

# The Messy Legacy of Harry Dexter White

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**IMPORTANT CONTRIBUTIONS BY ONE OF THE INTERNATIONAL MONETARY FUND'S MAIN FOUNDERS ARE OFTEN OVERLOOKED**

**W**e cannot expect a boy to do a man's job," Harry Dexter White wrote of the IMF just two years after it opened, calling on both it and the World Bank to have the capacity to match their responsibilities. "The job has grown to giant size, while the man to handle it has, figuratively speaking, shrunk to a mere boy."

Had the product of Bretton Woods—which White was so instrumental in creating—really gone wrong so quickly? And if the IMF was not up to the job at the outset, how can we be sure that it will be the right institution to oversee the international financial system in the 21st century?

The first question, of course, is who was Harry Dexter White? The answer has long been an intriguing puzzle. John Maynard Keynes's first biographer, Roy Harrod, put it succinctly: "In Britain, [White] is too often thought of as some dim scribe, some kind of robot, who wrote... an inferior version of the Keynes plan—mainly to vex the British! Far different was the real man. He was a remarkable

figure, who should be accorded an honourable place in British annals." Even in White's own country, the United States, he is frequently portrayed as a junior partner to Keynes and as possibly disloyal to his country, neither of which is true.

White was born in Boston, Massachusetts, in 1892, the seventh and last child of Lithuanian immigrants. His education was interrupted multiple times, as he was orphaned and compelled to work at an early age; he then enlisted as an officer in the US Army and served in France during the First World War. Persevering, he earned a doctorate in economics at Harvard University when he was 40. Soon afterward, in 1934, he accepted a junior position at the US Treasury, where he rose rapidly through the ranks. By the time the United States entered World War II in 1941, he was the Treasury's chief economist.

The Treasury secretary, Henry Morgenthau Jr., asked him to develop a plan for organizing postwar economic and financial relations with the rest of the world. That led to the Bretton Woods conference

in 1944, at which the 44 allied countries adopted what was essentially the White plan as the blueprint for the IMF and the World Bank. In 1946, White became the first US executive director of the IMF, but his health deteriorated rapidly, and he died of a heart attack in 1948.

## Peace and prosperity

White's vision for the IMF was that it would foster international financial cooperation so that countries would be able to trade freely and develop their economies. Perhaps his most famous statement was that "prosperity, like peace, is indivisible." The message to his fellow Americans was that the US economy could not thrive unless people and companies in other countries could buy its output. To ensure that all the allies would support his plan, he insisted that they all have an opportunity to contribute to the design.

Keynes, by contrast, wanted to cook up a deal between the United Kingdom and the United States and present it to the other allies. Keynes feared that a large conference would be a "most monstrous monkey house." White organized a series of meetings for smaller groups of countries before bringing more than 700 delegates together in New Hampshire.

The Bretton Woods conference lasted three weeks. It was not a monstrous monkey house, and it succeeded in creating the two great financial institutions. But White quickly became disillusioned about how well the IMF was equipped to carry out his vision. What went wrong?

What worried White was that neither he nor anyone else at Bretton Woods had imagined that the world economy would grow by leaps and bounds after the war. They had known only depression, volatility, financial chaos, autarky, and war. All they hoped to do was to restore stability and get back to a predepression level of activity.

Within two years, as international trade recovered from depression and war, and as the onset of the Cold War put additional pressure on national budgets, the potential demands on IMF resources were large. The IMF was too small to satisfy them. White responded with a proposal for a new international financial asset he called "trade dollars." It was not enacted at the time, but it was a prototype for the special drawing rights (SDRs) two decades later. Today, the SDR is recognized as a crucial component of the IMF's tool kit for helping countries manage their finances.

The dynamic world economy is not the only factor that has forced the IMF to evolve away from the vision White brought to Bretton Woods. In the 1940s, private sector financial transactions such as international bank loans and internationally



Harry Dexter White, one of the two great intellectual founders of the IMF and the World Bank.

sold bonds were practically nonexistent. They had been decimated during the Great Depression of the 1930s and then further crushed by the world war. The possibility that they might again become important was widely viewed as a hot money threat to economic stability.

White and Keynes agreed that the IMF should discourage countries from being open to capital flows. The Fund's charter specified that countries could borrow from the IMF only to finance trade deficits, not to counteract large capital outflows. It also authorized the IMF to require countries to impose capital controls when necessary. But the global economy changed as it grew. Because bank loans and international bonds became more widely used to finance trade between countries, the IMF eventually reversed course and began urging most countries to open their financial markets to foreign competition. Today, the IMF takes a more cautious approach, recognizing both the benefits of openness and the risks of volatility and loss of control.

## International commerce

White's vision for the IMF was strongly motivated by the ideal of universal participation in international commerce. That was impossible in 1944, because the world was split between the Grand Alliance and the Axis forces in the world war, and most low-income countries were under colonial rule. Part of White's vision was to encourage the enemy countries to join later, once they were ready to accept the terms of membership. That vision was realized gradually, spurred on by the accession of Germany and Japan in 1952. Decolonization led directly to an even greater increase in membership, from 40 countries in 1946 to 190 countries today.

Still another part of his vision was to preserve the core of the Grand Alliance, which was leading the war effort—including the Soviet Union. In an unpublished manuscript written in 1945, White argued that “no major war is possible unless [the United States and the Soviet Union] are on opposing sides... The major task that confronts American diplomacy—and the only task that has any real value in the major problems that confront us—is to devise means whereby friendship and military alliance can be assured between the United States and Russia.”

Within three years, that dream was dashed by the onset of the Cold War. The Soviet Union never joined the IMF, nor did much of the Soviet bloc in central and eastern Europe. Only after the dissolution of the Soviet Union in 1991 was this part of White's vision finally realized.

Although White wanted every member country to have a voice in governance, he also took the very practical view that financial control should be in the hands of the major creditor countries that would be supplying the IMF's financial resources. In the run-up to Bretton Woods, he scorned Keynes's efforts to give debtor countries—especially the United Kingdom—a controlling voting power. At the outset, most of the IMF's usable assets came from the United States, and the US Treasury was by far the most powerful force behind its policies and its work.

To compensate for this level of control, White insisted that the many small and mostly poor members should have at least 10 percent of the voting power. The dominance of large countries has waned over the decades, but the United States and now the European Union still hold the reins. Even though the number of small member countries has risen greatly, their share of voting power has been eviscerated.

Overriding all these issues was the question of the fundamental purpose of the IMF. On that issue,

Keynes and White were in full agreement: the IMF was to be what we would now call a “Keynesian” institution. That is, its purpose was to promote prosperity through sound and effective policymaking and by helping countries avoid actions “destructive of national or international prosperity.”

## Sound policies

Through the years, the most persistent criticism of the IMF has been that it is perceived as promoting austerity rather than economic growth. The IMF's essential defense is that prosperity cannot be sustained unless it is underpinned by sound policies. Countries in economic distress must often undergo short-term pain before they can achieve longer-term success. Keynes and White would both have supported that view, but the question remains as to whether the balance is right: How much pain is needed to get as much gain as possible? Without a séance to reach the ghosts of the intellectual giants, both of whom died young in the very early days of the IMF, we can only speculate on how severe their criticisms might have been.

Finally, what about that charge of disloyalty? During the postwar Red Scare, two former members of the Communist Party of the United States accused White of being a Soviet agent and of passing secret documents to Soviet intelligence. Although the evidence for those charges was always flimsy, they gained credence because the cases against some of White's friends and colleagues were stronger.

Guilt by association was very much in vogue at the time.

White also was suspect because his duties at the Treasury brought him into frequent contact with Soviet officials throughout the war (when the United States and the Soviet Union were allies) and especially in the planning for the Bretton Woods conference. As more recent evidence has accumulated, it has become clear that White was a target of Soviet prying for information, not an agent for their interests.

Throughout his life, White never sought the limelight. Bretton Woods endowed him with a little fame that was greatly overshadowed by that of Keynes. Posthumous attacks badly tarnished his reputation. Ultimately, though, his legacy must rise or fall with the value of his greatest achievement, the IMF. **F&D**

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