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The problem with ‘embedded liberalism’: the World Bank and the myth of Bretton Woods

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Abstract

The Bretton Woods conference is conventionally understood as a radical break between the *laissez faire* order and its 'embedded liberal' successor, in which finance was suppressed in the interest of trade and productive growth. The new institutions, particularly the IBRD are often considered emblematic of this. In response to this, the paper argues that the Bretton Woods order required the enlistment, not repression, of private American finance. Firstly, *laissez-faire* era proposals for international financial institutions provided important precedents for the Bretton Woods institutions. Second, these were predicated on the uniquely deep liquidity of American financial markets following upon Progressive-era reforms, in the legacy of which the Roosevelt administration sought to locate the New Deal. Thirdly, they found new relevance in the 1940s as the IBRD turned by necessity to American financial markets for operating capital. Negotiating the imperative of commercial creditworthiness had two important consequences. First, it entailed the structural and procedural transformation of the IBRD, and allowed management to carve out a proprietary terrain in which its agency was decisive. Second, this suggests that US agendas were mediated by the Bank's institutional imperatives – and that finance was no more 'embedded' during the Bretton Woods era than its predecessor.

Introduction

The literature on the post-war international order is founded upon the notion that the Bretton Woods conference internationalised the New Deal compromise, thereby containing the excesses of the previous *laissez-faire* order. By liberating states from the external constraints of the gold standard era, it is claimed, the Bretton Woods conference marked a key turning point, at which finance was suppressed in the interest of trade and productive growth. While it is commonly acknowledged that the Bretton Woods institutions got off the ground relatively slowly, and the conference itself shaped the postwar order in an indirect and approximate fashion, many have seen the conference and its outcomes as a radical break from the *laissez-faire* tradition in international finance, underpinned by the Roosevelt administration and a broad political coalition against finance. In particular, the legitimacy afforded to capital controls in the post-war settlement is often invoked as the primary feature of the Bretton Woods order in distinction to the *laissez-faire* era. Most famously, Ruggie (1982) has argued that this agenda was institutionalised in a new 'embedded liberal' order.

The concept of 'embedded liberalism' has become a touchstone of our understanding of the Bretton Woods era. It is commonly suggested that an anti-financier agenda was clearly reflected in the fact that the negotiators at Bretton Woods were the representatives of states, while financiers were conspicuously absent (Kapur, Lewis, & Webb, 1997a: 906-7,912). As multilateral international organisations, the Bretton Woods institutions are conventionally considered to exemplify a decisive turn away from the practices of the inter-war period, when international financial and monetary planning was undertaken by private financiers on behalf of national governments. This is not only the case for accounts of the post-war regime – much of the literature which aims to historicise the later neoliberal turn in global governance is founded upon the notion that finance has been 'disembedded' from the apparatus through which the power of financiers was repressed in the Bretton Woods era.

Yet these accounts of the post-war international order rest on surprisingly little evidence. Their principal focus is upon the novel features of the post-war regime such as capital controls. This should not be taken to mean that the policy shifts which are identifiable in the monetary and financial policies of governments on both sides of the Atlantic are insignificant. But this emphasis on national regulations such as capital controls does not help us to understand the nature of the structures of governance at the international level. The key evidence which supports these accounts of the international order is, in terms of the precise mechanisms through which it was governed, essentially circumstantial.

It is not a co-incidence that one of the most striking features of accounts that rest upon the 'embedded liberalism' concept is the way in which the primary agent of the new consensus is often considered to be the IMF – precisely that agency with the remit to manage capital controls. It is clear enough that the planners of Bretton Woods considered that the Fund would play the most prominent role in negotiations around monetary adjustment and the stabilisation of the international economy. Financiers did present robust opposition to the Fund. However, the way in which this is often extrapolated to signify the financially repressive nature of the post-war regime more generally is quite problematic. By focusing on the intentions of national policymakers and the heightened anti-financier rhetoric of the period, these accounts overlook the extent to which the Bretton Woods regime was shaped by the engagement as well as the opposition of financiers.

In this paper, I shift the focus away from national-level policy instruments and the intentions of policymakers to the specific mechanisms of international governance. I argue that an analytical focus on the IBRD allows a different reading of the governance of the post-war order. Through a revisionist history of its foundation I show that the capitalisation of the Bank via private American finance poses a substantial challenge to conventional accounts that claim that the post-war order was predicated upon the suppression of finance in a radical break with the *laissez-faire* era. Rather, the Bank should properly be located in the lineage of private financiers' plans for a multilateral organisation in the inter-war period. This suggests a greater degree of continuity across these periods than the radical break in practices which is conventionally assumed in the 'embedded liberalism' narrative.

Moreover, the broad principles concerning the operation of the new institutions rapidly proved too vague to direct practice concretely. Ultimately, private American capital markets were the only source from which the Bank could obtain operational capital in sufficient volume, and commercial creditworthiness became an institutional imperative. This does not imply exchanging US dominance for financiers' dominance of the institution. Negotiating this financial imperative successfully – getting the Bank up and running on a sustainable basis - would entail the pragmatic transformation of the managerial relationships and operating procedures with which the Bank had begun life. In the course of this process, the Bank's management was able to carve out a proprietary terrain in which their agency in setting policy and procedure was decisive – within the parameters set by the Bank's social anchoring in American finance.

The necessity of enlisting American finance in the operationalisation of the IBRD constituted an institutional legacy with profound long-term implications for the governance of the Bretton Woods regime. It is these critical institutional features of the post-war international order which are not captured by the 'embedded liberalism' narrative, which as a result provides a curiously impressionistic account of the infrastructure of governance which would come to define the era. Therefore, in what follows I explore the construction of the terrain of managerial agency in the Bank that enabled it to negotiate the imperative of commercial creditworthiness that constituted the parameters of its pursuit of US interests. I trace the development of this critical managerial capacity in three steps.

In the first section I review the existing literature which constitutes the 'embedded liberalism' narrative. I argue that the main problem with it is the circumstantial nature of the evidence upon which it rests. Further, by characterising the Bretton Woods regime as a decisive break with the practices of the inter-war period, it obscures the longer lineage of precedents for the Bretton Woods institutions which is to be found in the era of *laissez-faire* liberalism. The parameters within which a new international regime could be operationalised during the 1940s precluded a radical break with the material resources of private finance. Plans put forward by private financiers for multilateral international financial institutions during the 1920s constituted intellectual and pragmatic touchstones upon which the Bretton Woods planners would draw. This suggests that the demarcation of the two regimes is conventionally overdrawn.

In the second section I explore the relationship between the Bank and private American finance in the passage of the Bretton Woods Act. Wall Street's apparent opposition to the new institutions is a central feature of the 'embedded liberalism' narrative – yet this centred upon the Fund rather than the Bank. It was envisaged from the outset that the IBRD would have a close working relationship with private US capital, and it followed that of the two institutions it was the Bank which emerged the stronger from Congressional negotiations over the Act.

Finally, I show how the nuts-and-bolts of the roles and relationships of the institutions of post-war governance were worked out pragmatically in the course of the Bank's earliest operations as it turned, under pressure from the Truman administration to begin lending, to the US bond market for operating capital. Negotiating the institutional imperative of commercial creditworthiness this bequeathed would, I illustrate via a discussion of the transition from the management of President Meyer to President McCloy and the 1947 loan to Chile, shape the organisational structure, policies and practices of the Bank from the outset.

Ultimately, financiers' enlistment was essential for the successful operationalisation of the IBRD. This matters for our understanding of the post-war international economic regime because it illustrates that from the outset, far from repressing finance and embedding it anew in wider social purposes or subjecting it to public agendas, an infrastructural relationship existed which connected the Bank and private US finance at the heart of the Bretton Woods order.

1: A Break with Liberal Tradition in International Finance?

That the problems faced by the US in creating a new international order after WWII reflected those it had faced after WWI has been widely noted (Thorne 1978, Orde 1990), as has the dogged continuity of the American liberal political tradition by comparison to social-democratic trends in Europe (Rodgers 1998, Ruggie 1982: 405-6). These observations are complemented by a deeply-rooted narrative which mythologises the Bretton Woods order as an historic compromise which rested upon the willingness of the US to trade international capital mobility off against a liberal multilateral trading order. This narrative conceptualises Bretton Woods as a 'breakpoint' in history (Ikenberry 1989, 1992) in which the failure of *laissez faire*, the novel political importance of working class groups, and mainstream engagement with Keynesian macroeconomics combined to facilitate an historic compromise agreement which reflected both the novel political alliances and ideals of the age and depended on a radical break with the liberal tradition in international finance (Peet 2009: 36-57; Abdelal 2006: 2, Harvey, 2005: 20). Private finance, it is suggested, was replaced at the heart of the international order with public institutions and the power of states. This narrative draws upon the 'embedded liberalism' thesis, which begins with a tectonic intellectual shift between the inter-war and post-WWII periods.

The central claim of this thesis is, as expressed by Helleiner, that the Bretton Woods conference represented the *'culmination of a long Polanyian "countermovement" against the liberal financial practices of the nineteenth century.'* (1995a: 151). Ruggie claims that at this juncture a profound re-balancing of the relationship between markets and authority was effected, visible in common - though uneven – commitments to domestic interventionism among the major economies (1982: 388). This 're-balancing' demanded an international institutional formula to stabilise the domestic consequences of external developments and *vice-versa*. In a radical departure from the economic nationalism of the 1930s *"...it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism."* (1982: 393).

Both Helleiner and Ruggie argue that the 're-balancing' at the heart of the post-war regime should be understood as a trade-off. For Ruggie, in order to cement its role as a hegemon in the new institutional framework, the US made substantial strategic concessions. That a multilateral trading order emerged which reflected the objectives of the Roosevelt administration's liberalisation agenda in trade and monetary policy (1982: 397-8; 1983: 432) is testament to the 'extraordinary' power and perseverance of the US. Most importantly, it was due in significant part to their acceptance of capital controls. Likewise, Helleiner follows Gardner's claim that US Treasury planners sought to *"...make finance the servant, not the master, of human desires..."* (1980:76). Ultimately, Helleiner argues that we should conceptualise the post-war regime as a trade-off between US power and wider social purpose in which finance was repressed (1994, 1995a&b, 2014).

The evidence which supports the central claim of the 'embedded liberalism' thesis is surprisingly weak. Firstly, it operates most effectively at the national level of analysis. For example, Helleiner points out that from the early 1930s, national treasuries assumed greater control over monetary affairs at the expense of national reserve banks and private financiers. Capital controls became the norm outside the US alongside full financial planning by 1939. Although the US did not deploy them, it accepted and supported them elsewhere. Increasing restrictions on movements of capital are, Helleiner suggests, the key identifier of the social 'embeddedness' of the post-war order - the better to protect the societies of national capitalist states from the previously superordinate imperatives of the global marketplace. They were legitimated by balance of payments crises in recovering European economies in 1947 occasioned by attempts on the part of New York's banking community to enforce convertibility (1994: 52-8). This focus on national-level policy dynamics conveys very little concrete material on the specific mechanisms of international governance.

Secondly, it rests heavily upon the intentions and rhetoric of the policy actors of the era – concerning both ostensibly anti-finance aspects of the Roosevelt agenda, and the ostensibly anti-Bretton Woods pronouncements of the Roosevelt administration's alleged antagonists, the financiers of New York. Helleiner notes that the financiers of New York were popularly held responsible for the 1929 crisis and the ensuing depression. As a result, the Roosevelt administration sought to break the Morgan empire and reverse financial consolidation through government regulation (Helleiner, 1994). Following Block (1977: 54), Helleiner emphasises US bankers' opposition to the Bretton Woods Act. Given their failure to prevent the foundation of the new institutions, he claims, the balance of power in international finance was tilted decisively away from the market in favour of the state (1995b:318). Again, this illuminates the discursive character of the politics of the era but does not present substantive detail concerning how the new regime of governance would work in practice.

The most surprising feature of the evidence marshalled in support of the 'embedded liberalism' thesis is the extent to which the Bretton Woods institutions themselves are a marginal feature of the analysis.[1] This is particularly so given that Ruggie notes that flows of social overhead capital were dominated by public institutions until, following 'evolving' patterns of production and trade, these liberalised from the later 1950s onwards (1982: 403-4). However, his account does not go into further detail on the role played by the international financial institutions in the new regime – indeed, the IBRD appears only in footnotes (1982: 398 footnote 54), following brief discussion of the IMF. Given the emphasis this narrative places on capital controls, it appears logical that, as the overseer of the international financial regime, the Fund was the principal target of the New York financial community's opprobrium (Helleiner 1994: 44-9). On this basis, at first glance it seems plausible that the passage of the Bretton Woods Act in the face of financiers' objections constituted a defeat for Wall Street – lending greater weight to the 'embedded liberalism' thesis (49, 53).

But as Chwieroth has shown, this focus has contributed to a profoundly distorted assessment of the legacy of Bretton Woods and the development of the post-war regime. It was the IBRD, he notes, not the IMF, which was the most important element of the post-war liquidity architecture prior to the Marshall Plan (2006).

It was the Bank, not the Fund, which emerged the strongest from Congressional negotiations over the Bretton Woods Act. And neither of the new institutions was immediately capable of playing the roles their architects had imagined. Focusing on the specific practices of international governance casts the features of the Bretton Woods order in a different light to that reflected from the familiar circumstantial evidence of capital controls and treasury financial planning.

The Truman administration was eager to get the Bank up and running, and pushed hard to begin lending, particularly in South America, after the ERP had displaced the Bank from the provision of balance-of-payments support. Yet the Bank was rapidly financially

[1] In his most recent work, Helleiner (2014) has addressed this gap, and begun to move away from the conception of Bretton Woods as a radical break as exemplified in the 'embedded liberalism' literature discussed here.

exhausted – few of its members had paid in the funds they had initially committed. The US could not simply have pumped the new institution full of public funds in order to promote its role in offsetting European balance-of-payments deficits without wrecking the multilateral weighted voting mechanism - one of the few concrete organisational matters agreed at the conference.

Operationalising the Bank on a sustainable basis necessitated turning to private capital markets for operational funds – in line with the original conservative vision for the Bank. This necessity rooted the Bank socially in private American finance, with immediate implications for its management, organisational structure, and lending practices. These are neither explicable through recourse to the power of the US, nor via the emergence of a 'project culture' internal to the Bank as suggested by Chwieroth (2008). Simultaneously, the institution's relation to US agendas was re-cast: the imperative of commercial creditworthiness would, as I will show, mediate the operationalisation of the US agenda which the Bank would otherwise have pursued in a more straightforward fashion.

This poses a challenge to the 'embedded liberalism' narrative because it illustrates that finance was integral from the outset to the institutional mechanisms through which the developing post-war order would come to be governed. In drawing upon Polanyi's 'double movement', the 'embedded liberalism' narrative compartmentalises the Bretton Woods and *laissez-faire* regimes as though separated by an historic ideational and strategic watershed. But finance was not 'embedded' anew in social purpose in the Bretton Woods institutions in a Polanyian 'double movement' as a counterpoint to the *laissez-faire* regime.

By developing a longer historical perspective in the remainder of this section, I situate the IBRD in the ideational and practical lineage of proposals for multilateral international financial institutions at the inter-war conferences in Brussels and Genoa. This should not be taken to mean that New Deal-era trade-offs on capital controls and the softening of gold-standard discipline through a fixed-but-adjustable monetary regime were unimportant, that the Bretton Woods conference was not a significant moment in the gestation of the post-war regime, or that Bank lending was not dwarfed by Marshall Aid.

Rather, I claim that instead of exemplifying the distinction between the two eras, the ideas for multilateral financial institutions which were floated during the inter-war period by private financiers illustrate a surprising continuity. These plans constituted a conservative, pragmatic foundation upon which the Bretton Woods planners drew in founding the Bank.

Inter-war Precedents for the Bretton Woods Institutions.

New Deal policymakers faced a similar dilemma to their Republican predecessors. Maintaining the stability of the currencies at the core of the global economy during the 1940s still, as in the 1920s, required the US to either increase the volume of goods imported from Europe and South America and sacrifice its own export surplus, or continue liquidity injections to Britain and Europe (Frieden, 1988). As the political cost of a balance of payments adjustment seemed too high, the latter strategy persisted – and inter-war proposals for a supra-national institution to mobilise the savings of the advanced industrial economies found new relevance.

That their salience often goes un-remarked is largely due to the emphasis the embedded liberalism thesis places on the ideological shifts of the 1930s and machinations over direct political access during the development of the institutional apparatus of the New Deal state. Financiers' proposals are conventionally understood as efforts to perpetuate the 'dis-embedding' of finance, as they were intended to support a gold-standard regime. By comparison, such narratives point out, the Bretton Woods negotiations were undertaken by civil servants and public intellectuals – bankers were not invited, and the objective was to promote public finance to a leadership role in international investment at the expense of private finance.

Yet the IBRD was initially conceptualised as a mediator between private financiers and member states, offering guarantees rather than lending on its own account. This should not be read as a significant departure from the visions of multilateral international financial organisations mooted by private financiers during the inter-war period. These may have failed to establish a new supra-national institution but their legacy may be seen in early conceptions of the IBRD as an institution which would serve to guarantee private capital. It may also be seen in the qualified enthusiasm of New York's financial fraternity for the IBRD in comparison to the much-derided IMF, as well as the form into which the governance structures and lending practices of the IBRD would develop in operation. The ideological shift within the Democratic political alliance should not be afforded privileged causal status in an account of the development of the policies and practices of the IBRD - private finance was as much a part of the Bank's DNA as the New Deal.

Three proposals made prior to the Dawes Plan by private financiers acting in quasi-official capacities are instructive in this regard. Two came at the 1920 League of Nations conference in Brussels. The first was the Delacroix plan. This proposed an international institution in which executive power would be delegated to a dedicated managerial staff. Like the Bank, it would be governed by a board of between five and nine members elected for terms of five years by member governments, whose voting power was determined by the size of their shareholding, at an annual meeting. But this managerial power differentiated it from the Bretton Woods blueprint, which vested day-to-day authority to execute operations in the board of governors. Instead, management would have the capacity to issue bonds and grant advances, loans, and credits to members; to negotiate, take legal action, and regulate the use of its own capital. Members would apply directly to management for loans, which would then undertake general assessments of creditworthiness which would govern operational considerations (Oliver, 1977). As I will show, the IBRD's rapid adoption of this model of governance was key to its establishment as a viable agency in the post-war regime.

The second proposal, from Dutch banker C.E. Ter Meulen, also aimed to mobilise private finance to overcome the international liquidity shortage and stimulate production and trade. Adopted by the League of Nations from 1921-22, it anticipated the macro-economic policy conditionalities of IBRD lending – and as in the eventual operations of the IBRD, the security of the private creditor was paramount. A central international commission of financial experts was appointed as an adjunct to the existing bureaucratic infrastructure of the League of Nations. Borrowing governments offered assets and government revenues as securities to back interest-bearing bonds. These provided temporary security to the private financial backers of foreign export firms before being returned to the government at the close of each transaction (Orde, 1990), while the commission of experts required borrowing governments to commit to austere fiscal policy to ensure repayment (Oliver, 1977: 34).

Thirdly, at the 1922 Genoa conference, a 'Central International Corporation' was proposed, to replace the Ter Meulen arrangements. This would - anticipating the IBRD's Articles of Agreement – supervise lending for specific reconstruction projects. These would be undertaken by nationally-based private financing corporations, guaranteed by national governments against specified assets (Oliver, 1977: 10). Anticipating the New Dealers' vision for the Bank, the conference envisaged that through the central institution, private finance would play a key role in investment - flowing '*freely from countries where there is a surplus lending capacity to countries which are in need of external assistance.'* (Mills, 1922: Appendix V).

However, these privately-sponsored efforts to create formal institutions to facilitate international financial flows foundered in the post-war climate. Infringements of national sovereignty appeared too great and financiers doubted European creditworthiness – while the US, the most important source of private finance, rejected a supranational institution outright.

New financing for Europe was ultimately arranged in the form of the Dawes Plan, via J.P. Morgan, on the basis of negotiations conducted by a committee of American and European financial luminaries, assembled at the behest of the US State Department (Parker-Gilbert, 1926: iii). As a prominent American businessman noted, the Dawes Commission brought the world *'to the realities the politicians had so long hesitated to reveal'* (Scattergood, 1924: 24).

These 'realities' reflected the fact that the US financial system was the only viable source of liquidity for the international system. As with its predecessors, it sought to support a return to the gold standard by facilitating direct popular participation in private financing. By comparison, the embedded liberalism thesis contends, the Bretton Woods institutions were predicated upon the displacement of private finance by public finance, both at negotiations and in the capitalisation of the new institutions.

But in casting Bretton Woods as a return of state power to the international arena at the expense of finance these accounts tend to overlook the fact that the IBRD, as the senior institution during the immediate post-war period, rapidly proved reliant upon private American finance. The reality of the 1920s was also a reality of the 1940s: as I discuss below, it was initially anticipated that the IBRD would simply offer guarantees – linking willing borrowers with willing private lenders. The parameters within which a new order could be elaborated were delineated by a substantially similar set of constraints: in this sense, whether New York's bankers were invited to the conference or not was immaterial. Confronted with the limits to the capacity of member states hobbled by inconvertible currencies to provide public finance, the new institutions would be forced to turn again to the unique institutional capacities of the private American financial system.

2: Finance and Bretton Woods: 'Natural Enemies'?

In this section, I turn to the issue of financiers' relationship to the Bretton Woods proposals. Helleiner has argued that the Bretton Woods institutions were founded in spite of New York bankers' opposition (1994: 39-44). The official history of the Bank argues that US commercial banks feared the creation of any institution that could compete with them (Mason & Asher 1973: 16). Eckes described bankers as 'natural' enemies of the Bretton Woods institutions (1975: 165), allied with a wide conservative group including the Wall Street Journal, New York Times, and Chicago Tribune; and a vocal contingent of the Republican Party. For Ruggie, financiers' resistance suggests that that they were 'embedded' in a novel conjuncture in which state policy expressed more broadly socially-legitimate interests in respect of which they aimed to construct an international regime based upon Fordist production and free trade (1982).

It is clear enough that during the New Deal era the zeitgeist remained anti-financier or perhaps more accurately, anti-J.P. Morgan. Successive Congressional hearings into collusion in the financial industry revealed further corruption and monopoly in private banking by the agents of the House of Morgan (Carosso, 1970, 1973). Accordingly, the Roosevelt administration was determined to be seen to break up the close relationships between the Federal Reserve System and Wall Street, to protect investors through the foundation of the Securities and Exchange Commission, and to undermine the House of Morgan's hold on the financial system at large by enforcing the separation of deposit-taking commercial banking operations from investment banking under the terms of the Glass-Steagall act.

However, as I shall illustrate in this section, financiers' opposition to the Bretton Woods Act centred upon the Fund rather than the Bank. Firstly, the blueprint for the Bank discussed at Bretton Woods and endorsed by architects of the New Deal envisaged a close relationship between the Bank and private American capital. Secondly, it was the Bank that emerged from Congressional negotiations over the Act as the stronger of the two institutions, and it was the Bank which had an organic link to private finance. I turn first to the myth of the antagonism between private American finance and the Bretton Woods regime.

The Myth of Bretton Woods

Treasury Secretary Henry Morgenthau's closing address to the final plenary session of the Bretton Woods conference has passed into the lore of the New Dealers' supposedly idealistic approach to the post-war order. The purpose of the Bank was to *'...to provide capital for those who need it at lower interest rates than in the past and to drive the usurious money lenders from the temple of international finance.'* (Kapur, Lewis, Webb, 1997: 912). Extensive use of this quotation is a recurring feature of the mythology of Bretton Woods as the foundation of the regime of 'embedded liberalism', and it is often cited as the exemplar of the Roosevelt administration's wider hostility to finance.

It is interesting to note the extent to which these ostensibly 'anti-finance' elements of the New Deal have been mythologised in order to situate the Bretton Woods institutions in the narrative of a radical break with the practices of the 1920s that underpins the concept of 'embedded liberalism'. As I noted above, the quotation from Morgenthau's closing address to the Bretton Woods conference is frequently deployed to this end. Yet it is extremely surprising that it is conventionally distorted through paraphrase, or slightly but crucially misquoted, divorced from its context in the remainder of his speech (1).

As Brett Christophers notes, the word 'only' is omitted from its position in the famous quotation (Christophers, 2013: 154-5). It is worth quoting this remarkable passage at length, as it appears in the minutes of the final plenary session on the 22nd of July 1944:

> *The chief purpose of the Bank for International Reconstruction and Development is to guarantee private loans made through the usual investment channels. It would make loans only when these could not be floated through the normal channels at reasonable rates. The effect would be to provide capital for those who need it at lower interest rates than in the past and to drive <u>only</u> the usurious money lenders from the temple of international finance. For my own part I cannot look upon this outcome with any sense of dismay.* (United States Government, 1948: 1118-9) (My emphasis).

Morgenthau praised the Bank's role in support of finance – the IBRD would, by offering guarantees, complement private capital and facilitate the expansion of investment beyond its contemporary limits on a sounder basis than during the inter-war boom. This should be seen in the context of the effort to break the Morgan monopoly in the form of the 'money trust', to which he alluded in the same speech: *'Capital, like any other commodity, should be free from monopoly control, and available upon reasonable terms to those who will put it to use for the general welfare'* (United States Government, 1948: 1119).

It had been understood in financial circles for some time before the Bretton Woods conference that the future of the international monetary system would not look the same as the past. Behind the 1932 New Deal programme of financial regulation, expansionary domestic monetary policy, devaluation, and the protectionism of the National Recovery Administration stood industrialists, farmers, oil companies – and major anti-Morgan financial interests including newer firms such as Brown Brothers Harriman, Goldman Sachs, Lehman Brothers, the First National Bank of Chicago, and Dillon Read. Among these younger houses, outrage had grown at the way in which veteran institutions such as Kuhn, Loeb and the House of Morgan could exploit cosy relationships with the FRBNY to manipulate interest rates in support of their own commercial concerns (Frieden, 1988). While many deplored the Roosevelt administration of 1933, by 1937 they were eulogising Democratic policy as incorporating the best of the old gold standard while offering the potential to achieve new conditions for profitable investment (Fraser, 1936).

As the impact of New Deal reforms was felt from 1935, the Roosevelt administration also garnered the support of established financial houses including the Warburgs, Rockefellers, and J.P.Morgan. Previously associated with older labour-intensive industrial concerns in steel, textiles, and coal, these veteran institutions had earlier sought protection from European and Latin American competition behind tariffs and bilateral treaties (Ferguson, 1984). Reflecting this pragmatism, and in view of the fact that the war had turned the US into a net creditor, investment and commercial bankers who had previously supported the Republican party's combination of aggressive nationalism and *laissez-faire* international monetary and financial practices had begun to find that their greatest interest lay in a multilateral trading system and advocated lower tariffs with a view to rendering their investments in capital intensive industry more productive. As the recovery gathered pace, the shared interest of industry and finance in traditional liberal international political economy was disappearing.

For all that the Glass-Steagall act had altered the institutional makeup of the financial system and the new Securities and Exchange Commission policed the financial markets, financiers were integral to the social compact which supported the New Deal. As Martijn Konings has suggested, contrary to the embedded liberalism thesis, such instruments sought to harness, not to negate, the power of finance in the service of the New Deal as the inheritor of Progressive tradition (Konings, 2011).

The institutions under discussion at Bretton Woods did not represent an attempt to break with this compact. Rather, the IBRD in particular was conceived as an attempt to harness the unique capacity of the private US financial market to deliver the capital the international system required. It is in the context of financiers' support for the New Deal and against the longer background of the deepening social importance of finance that we should view the foundation of the Bretton Woods order, to which I now turn. Enlisting financiers' support would prove essential to the passage of the Bretton Woods Act through Congress.

Passing the Act

The passage of the Act through Congress in spite of financiers' opposition is generally taken to mean that financiers' interests were not served by the new regime. Certainly, many bankers found their position threatened in the international system envisaged in these plans and criticised them bitterly. However, as I noted above, their opposition centred on the IMF: in drafting its articles, British and American officials sought to create a system where capital controls would be the norm. Further, balance of payments lending through the IMF could potentially see state capital supplant private capital. While opposed to the IMF, Eckes' 'natural enemies' treated the Bank as relatively uncontroversial (Mason, Asher, 1973: 34). It is striking that the institution that emerged from Congress the strongest was precisely the institution that would be capitalised by private American capital.

Financiers' lobbying targeted State, Treasury, and Commerce Departments; the new Securities and Exchange Commission, the Export-Import Bank, and the Board of the Federal Reserve, between April 1942 and January 1944. Their pressure told: a series of potential revisions to the Act were proposed, on the basis of which it was concluded that the new institutions would co-operate with private financiers to facilitate flows of private portfolio investment where this would not occur under normal market conditions.

This was reflected in a January 1944 question-and-answer document shared with foreign representatives ahead of Bretton Woods – with strong echoes of the Delacroix and Ter Meulen Plans. Investment capital should be provided by private investment channels supported by Bank guarantees, and only supplemented through Bank participation in loans, or 'encouraged' through direct lending. From this point onwards, the Treasury's concept of the Bank reflected financial concerns and aimed to encourage private capital to invest overseas by offering guarantees – its primary function should be to share private risk, with direct lending as a secondary strategy (Mason, Asher, 1973). Most importantly, like the Dawes committee, it was thought that the new institutions would be temporary measures aimed at creating a sound regime for international trade (Oliver, July 11th 1961: 57).

The Bank was less controversial among financiers from the outset. Initially, the New Dealers' vision was that the Bank would function firstly as a guarantor and only secondarily as a cautious lender based on its paid-in capital. White had always intended that as far as the Bank was concerned '*The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors in large ventures.'* (Gwin in Kapur, Lewis, Webb, 1997b: 197) For Aron Broches, one of the first members of the Bank's legal team *'there was no idea...that the Bank would supplement its paid capital by borrowing in the market so much as by guaranteeing loans made by others.'* This had been a matter in which he felt there had been clarity from the outset: it had been strongly anticipated that although it *'... would make loans out of its paid-up capital, but the principal activity would be to guarantee loans made*' (Oliver, July 11th 1961: 5)

The American Institute of Banking (AIB) particularly welcomed the Bank's support to private lending through its guarantee role. Due to the reputational damage incurred during the debacle of the foreign bond boom from 1924-9 they considered that the Bank would likely have a 'wholesome' effect on the volume and quality of international investment (AIB, 1944). It could be particularly useful in preventing the excessive extensions of credit at the root of the foreign bond defaults that remained outstanding in 1944. This view was shared by the American Bankers' Association (ABA), and the US Chamber of Commerce's Finance Department: by overcoming the antagonism between Wall Street and South American clients that had endured since the onset of the Depression, the Bank could play a major role in re-establishing profitable conditions for international investment.

On the other hand, they argued that the Fund should be deferred. Financiers' opposition took a familiar form – around the same arguments that had confounded the Delacroix and Ter Meulen plans: the contravention of national sovereignty, and potential to cause inflation. During the 1945 Congressional hearings, a loose coalition of isolationists, Republican business-people and laissez-faire conservatives began to coalesce around the argument that the Fund was little more than a trick by which governments would be allowed to avoid responsibility for enacting unpopular internal adjustments (Ferguson, 1984). This group, allied with prominent figures in the American financial community who had previously supported the Roosevelt administration, lined up in favour of supplanting the Fund with a stabilisation programme akin to the 19th century form of the gold standard (Eckes, 1975: 174).

Their alternative was formulated by John H. Williams, vice-president of the FRBNY. By stabilising the dollar and sterling, international trade and finance could be organised without any kind of international governing body. Re-opening the City of London as an international capital market could reduce the strain on the scarce dollar and facilitate European-US trade. To this end, Britain should be offered significant dollar funds in either credits or aid grants (Williams, 1943). The system simply needed enough capital.

The bankers' argument was sound. Britain was obliged under the IMF's Articles of Agreement to eliminate payments discriminations and return to multilateral convertibility, and desperately needed funds to stabilise sterling. Failing to provide this capital would, they noted, threaten the dollar-based blueprint for the post-war era: Parliament would have been unlikely to ratify the Act if faced with the prospect of competing for dollars with other Fund members.

A loan of $3.75bn and a $20bn write-off of wartime assistance followed this realisation – effectively instituting the core of the Williams Plan. Although these agreements failed to secure the multilateral convertibility of sterling, they reflected an unavoidable systemic imperative. In garnering support of both Britain and the New York banking fraternity (Mikesell, 1994), they made a major contribution to the realisation of the Bretton Woods regime.

Passing the Act required a further trade-off between the Roosevelt administration and financiers. The ABA, the Association of Reserve City Bankers, and the Bankers' Association for Foreign Trade argued that the agreements to stabilise sterling should be allied to the merger of the Fund and the IBRD (Bitterman, 1971). A narrower mandate, they suggested, would protect the Fund from exhaustion in relief and reconstruction (Chwieroth, 2006).The Roosevelt administration preferred to avoid this, and aimed instead to establish an interdepartmental committee to formulate US policy towards both institutions. Crucially, to avoid accusations of undue financial influence, while the chairman of the Federal Reserve would be a member, representatives of the FRBNY were to be excluded due to their long association with the Morgan empire.

A pragmatic compromise was struck which sealed the matter. The ABA dropped demands for a merger and accepted the new committee in exchange for a commitment that the Treasury would seek an official interpretation that the Bank could lend for short-term stabilisation purposes in lieu of the Fund (Eckes, 1975). Financiers' pressure had successfully downgraded the Fund, and transferred its most immediately significant function to the IBRD – which, they considered, would be useful in restoring the international financial markets as a forum for profitable investment.

Ultimately, as Chwieroth (2006, 2008b) has observed, the Bank emerged as the most important aspect of the international liquidity architecture prior to the ERP. Financiers were now enlisted to the cause of the Bretton Woods institutions. According to Chwieroth (2008), the impact of this would be seen across the period from 1949-1960 as the professional practices and intellectual norms of financiers were adopted by entrepreneurial IBRD managers who were increasingly recruited from Wall Street.

However, while the development of a distinctive organisational culture is a key identifier of the importance of financial practices, I argue that the enlistment of financial support had more immediate consequences. Drawing on this source of support would not confer relative autonomy on Bank management, as Chwieroth suggests. Rather, as I illustrate in the following section, it would bequeath to the new institution an imperative which would delineate the parameters within which Bank management could act in pursuit of US agendas. The salience of this financial imperative was rapidly clarified even earlier than 1949: the demands of commercial creditworthiness shaped the development of a viable institutional structure and its lending practices.

3: Negotiating the Imperatives of American Finance: Operationalising the Bank.

In what remains of the paper, I argue that the process of making the Bank operational was directed most importantly by pragmatic concerns. The exigencies of capitalisation necessitated major organisational and procedural transformations, and in this way, the enlistment of private US finance in support of the IBRD created an institutional legacy of lasting significance for the governance of the international order.

Operations were intended to begin by the end of 1946: the Truman administration was eager to get the Bank up and running quickly. Even before the Point Four agenda, the ambitions of the US in this regard posed significant problems for the originally preferred model of the Bank as a guarantor linking private capital with willing borrowers. The IBRD would instead have to become a lender on its own account. At first glance, this might suggest a turn away from the lineage of financiers' inter-war proposals in the direction of multilateral public finance as suggested by the 'embedded liberalism' narrative. But as I show in this section, would require two key shifts which had the effect of anchoring the IBRD more securely in private American finance.

First, the Bank could only become a lender if it were first capable of borrowing in private capital markets – it would retain an organic connection with private finance. Secondly, negotiating the imperative of creditworthiness would require shifting responsibility for the operation of the new institution away from members' representatives to a dedicated managerial staff who would not, as the Bank's new creditors had it, be swayed by 'political' agendas. The parameters of creditworthiness thus emerge as analytically prior to both US agendas and bureaucratic culture. Within these parameters management agency in defining the organisational structure and lending practices of the Bank would become decisive.

As I have discussed above, the Roosevelt administration had anticipated that the relationship between US finance and the IBRD would be a close one. Yet three problems beset the preferred conservative model of the Bank as a facilitator of sovereign private borrowing. First, and most importantly: simply guaranteeing private borrowing would not have increased the volume of globally available financial resources. Secondly, it had the potential to crowd the Bank itself out of the bond market were it to undertake the limited direct lending operations originally envisaged. Worse, costs to borrowers may in any case have varied among applicants on the basis of their creditworthiness. Further, Daniel Crena de Iongh (the Bank's future treasurer), noted that if offerings were quoted at different prices, all the while backed by the IBRD's 100% guarantee this may have damaged the creditworthiness of the Bank itself (Oliver, 1st August 1961, in Mason, Asher, 1973: 107). As a consequence it was impossible for the Bank to act as a guarantor linking private capital with willing borrowers.

Instead, by contrast with highly conservative vision that Roosevelt's officials had originally laid out for the Bank at Bretton Woods and which had won the support of New York's financiers, the Bank would have to lend on its own account. The Bank, Treasury Secretary Snyder insisted, would assume the principal responsibility for reconstruction financing – replacing the UNRRA and the Export-Import Bank. In fact, the US government repeatedly stated that a total of $15 billion would be made available between the two Bretton Woods institutions – which would satisfy the needs of Europe and any further applicants (Gardner, 1980).

Accordingly, in March 1946 at the Board of Governors' first meeting in Savannah, the Executive Directors' (EDs) expectations of what the Bank would achieve were extremely high. As the senior institution, they anticipated that the Bank would have $10bn at its disposal (Oliver, 1st August 1961: 13-14). By the middle of 1947, positive progress had been made, and $8 of the $10 billion authorised had been officially subscribed.

Yet this sum was only available on paper: the amount of capital that had been successfully paid in to the Bank amounted to considerably less. The US was the only member whose 18% contribution ($571 million) was paid in full and available for lending (Mason, Asher, 1973: 105). The total sum available was $1.6 billion of which $727 million had been contributed in US dollars or gold. This latter figure represented the real ceiling of the Bank's capacity to make guarantees or loans. Such a small sum was far beneath the expectations of the EDs. It was becoming clear that in the short-to-medium term the Bank would not be capable of lending to members on the basis of its' paid-in capital. It would have to tap the US bond market as a source of capitalisation.

Executing the turn to the bond market entailed surmounting one further obstacle: the perception among the financial community that the Bank, if dominated by the EDs, would lend for political, not commercial reasons. Since activation on the 30th of December

1945, they had begun a program of policy-formulation in the process of which they would meet formally as often as twice a week and confer informally on a daily basis. According to Kraske, they considered private financial management of exchange and financial markets during the inter-war period a miserable failure. Given the high price industrial economies had paid for this failure, the post-war world economy should be '*guided by international institutions that had to answer to the governments which created and sustained them*' (Kraske, Becker, Diamond, Galambos, 1996: 26).

Prior to the appointment of the first President, Eugene Meyer, they had, under the leadership of US director Emilio Collado, made the Bank's initial calls on members' capital and invested the funds it received in US Treasury bills, notes, and certificates. They had secured the requisite amendments to enable wider private investment - first in New York State, and in New Jersey, with support from the NAC and the Securities and Exchange Commission. They had also elaborated an organisational structure and developed working procedures and relationships.

The EDs' control of the institution was clearly reflected in the first annual report to the board of governors in September 1946. While recently-appointed President Meyer was responsible for *'operational, administrative, and organizational questions...'* his remit in these fields was qualified, *'subject to the general direction and control of the EDs'*, although endowed with a deciding vote should an equal division occur (IBRD, 1946: 5). Applications for lending - now the central function of the Bank - were subject to their oversight. The President would carry out 'preliminary conversations' with the applicant before receiving the judgement of the EDs as to whether the Bank could proceed with more formal negotiations. Finally, the President would submit a proposal backed by a report developed by the loan committee to the EDs, who would make the final decision (IBRD, 1946: 9-10). These practices, implying strategic political control by major donor states, rapidly brought the Bank into conflict with its new financial backers.

The outcome of this conflict was the resignation of President Meyer and the replacement of Collado as US Executive Director. Meyer's successor, John J. McCloy, was a Wall Street lawyer and pillar of the American political and business establishment. He accepted the role subject to a number of conditions elaborated with the help of Eugene Black, ex-vice-president of the Chase National Bank, now appointed US Executive Director of the IBRD (Oliver, 6th August 1961: 2). These were explicitly aimed at reassuring Wall Street investors that the Bank would be run on the basis of commercial, not political, considerations (Bird, 1992: 282-5).

By September 1947, the Bank had already been through a crisis of management. The transformation of its structures and practices of governance that ensued would have deep consequences for the governance of the international order. Following the appointment of McCloy, the structures and procedures of the IBRD reflected a stark contrast to those laid out in the 1946 meeting, expressing the shift to managerial control over lending procedure and organisational decision-making with great clarity. Constraints on the ambit of the President's decision-making by the EDs general 'direction and control' were replaced with a decisive statement to the effect that *'The President is the chief executive officer of the Bank'*. The responsibilities which now fell to the Vice President were an even greater blow to the capacities of the EDs: not only did they *'act as a general manager with responsibility for assuring the effective operation of other offices and departments',* they would *'...direct the formulation of policy recommendations for the President.'*(IBRD, 1947: 21) Resolving the crisis had required nothing less than the re-configuration of the relationship of the management to the EDs – of the Bank to member states - visible in the reorganisation of the Bank's policy and decision-making structures.

The Bank's first loan outside Europe for 'development' purposes dramatises this pragmatic transition, illustrating how the agency of management in negotiating the parameters to Bank action derived from the necessity of capitalising the IBRD in private US financial markets. Chile, as the first applicant, was vociferously supported by US ED Emilio Collado (Kraske, 1996: 29; Oliver 1977: 234). However, Chile still had significant private bond defaults from the 1930s outstanding (IBRD 1947b: 26-8), and the Bank's new financial backers repeatedly stressed that the Bank's own creditworthiness would be sacrificed were the loan to go ahead (Oliver, 6th August 1961: 6). A bloody turf-war ensued which was only resolved when incoming president McCloy insisted, as a condition of his acceptance of the Presidency, upon Collado's replacement as a corollary of managerial control (Oliver 10th August 1961: 9). There would be no loan to Chile unless agreement could be met with US bondholders. The day after the deal was struck, Chile's loan was approved (IBRD, 1948).

Without distancing the Bank from the Truman administration in this way, it would have been impossible to draw on financial markets to support Bank activities. This did not confer autonomy upon the Bank: it institutionalised the infrastructural power of finance.

This is not to say that the new management pursued the interests of financiers to the exclusion of the aims of the Bretton Woods settlement. Rather than a zero-sum conflict between US state and financiers, while the Bank was a site of contestation it was also a site of pragmatic accommodation between bankers and state officials. Further, it reflects the pragmatic working-out of a concrete politics of governance that reflected the social relationships of the New Deal in which the Bank was anchored.

4: Conclusion

It is somewhat misleading to conceptualise the transition between the inter-war and post-war international regimes as a radical break between *laissez-faire* and a novel 'embedded liberalism'. Juxtaposing these phenomena directs the critical gaze away from the key problematique of the essential illiquidity of the international system which spanned the 1920s and the 1940s, and leads accounts of the post-war regime to miss the central role of the IBRD in the construction of the post-war regime. Further, by beginning with the New Deal and the transformative moment of the Bretton Woods conference, such accounts make significant assumptions about the capacity of the US to enact its strategies. Although the New Deal and Bretton Woods institutions were new instrumentalities for the realisation of US objectives, they could only be effectively mobilised if anchored in the deeply socially embedded infrastructure of financial relationships that were unique to the American political economy of the era. I have therefore argued that the development of the Bank can only be understood in terms of its reliance upon US financial markets, and that this relationship was essential in the constitution of the Bretton Woods regime.

Although the capitalisation of the Bank through recourse to private finance is well documented, the mythology of the Bretton Woods conference frequently obscures the significance of this observation. The achievements of the delegates have been widely overstated in support of a narrative that insists that the creation of new institutions through which the US would govern the international order expressed a social-democratic political vision, in which financial capital was subordinated to the needs of the real economy. It is clear that financiers did not attend Bretton Woods in the quasi-official capacity in which they attended the Brussels and Genoa conferences of the 1920s. But as I have shown, the outcome of the Bretton Woods conference was very vague and highly conservative: the 'blueprint' for the Bank was provided by financial planners of the *laissez-faire* era, and was borne out to a striking degree in the extent to which the new settlement ultimately rested upon private finance. As I have illustrated, in the 1940s, while financiers were displaced from the quasi-official roles they had held during the international conferences of the 1920s and in the development of the Dawes plan; it was neither possible nor strategically desirable for the New Deal administration to negate the social importance of finance. Drawing upon the deep reserves of liquidity created by mass participation in financial relations was explicitly envisaged from the outset.

The only question was how. The nuts and bolts of the new international order were not worked out at Bretton Woods. The specifics of the way in which the Bank would act to facilitate re-inflation of the international economy remained to be worked out after the first annual meeting in Savannah. The way in which these questions were answered reflected a gradual, pragmatic apprehension of the practical implications of anchoring the Bank in the infrastructure of American finance. The limits of the Bank's capacity to act on the basis of state capital alone were rapidly made clear: European members were unable and unwilling to pay in the capital they had committed. Further, the Truman administration's objectives in relation to the Bank were far more ambitious than Roosevelt's. But the American contribution, though famously large enough to pay for a veto, would soon be exhausted. The illiquidity of the immediate post-war context would require, as in the 1920s, the enlistment of American financiers and through them, access to the liquidity of the unique infrastructure of the American financial system. With the operation of the Bank predicated upon its ability to access private capital, its viability as an organ of governance was predicated upon its creditworthiness. Affirming this required the EDs to submit to the shift of control of day-to-day operations from their hands to the Bank's own newly-appointed management team of Wall Street lawyers and bankers. The wider implications of this are striking.

The process of developing a viable organisational structure within this framework created a proprietary terrain in which the agency of Bank management would be decisive in constructing the tools and strategies of governance. Overcoming the limits to the Bank's capacity to act in support of US agendas in this specific way effectively re-drew the parameters within which the institution could operate. This suggests that the specific form taken by the tools and practices of governance in the post-war order did not simply reflect the ideology and power of its most important donor. Rather the way in which the institution was organised and the strategies it deployed to address US objectives were derived from management's pragmatic negotiation of the parameters set by its social basis in private American finance, as may be seen in the Chilean case.

Following from this, I suggest that reconceptualising the relationship between financiers and the Bretton Woods regime, and the key role of the Bank within it invites reconsideration of certain key features of literature on the international financial institutions in the governance of the post-war international order.

Primarily, it encourages us to rethink the oft-imagined consonance between the 'embedded liberal' regime and the 'development' agenda pursued by the Bank in apparent support of the Point Four programme during the Bretton Woods era. If the Bank depended upon the confidence of the hard-nosed financiers of Wall Street, how are we to understand the elaboration of a 'development' agenda?

The tentative sketch of the longer and surprising history of the Bank and its relationship to the uniquely deeply socially-penetrating financial infrastructure of the US which I have provided in this paper may provide an analytical starting point from which to begin to address these questions. I propose that we must carefully think through the implications of the Bank's social basis in American private finance, which I have begun to illustrate here. Financiers did not dominate the Bank, neither did state bureaucrats: managerial agency would become decisive in designing technologies of institutional governance and lending which allowed the Bank to solve its perennial problem of capitalisation within parameters defined by its social anchoring in US finance. Therefore, in addressing these questions with a view to intervening further in this crowded field, we must take the problematic of capitalisation as a starting point for understanding the emergence of the pragmatic agency of Bank management and its significance for the governance of the global political economy, from the post-war to the contemporary era.

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