White as its first U.S. Executive Director. Since no Deputy Managing Director post had yet been created, White served occasionally as Acting Managing Director and generally played a highly influential role during the IMF's first year. His health deteriorated, however, and he resigned in March 1947 and died of heart failure the following year.

Harry White's path to prominence followed a classic script for success in America. Born in Boston, Massachusetts in October 1892, he was the son of Lithuanian immigrants. As a young man, he worked for a time in the family hardware business and then served in the U.S. Army in France during World War I. Not until he was 30 did he begin serious university studies: first at Columbia; then at Stanford, where he received his first degree in economics; and finally at Harvard, where in 1930 he completed a prize-winning Ph.D. thesis on French international payments in the prewar period. White taught at Lawrence College in Appleton, Wisconsin for a few years until he received an unexpected letter from Professor Jacob Viner of the University of Chicago in 1934. Viner was working on an assignment at the U.S. Treasury Department in Washington, and he asked White to come work for him. White left academia for good and spent the next 12 years at the Treasury, where he eventually became Assistant Secretary.

An American internationalist

As early as 1935, White maintained in his internal Treasury writings that recovery of the U.S. economy from the Great Depression would require a restoration of international monetary stability. On a trip to England that year, he had his first meeting with Keynes and other prominent British economists, men who shared his views on this issue and from whom he gained a sense of the importance of Anglo-American cooperation in monetary affairs. When the United States entered the Second World War in December 1941, Secretary of the Treasury Henry Morgenthau Jr. put White in charge of all international matters for the department. Although White could have more than occupied himself with the complexities of the war effort, he immediately began to look further ahead and drafted the ambitious plan that would restore international stability after the war through the creation of the IMF and the World Bank.

Although White lacked the stature of Keynes, either as intellectual or as icon, he had a strong foundation as an economist. He was not known as a great innovative thinker, and he published very little. Even so, he gained Keynes's respect as a strategist and debater, and his internal writings at the Treasury reveal both a clear understanding of international policy and an ability to explain the issues with unusual clarity. His de facto leadership of the U.S. team at Bretton Woods was essential in determining the form and function of the IMF, and he was a dominant influence on U.S. international economic policy throughout World War II. Nonetheless, it was because of the strength of American economic and political power, not the superiority of White's intellectual powers, that the IMF was shaped primarily by the White Plan rather than the Keynes Plan.



For the most part, White's views on international trade and finance were consonant with those of the Anglo-Saxon economic mainstream of his time. Three themes were important for shaping both the postwar international monetary system and the role of the IMF. First, it was imperative to avoid the mistakes made after the First World War. The world economy must be founded on cooperative competition among nations, not on hegemony or autarky, and economic growth should be given at least as high a priority as stabilization. Second, the international flow of capital should encourage trade and not be allowed to become an independent and possibly disruptive force. White and Keynes agreed on those two points, as did most economists. Third, a multilateral official agency should be established to promote the first two goals. White and Keynes also agreed on that point, but they differed on how strong and how independent the agency should be.

Part of the conventional wisdom about the origins of the IMF is that it was a response to the depression of the 1930s and was designed primarily to prevent a recurrence of global deflation. Certainly the avoidance of ruinous competitive devaluations and of trade and exchange restrictions was uppermost in both Keynes's and White's thinking, but they saw those policy errors as creatures of the 1920s, as the result of the mercantilist debacles that flowed from the Versailles peace conference. Such mistakes had contributed to the depression and then had fed on it, but they would have been just as disastrous if they had led instead to an inflationary spiral.

White saw the avoidance of either deflation or inflation as a precondition for sustained economic growth, as did Keynes. He was no fan of the classical gold standard, but he argued persistently within the U.S. Treasury for a stable monetary standard that the government could manage with some flexibility but that would still link the U.S. dollar firmly to gold. His plan for the IMF placed the dollar and its ties to gold at the center of the international monetary system, in the belief that it would provide a stable anchor for policies conducive to growth. A paper prepared by White and his staff shortly after Bretton Woods linked this proposal directly to the avoidance of the errors of the 1920s and to the new Keynesian consensus. "Long before the [Second World] war," the paper recalled, "the necessary monetary and financial basis for international prosperity had been weakened by competitive currency depreciation, by exchange restriction, by multiple currency devices," and the like. After the war, "only through international cooperation will it be possible for countries successfully to apply measures directed toward attaining and maintaining a high level of employment and real income which must be the primary objective of economic policy."

The second tenet underlying White's design for the IMF was that capital flows had to be controlled, or else they would become an independent and disruptive force against normal trade relations between nations. In contrast to the global economy of the 1990s, international capital flows at that time played only a limited role in supporting trade. White developed his thinking on that point while pursuing his Ph.D. at Harvard in 1930 and writing a thesis on French international trade and finance. His thesis challenged the conventional view that France had raised its national income during the decades before the First World War by running a persistent trade deficit financed by the income from foreign investments. White interpreted the evidence as showing that French investors had systematically overestimated the risk-adjusted rates of return on those investments and that the macroeconomic effects of foreign investment were not necessarily positive. He concluded that his study "supports, in my opinion, the growing belief that capital exports are not always beneficial to the exporting country and that some measure of intelligent control of the volume and direction of foreign investments is desirable."

A decade later, in White's plan for the IMF, the desirability of that "measure of intelligent control" was reinforced by a plea for international cooperation. As he wrote in 1942, "It would seem to be an important step in the direction of world stability if a member government could obtain the full cooperation of other member governments in the control of capital flows." On this point, the Keynes Plan was in full accord: "it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system." To that end, Article VI of the IMF's Articles of Agreement provided that the IMF could "request a member [country] to exercise controls" to prevent the necessity of drawing on the IMF's resources "to meet a large or sustained outflow of capital" and could declare a member to be ineligible to use the IMF's general resources if it failed "to exercise appropriate controls."

Where the two founding fathers differed most was on the third theme: how independent and how powerful should the IMF be? To Keynes, what the world needed was an independent countervailing balance to American economic power, a world central bank that could regulate the flow of credit both in the aggregate and in its distribution. To White, what was needed was an adjunct to American economic power, an agency that could promote the balanced growth of international trade in a way that preserved the central role of the U.S. dollar in international finance.

Because White prevailed in that argument, and the IMF became a dollar-based institution, the Bretton Woods system contained a fatal flaw. For international reserves to keep pace with the growth in world trade required an ever-expanding supply of dollars, which as the economist Robert Triffin observed in the late 1950s was incompatible with the preservation of a stable value for the dollar. The way out of that dilemma was for the IMF to create an international credit instrument to supplement dollars in reserves. Keynes had made such a proposal in his own plan, but White had rejected the idea as being too ambitious. Shortly before his death, however, White drafted a proposal to amend the Articles of Agreement to enable the IMF to create its own reserve assets. That plan was circulated internally at the IMF, but no action was taken on it. Not for another two decades would the idea come to fruition, when the First Amendment to the Articles was adopted and the IMF began allocating SDRs to member countries.

Frustration and decline

The core of White's thinking on these and other economic problems was a belief that cooperation among governments was necessary for global prosperity. The key relationship between the wars had been between the United States and Great Britain, but after the war cooperation with the Soviet Union would be even more important, both politically and economically. One way to promote that cooperation would be to bring the Soviet Union into the IMF, even if its economic principles were opposed to open trade and finance. White's 1942 plan for a stabilization fund stressed that to exclude the Soviet Union from participating because of its socialist economy would be an "egregious error." Despite some resistance from Keynes and others, White succeeded in getting the Soviet Union to participate in the Bretton Woods conference in 1944, but his goal was frustrated when Joseph Stalin decided a year later that the country would not join the IMF. In a paper that White was writing at the time of his death, he lamented the "tensions between certain of the major powers" that had brought "almost catastrophic" consequences, including an "acute lack of confidence in continued political stability and the crippling fear of war on a scale unprecedented and almost unimaginable in its destructive potentialities."

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White's intensely personal internationalism came under heavy criticism in the United States once the wartime military alliance with the Soviet Union against the Axis countries was no longer in force. During the investigations of the McCarthy era, attacks on his motives ranged from the questionable to the bizarre. His meetings with Soviet officials around the time of Bretton Woods were interpreted as espionage. His efforts during the war to hold the Nationalist government in China accountable for hundreds of millions of dollars in U.S. financial aid were interpreted as an effort to undermine Chiang Kai-shek in favor of Mao Tse-tung. His assistance in drafting a plan to limit the reindustrialization of Germany after the war was interpreted as part of a grand design to create an economic vacuum in Europe to be exploited by the Soviet Union.

Whatever mistakes White may have made in these and other projects seem trivial today when set next to the excesses of his enemies and to the personal price that he was made to pay. His spirited defense of his loyalty to the United States and its values, made at hearings before the Committee on Un-American Activities of the U.S. House of Representatives in August 1948, left him exhausted. He died three days afterwards. Five years later, at the height of the loyalty investigations led by Wisconsin Senator Joseph McCarthy, President Eisenhower's Attorney General accused former President Truman of knowing that White was a Soviet spy before appointing him to the Executive Board of the IMF. Although Truman successfully fought off both that charge and a subpoena compelling him to testify on the matter, White was vilified in Congress and in the press. The exposure irreparably damaged his personal reputation. What remains of his legacy is the International Monetary Fund, which still bears his imprint more than any other's. **F&D**

Suggestions for further reading:

J. Keith Horsefield., 1969, The International Monetary Fund 1945–1965: Twenty Years of Monetary Cooperation *(Washington: International Monetary Fund).*

David Rees, 1973, Harry Dexter White: A Study in Paradox *(New York: Coward, McCann & Geoghegan).*

Harry Dexter White, 1933, The French International Accounts, 1880–1913 *(Cambridge, Massachusetts: Harvard University Press).*