CHAPTER 1

Introduction

In late 2008, with the world engulfed in the worst financial crisis since the Great Depression, French President Nicolas Sarkozy and British Prime Minister Gordon Brown each called for a fundamental rethinking of the world financial system. They were joined in early 2009 by Chinese central bank governor Zhou Xiaochuan, who pointed a finger at the instability caused by the absence of a true international currency. Each invoked the memory of "Bretton Woods," the remote New Hampshire town where representatives of forty-four nations gathered in July 1944, in the midst of the century's second great war, to do what had never been attempted before: to design a global monetary system, to be managed by an international body.

The classical gold standard of the late nineteenth century, the organically formed foundation of the first great economic globalization, had collapsed during the previous world war, with efforts to revive it in the 1920s proving catastrophically unsuccessful. Economies and trade collapsed; cross-border tensions soared. Internationalists in the U.S. Treasury and State Department saw a powerful cause and effect, and were determined in the 1930s to create, in the words of Treasury's Harry Dexter White, a "New Deal for a new world."

White, working in parallel and in frictional collaboration with his British counterpart, the revolutionary economist John Maynard Keynes, set out to create the economic foundations for a durable postwar global peace, one that would allow governments more power over markets, but fewer prerogatives to manipulate them for trade gains. Trade would in the future be harnessed to the service of political cooperation by ending shortages of gold and U.S. dollars. Speculators who stoked and profited from fears of such shortages would be shackled by strictures on the frenetic cross-border flows of capital. Interest rates would in each nation be set by government experts, schooled in the powerful new discipline of macroeconomics that Keynes had been instrumental in establishing. An International Monetary Fund (IMF) would ensure that exchange rates were not manipulated for competitive advantage. Most importantly, budding dictators would never again be able to use "economic aggression" to ruin their neighbors and fan the flames of war.

Robust economic recovery in the 1950s and '60s served to make Bretton Woods synonymous with visionary, cooperative international economic reform. Seven decades on, at a time of great global financial and economic stress, it is perhaps not surprising that blueprints for revamping the international monetary system from the likes of hedge fund guru George Soros, Nobel economist Joseph Stiglitz, and policy wonk Fred Bergsten all hark back to Bretton Woods, and the years of Keynes-White debate that defined it.

But can the story of Bretton Woods actually light the way?

To be sure, there were major flaws in the monetary framework that emerged from Bretton Woods, which contributed directly to its final collapse in 1971. Indeed, the life span of the Bretton Woods system was considerably shorter, and its operation more troubled, than is commonly reckoned. It was not until 1961, fifteen years after the IMF was inaugurated, that the first nine European countries formally adopted the required provisions that their currencies be convertible into dollars, by which point deep strains in the system were already manifest. Any successor system will bang up against the same difficult trade-offs between multinational rules and national discretion that bedeviled American and British negotiators in the 1940s. Since 1971 the world's economic statesmen have repeatedly called for the creation of "a new Bretton Woods": the Committee of Twenty in 1973–74, the Group of Twenty-Four in 1986, and the European members of the G7 in 2009, among others. They have all been disillusioned.[1]

Bretton Woods was embedded in a unique diplomatic context, surrounding the political and economic rise of the United States and precipitous fall of Great Britain. On the eve of the First World War the ratio of British debt to gross domestic product was a mere 29 percent;

by the end of the Second World War it had soared to 240 percent. A nation that had in the 1920s controlled a quarter of the earth's territory and population was, in Keynes's words, facing a "financial Dunkirk."[2] The story of the Faustian bargain Britain struck with the United States in order to survive the war would become an essential element in the Bretton Woods drama.

Central to that drama were the antipodal characters of Keynes and White: the facund, servant-reared scion of Cambridge academics, and the brash, dogged technocrat raised in working-class Boston by Lithuanian Jewish immigrants.

Keynes at Bretton Woods was the first-ever international celebrity economist. The American media could not get enough of the barbed, eloquent Englishman, who was both revered and reviled for his brash new ideas on government economic intervention. Keynes had assaulted the intellectual orthodoxy of the economics profession the way that Einstein had done with physics two decades earlier. In his monumental 1936 *General Theory*, Keynes had argued, with his unrivaled wicked wit and self-assuredness, that what governments thought was eternally sound policy was actually reckless when it came to confronting a depression. The key insight, he held, was that the very existence of money at the heart of the economy wreaked havoc with the self-stabilizing mechanisms that classical economists believed to be at constant work. Keynes would apply his insight in the design of a new global monetary architecture, built around a new international reserve currency—one that would be a threat to the global supremacy of the U.S. dollar and which White was determined to keep from seeing the light of day.

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

A piece of British doggerel from the period neatly frames how the country's emissaries saw its plight: "In Washington Lord Halifax once whispered to Lord Keynes, it's true *they* have the money bags but *we* have all the brains."[3] Halifax having been one of many in the British political establishment who failed to loosen the strings on America's money bags, Keynes was sent off to the front lines in Washington and Bretton Woods in the vain hope that, if brains were to be the key to solvency, he might have more success.

No one grasped Britain's dire financial circumstances and needs more acutely than Keynes. He also had an effortless facility with words that might have made him a master diplomat, had he actually been more concerned with converting opponents than with cornering them logically and humiliating them. "That man is a menace to international relations," came one observation—not from an American interlocutor, but from a British war cabinet adviser, future Nobel economist James Meade, who considered Keynes "God."[4] "The lobbying for votes, the mobilisation of supporters, the politics of the lunch and the dinner table were not arts in which Keynes excelled," observed Treasury colleague Paul Bareau.[5]

Keynes struggled both mentally and physically to adapt to the strange circumstance of people, specifically denizens of Washington, D.C., who could be neither swayed by his superior command of facts and logic nor even compelled to get out of the way. The Americans never deviated from their hard-line geopolitical terms—at least until after the war, when Truman's team reshuffled the deck. Keynes frequently compounded the problems of the bad hands he was dealt by playing them inaptly. An astute, dedicated career diplomat would have played off the New York bankers, who were dangling loans in return for British opposition to the U.S. Treasury's monetary reform plans, against FDR's moneymen. But Keynes had a legacy to think of, and his place in the Bretton Woods pantheon was critical to it. The psychological price he paid for his persistence was bouts of a Stockholm syndrome variant, whereby he would persuade himself—and, with his unmatched rhetorical skills, the political class in London—that the American government, for all its intolerable legalism and defiance of reason, truly meant well and would do the right thing by Britain in the end.

The chief barrier to Keynes's blueprint for the postwar monetary order was, at the time of Bretton Woods, still a little-known U.S. Treasury technocrat, one who bristled at suggestions from the skeptical conference press that he might have few ideas save those fed to him by Keynes's *General Theory*. Yet Harry White had, in spite of his carrying no official title of consequence, by 1944 achieved implausibly broad influence over American foreign policy, having even played a critical role in the diplomacy leading up to war with Japan three years earlier.

Grudgingly respected by colleagues at home and counterparts abroad for his gritty intelligence, attention to detail, relentless drive, and knack for framing policy, White made little effort to be liked. "He has not the faintest conception how to behave or observe the rules of civilised intercourse," Keynes groused.[6] Arrogant and bullying, White was also nerve-ridden and insecure. Being wholly dependent on his ability to keep his boss, Treasury Secretary Henry Morgenthau, an FDR confidant with limited smarts, continually rearmed with actionable policies, he was always acutely conscious of his tenuous status in Washington. He often made himself ill with stress before negotiations with Keynes, and then exploded during them. "We will try," White spat out in one particularly heated session, "to produce something which Your Highness can understand."[7]

White's role as the chief architect of Bretton Woods, where he outmaneuvered his far more brilliant but willfully ingenuous British counterpart, marks him as an unrelenting nationalist, seeking to extract every advantage out of the tectonic shift in American and British geopolitical circumstances put in motion by the Second World War. White had a vision of a postwar order antithetic to long-standing British interests, particularly as they related to the empire. What even his closest colleagues were generally unaware of, however, was that White's vision involved a much closer American relationship with a new, rising European power, and that he was willing to use extraordinary means to promote it. Making sense of White's larger agenda is important, not only to grasp why the British found him such a difficult interlocutor, but also to understand why the lurch in American foreign economic policy was as sharp as it was after the war, when Truman shifted its control from the Treasury to the State Department.

White had a long-standing fascination with the Soviet Union, having decided in 1933, shortly after becoming an economics professor at Lawrence College in Wisconsin, to try to get a scholarship to go to Russia and study its economic planning system. He was diverted only by an invitation from Treasury adviser Jacob Viner in June of 1934 to come to Washington for a spell to help him with a monetary and financial reform study. It was there that he met George Silverman, Whittaker Chambers, and others working for the Soviet underground. By as early as 1935, White—idealistic, eager for influence, and dismissive of bureaucratic barriers to action—began the sort of dangerous double life that attracted many of his Washington contemporaries during the '30s and '40s.

Though White's official writings paint him squarely as a Keynesian New Deal Democrat, his private musings put him firmly further left. White envisioned a postwar world in which the Soviet socialist model of economic organization, while not supplanting the American liberal capitalist one, would be ascendant. An unpublished, handwritten essay of White's, newly uncovered in the course of this research, bears this out unambiguously. Written just prior to the end of the war, the piece contains highly provocative commentary on American attitudes toward the Soviet Union that undoubtedly would have led, had the piece been made public, to widespread calls for his dismissal.

"I have seen the future," wrote radical journalist Lincoln Steffens after a trip to Petrograd in 1919, "and it works." By the time of Bretton Woods a quarter century later, White believed that Soviet socialist economics had proven itself a success. "Russia is the first instance of a socialist economy in action," White writes. "And it works!" Much of the animus toward the Soviet Union within the American political establishment was, he argued, political hypocrisy born of an ideological inability to acknowledge the success of socialist economics.[8]

A critical question that must obviously be asked is whether White's Soviet connections actually had any impact on the outcome at Bretton Woods. The broad "White Plan" for postwar monetary reform certainly bore no imprint of Soviet monetary thinking, as there was none to speak of. To be sure, White was notably solicitous of the obstructionist Russians at the conference itself—more so than any of his American negotiating colleagues, and vastly more so than the Europeans, some of whom were angered by it. Yet this meant little in the end, as the Soviets never ratified the agreements. Had White become the first head of the IMF, his views might have been more consequential—we will never know. However, we will see that the primary reason White did *not* become the institution's head—and no American has ever since become its head—was emerging revelations of White's activities on behalf of the Soviets.

Winston Churchill once famously remarked that "we can always count on the Americans to do the right thing, after they have exhausted all the other possibilities." He was ultimately vindicated two years after Keynes's death, and a half year after White's, in the form of the Marshall Plan—an act of extraordinary American statecraft built on the epiphany that Britain was not actually a rival for power, as White had pegged it, but in fact a desperate ally to be bolstered in the face of a growing Soviet threat.

This is the story of the rise and fall of Harry White's blueprint for a new world order, and the vestiges of that fall that we wrestle with today.