The Latin American Origins of Bretton Woods

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Most analyses of the origins of the Bretton Woods international financial system focus on Anglo-American negotiations of 1943-44 that led up to the famous July 1944 conference in Bretton Woods, New Hampshire. This approach was well captured by the title of Richard Gardner's 1956 book - *Sterling-Dollar Diplomacy* – that pioneered the scholarly study of the creation of the postwar international financial order.[1] It was then reinforced in subsequent work, including the most recent analysis of the Bretton Woods negotiations, Benn Steil's *The Battle of Bretton Woods* which focuses very heavily Anglo-American relationship, particularly that between the lead British and US negotiators, John Maynard Keynes and Harry Dexter White.[2]

This paper argues that this conventional focus unjustly neglects the significance that Latin America played in the birth of the Bretton Woods system. It shows how innovative international financial initiatives in US-Latin American relations in the late 1930s and early 1940s helped shaped US planning for Bretton Woods in important ways well before the Anglo-American negotiations of 1943-44 had begun. Latin Americans were also an important audience for the US initial drafts of the Bretton Woods agreements, and they continued to be active participants in the discussions that generated the 1944 agreements themselves. The paper concludes that US-Latin American context was particularly important in shaping two innovative aspects of the Bretton Woods framework: its inclusive multilateralism and its support for international development.

The Emergence of the IAB Proposal

The first clue that US-Latin American relations were important to the origins of Bretton Woods is provided by a number of scholars who have noted in passing that the US architects of Bretton Woods drew on their experience of drafting a plan for an "Inter-American Bank" (IAB) in 1939-40.[3] Some scholars have gone further to suggest in more detail that the IAB represented a kind of "first draft" of the subsequent US plans for the Bretton Woods system.[4] What was this IAB initiative and what was its precise significance to the Bretton Woods agreements?[5]

The IAB plan grew out of a new interest of US policymakers in the late 1930s in providing financial assistance for Latin American economic development. Their interest stemmed partly from a desire to contain growing German influence in the region as well as to secure and boost US exports to, and investment in, Latin America. Support for Latin American development was also linked to the New Deal's Good Neighbor policy, a policy that Roosevelt saw as repudiating past US imperialism in Latin America and starting a new kind of US relationship with the region. New Dealers also saw financial assistance to poorer Latin American countries as an initiative that projected

[1] A revised version was published in 1980 (Gardner 1980).
[2] Steil 2013. The most detailed scholarly analysis I have found of the Latin American involvement in the Bretton Woods discussions is the thorough analysis of Brazil's role in Pinho Barreiros 2009.
[3] See for example Horsefield 1969: 11; Mason and Asher 1973: 16; Skidelsky 2000: 239; Bittermann 1971: 61; Steil 2013: 377-8; Rees 1973: 104, Blum 1965: 57.
[4] Oliver 1975: 99. See also Bordo and Schwartz 2001
[5] The following four paragraphs draw on more detailed material in Helleiner 2014: ch.1.

internationally Roosevelt's domestic commitments to address poverty and raise standards of living through public action.

Latin American governments generally welcomed the Roosevelt administration's new support for their development goals in the late 1930s. These goals had become increasingly ambitious in many Latin American countries in the wake of the Great Depression. The devastating effects of the economic crisis of the early 1930s on the region had encouraged criticism of their economies' reliance on commodity exporting and liberal economic policy regimes. Political support grew across Latin America for more interventionist economic policies that focused on state-led import-substitution industrialization, greater public ownership, and improved social conditions and living standards. If US officials wanted to back these new Latin American development priorities, many Latin Americans were willing to accept this support, despite lingering concerns about past US behavior in the region.

US financial support for Latin American development initially took the form of bilateral lending which grew rapidly after late 1938. Short-term loans from the Exchange Stabilization Fund (ESF) were offered for currency stabilization, while longer-term loans from the Export-Import Bank backed specific Latin American state-sponsored development projects (including industrial ones). These loans were highly innovative; the US had never previously used public funds to explicitly support the development of poorer countries in this way. Not surprisingly, they immediately attracted criticism at home, particularly from conservatives and isolationists as well as from the private financial community who objected to the fact that the US government was lending public funds to a number of Latin American countries that were in default on private loans.

Despite this criticism, both US and Latin American officials called for an even more ambitious US-Latin American financial partnership after the outbreak of World War Two in September 1939. At a meeting in Panama of foreign ministers of American republics that month, US officials backed a Latin American proposal to create an Inter-American Financial and Economic Advisory Committee (IFEAC) with representatives from each country. They also supported a resolution mandating that committee to study the creation of an inter-American institution to foster closer financial cooperation, a resolution that led to the negotiation of the IAB.

Proposals to create an IAB in fact dated back to the late 19th century. Initial plans had focused simply on strengthening banking linkages and facilitating payments, but Latin American officials began calling in the early 1930s for a more ambitious institution that could mobilize capital and even handle debt negotiations. US officials were initially wary of these Latin American proposals, but then finally signaled their support at the Panama meeting in the face of strong Latin American lobbying and because their new growing commitment to fostering inter-American political cooperation and support Latin American economic development.[6]

[6] Helleiner 2014: ch.2.

At its first meeting in mid-November, a financial subcommittee of the IFEAC immediately set to work discussing how to create an IAB. Because it was understood by all that the US government would be the largest contributor to the institution, its officials took charge of the task of proposing detailed designs for the institution, with Harry Dexter White leading this activity. But White and his colleagues also engaged in thorough and extensive consultation with Latin American officials and their governments through the IFEAC framework. By February 7, 1940, the IFEAC as a whole had agreed on a draft convention and by-laws for the Bank to be submitted to governments for comment. After further consultations, final texts were then released publicly on April 16.[7]

The IAB's Innovations

The design of the IAB was highly innovative in three respects. To begin with, the institution was to be the first international financial institution ever created on the basis of very inclusive multilateralism with wide membership. The only other international financial institution at the time was the Bank for International Settlements based in Basel. Its membership was restricted at the time of its creation to six central banks (from the Belgium, Britain, France, Germany, Italy, and Japan) and one private US banking group. By contrast, all 21 republics of the Americas were to be members of the IAB from the start and they all had input into its creation.

The fact that an inter-American forum was first to develop an international financial institution this kind of inclusive multilateralism was no accident. The idea of building multilateralism on the basis of universal participation (on a regional basis) had been pioneered within the inter-American system in the late 19th and early 20th century. This norm – which challenged European conventions of Great Power diplomacy - was foundational to the first International Conference of American States in 1888-89 (at which the IAB was first proposed) and emerged as a means to address Latin American concerns about US domination.[8] By the time of the IAB negotiations, it had become an unquestioned norm in the inter-American context that every state should have a seat at the table and the IAB's design reflected this idea. In the strategic context of 1939-40, US officials also hoped the IAB's model of inclusive multilateralism would strengthen inter-American solidarity against the Axis powers and help address any concerns about growing US financial influence in the context of the US bilateral lending program. As White put it in November 1939, the IAB's multilateral design would ensure that that "the charge of dollar diplomacy would be absent".[9]

The second innovative feature of the IAB was its character as a public inter-governmental financial institution. Although the BIS had been created by the inter-governmental Hague convention of 1930, that agreement simply empowered six central banks (from the Belgium, Britain, France, Germany, Italy, and Japan) and one private US banking group to incorporate the bank in Switzerland and become its founding members providing the initial capital. The BIS was not directly accountable to governments. The IAB was also to

[7] Ibid, ch.2.
[8] Finnemore and Jurkovich 2014.
[9] Quoted in Helleiner 2014: 60.

be established by an inter-governmental convention, but the Bank's draft by-laws described an institution in which national governments subscribed to its shares, managed its operations and were its members. As one BIS official privately noted at the time, "what characterizes the I.A.B. and distinguishes it clearly from the BIS is that it is an association of governments. All pretence that monetary and credit-regulating functions of a state are segregated from its general sovereign rights and duties and are vested in an independent Bank or banking system seems to have been entirely dropped for the purposes of the I.A.B."[10]

From the perspective of officials in Roosevelt administration, the inter-governmental character of the institution was in keeping with both the Good Neighbor policy and the reforms of the New Deal which had asserted greater public control over monetary and financial issues both at home and abroad. As White explained to Latin American officials in early 1940, "if it [the IAB] were opened to central banks or to a Treasury designated bank then there would be the profit-making motive of the banks in the picture instead of an institution which because of its broad purposes would not be concerned with profits."[11] He was even more explicit on this point in discussions with his US colleagues a week later:

> we have created an instrument here and given it enormous powers for good or evil and for us to turn it over at this stage to banking groups, it seems to me we are just going back to all the evils that we wish to avoid…This bank, if it is successful, if it lives up to expectations with respect to power, can have a very profound degree of influence on the small countries and whether that shall be democratically used in the sense of attaining objectives of Government to Government or whether it shall be merely a bankers' attempt to use that to serve – not their own individual purposes but the general philosophy that they represent, I think is a very fundamental matter and I don't see how this Administration, with its whole New Deal philosophy and with its attitude toward those fundamental problems can support an institution that becomes a super-central bank.[12]

The third innovative feature of the IAB was its mandate to provide public international loans. The BIS had already pioneered the idea of an international institution extending short-term currency stabilization loans to countries, but the IAB took the idea of public international lending in a much more ambitious direction. The institution was empowered to lend not just for currency stabilization purposes but also to promote long-economic development. In effect, the IAB was designed to multilateralize in one institution the innovative bilateral lending roles that had been assumed by the US ESF and Ex-Im Bank.

Both US and Latin American officials emphasized that the IAB's role in providing long-term development loans was in fact to be its most important purpose. They hoped its public international lending of this kind would improve on the past record of private lending to Latin America. As one US official told US Senate committee hearing in May 1941, the IAB's lending would be very different from those "unhappy experiences" in the

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[10] BIS staff member's memo in April 1940, quoted in Helleiner 2014: 69.
[11] This quote is a description of White's views recorded by another US official; quoted in Ibid: 69-70.
[12] Quoted in Ibid: 70-1.

past of private lending "where money was squandered or where it was used to build up some kind of rather tyrannous foreign monopoly which the country resented" and where the movements of capital were regarded as "imperialist". The goal of the IAB was instead to generate capital movements "following the more careful plans of the various governments involved with a view to the steady development of the country".[13]

The Legacy of the IAB

Like the new US bilateral lending program to Latin America, these innovative features of the IAB attracted critics within the US. A similar collection of conservatives, isolationists and private bankers strongly opposed its creation and succeeded in blocking its approval by US Congress.[14] Although this result frustrated many Latin American policymakers who had backed its creation, the IAB's drafting still left an important legacy: each of the IAB's three innovations foreshadowed features of the Bretton Woods institutions.

Like the IAB, those institutions were designed with the norm of inclusive multilateralism, a norm that was now extended from the regional to global level to include all the United Nations and "Associated" Nations (the latter referred to countries that had broken diplomatic relations with the Axis powers during the war but not formally joined the United Nations). All of these countries were invited not just to become members of the new institutions but also to participate in their creation. The lead British negotiator, John Maynard Keynes, objected to the latter, suggesting instead that the US and Britain design the postwar international financial order on their own and then invite other countries to join only after the rules had been set. But White and other US officials rejected this idea, insisting on extensive consultations with all the United and Associated Nations throughout 1943-44, culminating in the 1944 conference to which all those countries were invited.[15]

The Bretton Woods institutions also followed the IAB model in being designed as inter-governmental institutions that were empowered to offer both short-term public loans for currency stabilization purposes (IMF) and long-term loans to support reconstruction and the development of poorer countries (the IBRD). The IBRD's international development role deserves underlining not just because this was the core function of the IAB but also because some scholars have suggested that the US policymakers were largely uninterested in this part of its mandate. This latter view is incorrect. Archival evidence shows very clearly that the Bank's function of mobilizing development finance for poorer countries was seen by US policymakers as a key part of the Bretton Woods package from the start. Roosevelt himself had prioritized the principle of promoting "freedom from want" everywhere in the world in postwar planning as early as 1941. Building on his Good Neighbor policy, he saw the boosting of living standards in poorer regions of the globe as a way to internationalize the New Deal. White and other US officials saw the Bretton Woods plans as supporting this goal.[16]

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[13] Adolf Berle quoted in Helleiner 2014: 66. See also ch.2.
[14] Helleiner 2014: ch.2; Green 1971: 60-74.
[15] Helleiner 2014: chs.4, 8.
[16] Ibid, ch.4.

Other more detailed aspects of the governance of the IAB also acted as precursors to those of the Bretton Woods institutions such as the fact that it was to be governed by a Board of Directors made up of one director for each country, but with weighed voting according to countries' respective contributions to the institutions. Voting on the IAB's Board was also to take place according to a simple majority voting rule, but with important decisions requiring a four-fifth's majority, giving the US an effective veto over those issues. The Board, which was to meet four times per year, was also empowered to appoint, and delegate its powers to, an Executive Committee.[17]

These parallels between the design of the IAB and that of the Bretton Woods institutions were not coincidental. The lead US official in drafting the IAB, Harry Dexter White, also played the central role in designing the Bretton Woods institutions. Other US officials commented on how his early Bretton Woods drafts built directly on his IAB experience (as well as on his role in pioneering the ESF's lending to Latin America during the late 1930s).[18] And White was not alone. A striking number of US officials who participated in the Bretton Woods negotiations had also been deeply involved in the IAB discussions.[19]

The Latin American Audience for White's Initial Plans

The US-Latin American relationship was important not just in generating innovative kinds of international financial practices that served as a model for the Bretton Woods institutions. Latin American policymakers were also seen by US officials as a key audience for their initial drafts of the postwar international financial order. This was made very clear by Roosevelt when he met Keynes in the summer of 1941 to discuss the latter's initial postwar plans. According to one British official, Roosevelt made clear his view that "the terms of reference are too exclusively European. He attaches great importance to the South American countries being remembered in any world statement".[20]

It is also often forgotten that White's initial postwar plans drafted in January 1942 were initially prepared for presentation to a meeting with Latin American officials rather than one with British policymakers. The meeting was an inter-American conference of foreign ministers in Rio being held in January 15-28, 1942 at which US policymakers hoped to secure closer security cooperation with the region in exchange for greater US economic support. White's initial drafts of his "Stabilization Fund" (the name initially given to the IMF) were explicitly designed for presentation at this conference and he hoped the delegates would pass a resolution calling for a conference to be held to discuss the proposal. In the end, White was advised to simply discuss his ideas orally with delegates, a task that he did well enough that the conference approved a resolution calling on finance ministers (or their representatives) of the American republics to attend a "special

[17] Ibid, ch.2.
[18] Ibid, 77. 109-110.
[19] Ibid, 77.
[20] Quoted in Ibid, 106.

conference" to be held "for the purpose of considering the establishment of an international stabilization fund".[21]

It was thus Latin Americans rather than the British who first learned of the US plans for the postwar international financial order. And White and other US officials clearly saw Latin American governments as key partners in the plans from the start. A few months after the Rio meeting, White developed extremely detailed plans for the conference he hoped would soon be held to discuss his plans for both a Fund and Bank (in the end, he would need to wait another two years for this to happen). Of the 42 countries he hoped would attend, 19 were to be from Latin America, and he planned for Mexican and Brazilian officials to give keynote speeches alongside officials from the US, Britain, China, the USSR and the Netherlands.[22]

The content of White's initial 1942 plans was also clearly designed to appeal to Latin American policymakers by building directly on US initiatives towards the region since the late 1930s. Indeed, the preamble to the resolution passed at Rio made this link explicit, noting that the proposed fund would "contribute to the realization of the economic objectives set forth at the First and Second Meetings of the Ministers of Foreign Ministers of the American Republics at Panama and Habana".[23] The Panama meeting had been the one where the IFEAC had been created with a mandate to create the IAB, while the Havana meeting in mid-1940 had generated further US commitments to support Latin America economically.[24]

In his early drafts, White also included a number of provisions that drew on his Latin American experience. Two have already been mentioned; the IMF's short-term lending for currency stabilization and the Bank's long-term development lending. White assumed that the latter would be of particular interest to Latin American countries. In developing plans for his proposed conference in 1942, White drafted an imaginary keynote speech for the Brazilian finance minister in which that officials trumpeted the Bank's role in providing "a steady flow of capital for developmental purposes" that would help Brazil to realize its "extensive potentialities for industrial development".[25]

In discussing the need for the Fund to endorse the use of capital controls, White's early plans also highlighted the importance of curtailing capital flight from poorer countries, an issue that had been widely discussed during the IAB negotiations. He also gave both the Fund and Bank authority to facilitate the restructuring of international public and private debts, a provision that Latin American governments had called for as far back as the early 1930s and that had been discussed during the IAB negotiations and other US-Latin American contexts in the late 1930s/early 1940s. Two other provisions grew directly out of White's previous work with Latin America: his Bank was initially empowered to support international commodity price stabilization schemes while his Fund was to be

[21] Resolution quoted in Ibid, 107. See also pp.106-8.
[22] Ibid, 105-6, 108.
[23] Quoted in Ibid, 107.
[24] Ibid, ch.1.
[25] Quoted in Ibid, 106.

open to accepting infant-industry trade protection in poorer countries for development purposes.[26]

When White's plans began to be refined in internal US discussions, a number of these provisions were dropped. Discussions of infant-industry protection were eliminated because they related to trade issues that were to be addressed in a different context than the Bretton Woods negotiations. Support for commodity price stabilization schemes and international debt restructuring were deemed too politically controversial to remain in the plans. But support for capital controls remained as did the US commitment to the Fund's provision of short-term balance of payments support and the IBRD's role in mobilizing international development finance. It is worth noting that US policymakers continued to have Latin America in mind as a key focus of the latter. When White began to refine the Bank proposal in internal discussions within the US government in September 1943 (it was not released publicly until November of that year), he and his colleagues made special reference to "our neighbors in Latin America" in describing the development function of the Bank in a memo to Roosevelt.[27]

Roosevelt himself remained very interested in the US role of supporting Latin American development. In the spring of 1943, Roosevelt asked an inter-departmental committee to develop a memo showing "that helping others raise their living standards is 'good for our own pocket-book and our own security'".[28] The Latin American focus was clearly central in his mind. In a note to one official in June 1943, he wrote "I do want to get across the idea…that the economy and social welfare of Jesus Fernandez in Brazil does affect the economy and social welfare of Johnny Jones in Terre Haute, Indiana".[29] Other officials in his administration were also keen to support Latin American economic development, including the State Department's Emilio Collado who played a key role in the final drafting of the IBRD.[30]

<u>Latin American Influence in the Bretton Woods Negotiations</u>

In addition to being an important audience for the US plans, Latin American officials were also actively involved in the 1943-44 negotiations that generated the Bretton Woods agreements. When the US initially invited 37 countries in April 1943 to send technical experts to Washington to discuss White's first public draft of his Stabilization Fund, Latin American countries made up 19 of these countries (Argentina was the only one not invited).[31] Many Latin American governments sent representatives to Washington at that time for bilateral discussions with US officials. A few (Brazil, Ecuador, Paraguay and Venezuela) also participated in a three-day multilateral consultation session that White chaired between June 15-17 involving 18 countries. Some of the Latin American

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[26] Ibid, 109-113.
[27] Quoted in Ibid, 108.
[28] Roosevelt's words quoted in Rivas 2002: 58. See also Green 1971: 123-9.
[29] Quoted in Green 1971: 129.
[30] McKinzie 1974: 12-13, 15-17.
[31] US Government 1948: 1574. The list provided on that page does not include six countries that did receive subsequent invitations: Egypt, France, Iceland, Iran, Liberia, and the Philippines.

governments who did not send representatives to Washington in this period submitted written comments on White's plans.[32]

Given the prominent Latin American role in US consultations, British officials quickly recognized that they needed to lobby Latin American countries as well. After the Keynes plan for an International Clearing Union (ICU) was publically released in the spring of 1943, the British Embassy in Washington made sure that a copy was sent to all Latin American officials traveling to White's consultations. British officials also went out of their way to travel across Latin America promoting the ICU proposal at the time.[33]

Both American and British officials continued in the months leading up to the Bretton Woods conference to cultivate the support of Latin American countries. When the US and Britain published their Joint Statement of Experts on draft plans for the Fund on April 22, 1944, they made sure that it was published simultaneously not just in Washington, London, Moscow, Chungking, and Ottawa but also in Rio, Mexico City, and Havana. Brazil, Mexico, Cuba and Chile were also included among the sixteen countries invited to the pre-Bretton Woods drafting conference at Atlantic City in late June.[34] White chaired that meeting and he appointed a veteran of the IAB negotiations, Mexico's Antonio Espinosa de los Monteros, to be one of his four deputy chairs (alongside Keynes as well as officials from the USSR and China).[35]

At the Bretton Woods conference itself, Mexico's finance minister Eduardo Suárez was given the role of nominating Morgenthau as "permanent president of the conference" at the start of the conference and was chosen to chair one of the three "commissions" around which the conference was organized (White and Keynes chaired the other two).[36] In addition, Suárez and Brazil's finance minister, Artur de Souza Costa, were invited to give formal addresses to the inaugural plenary session on the first day of the conference (along with Morgenthau and the chairs of delegations from Canada, China, Czechoslovakia and the USSR).[37] In a US planning meeting on June 30 1944, White had insisted on this prominent role for these two officials, noting that "we need the support of the South Americans". In a private meeting giving instructions to the US delegates on the first day of the conference, White reiterated that "it is the South American countries who in this are going to be important to us".[38]

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[32] Helleiner 2014: 157-8.
[33] Skidlesky 2000: 249, Helleiner 2014, 158.
[34] The other twelve represented were: Australia, Belgium, Canada, China, Czechoslovakia, France, India, the Netherlands, the Philippines, UK, US, and USSR.
[35] Helleiner 2014, 158-9.
[36] While White and Keynes chaired the commissions drafting the IMF and the IBRD respectively, Suárez chaired the one examining "other means of international financial cooperation".
[37] US Government 1948: 8.
[38] Quoted in Helleiner 2014, 159.

Their importance derived from their numbers: Latin American countries made up nineteen of the forty-four countries represented at the conference.[39] Many issues were settled without formal voting at the conference, but when votes were taken, each country had one vote with the majority deciding the outcome. In this context, delegates were well aware that the bloc of nineteen Latin American countries had almost enough votes to decide any issue on its own.[40] Latin American delegates at the conference also did not hesitate to remind other delegates that they represented "practically one-half of the nations here assembled".[41] Their influence was boosted by the fact that they felt a sense of solidarity and tried to work together as a group at the conference. As one US official noted halfway through the conference, "the Latin American countries are really operating as a unit….They have a pretty definite machine".[42]

US delegates worked hard to make sure that this machine served their goals. According to one US official, the US benefitted from the fact that White was "popular" with the Latin American delegates because "having dealt with the man for years in various problems" they "had confidence that here is the man who will understand our problem and who, if he sees our problem, will fight, and he's not afraid to fight."[43] Some key officials, such as Mexico's Antonio Espinosa de los Monteros, also had longstanding personal ties to White. He and White had been classmates at Harvard and he had subsequently worked closely with White in the small IFEAC subcommittee that developed the IAB proposal in 1939-40.[44] Monteros and other leading figures in the Latin American coalition, such as Cuba's Luis Machado, worked closed with US officials at the conference.[45] At one point on July 10th, one US official told his colleagues that Machado had "assured me we could get a vote on any issue we wanted to".[46] At the end of the conference, White also noted that Cuba "has given us more help than all the others combined", and insisted to his colleagues that the country be given a speaking role in the final ceremonies of the conference.[47]

The Latin American voting bloc caused much consternation among British officials. Indeed, the British even hoped to avoid formal votes at the conference to neutralize its influence. As one British official wrote to his superiors in the middle of the meeting, "if the issue comes to the vote every country will count for one with the result that Latin America is almost sufficient to settle any issue in a way the United States wishes".[48] White recognized the British fears, noting privately at one point during the conference that British efforts to delay a decision on the location of the Fund's headquarters reflected

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[39] These included: Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela.
[40] Helleiner 2014, 159-60.
[41] Luis Machado from Cuba quoted in Ibid, 160.
[42] Ansel Luxford quoted in Ibid, 160. Suárez 1977: 277.
[43] Oliver 1961: 18-19.
[44] Helleiner 2014, 161; Urquidi 1996: 50fn5.
[45] Eckes 1975: 154; Helleiner 2014, 161.
[46] Quoted in Helleiner 2014, 161.
[47] Quoted in Ibid, 161. The other invited speakers were from Brazil, Britain, Canada, France, Norway, and the Soviet Union.
[48] Quoted in Ibid, 59.

Keynes' frustration with the fact that "the vote of Costa Rica is the same as the vote of the United Kingdom".[49]

<u>What Did Latin American Officials Push For?</u>

How did Latin American countries use their influence? Existing histories often mention that some Latin American governments led by Mexico secured a vague statement that further study should be undertaken of silver's role within the international monetary system. They also usually cite Latin American demands for larger quota sizes and representation within the Fund, particularly after it appeared that their combined quota size might leave them with no more than one seat on the executive board of the Fund.[50] These demands generated the result that the Latin America was guaranteed two of the twelve seats on the Fund's board (a proposal that the US supported fully). The fact that no other region received this kind of guaranteed representation was a sign of their influence. A similar proposal from Egypt, Iran and Iraq for the Middle East to receive one seat was voted down.[51]

Particularly important was the fact that Latin American officials strengthened the IBRD's development lending role. Long frustrated by the failure of the US Congress to back the IAB initiative, many of them saw the US IBRD proposal as a way to finally bring to fruition its development goals. Indeed, it is interesting that the IAB often came up in White's consultations with Latin American officials in advance of the Bretton Woods conference.[52] Because of their concerns that the IBRD might prioritize reconstruction lending by the IBRD, Latin American delegates at the Bretton Woods meeting secured a commitment that the Bank's resources and facilities would be used "with equitable consideration to projects for development and projects for reconstruction alike".[53] The Mexican delegation also took the lead in pressing for the purposes of the IBRD to make strong commitment to economic development, pressure that generated wording that made explicit reference to the "encouragement of the development of productive facilities and resources in less developed countries".[54]

In advance of the Bretton Woods meetings, Latin American officials also highlighted their desire to ensure that adequate IMF lending was available to meet the distinctive needs of commodity-exporting countries that often experienced sudden fluctuations in their balance of payments. They applauded how the Fund would allow them to hold fewer foreign exchange reserves because it would serve as what Souza Costa, called a useful "insurance system".[55] As one Brazilian official commented on White's 1943 plans, "the conservation of such reserves has been onerous, since it may be likened to an

[49] Quoted in Helleiner 2014, 159-60.
[50] See for example Van Dormael 1978: 166, 178-81.
[51] Schuler and Rosenberg 2012: 102-5, 229-31, 235, 239, 276-80; Helleiner 2014, 160. Latin America was not guaranteed a seat on the board of the Bank.
[52] Helleiner 2014, 162, 167.
[53] Quote from US Government 1948, 496. See also Schuler and Rosenberg 2012: 528-30; Helleiner 2014, 163-5.
[54] US Government 1948, 1049-50. See also Helleiner 2014, 162-3.
[55] From May 1944 speech quoted on Helleiner 2014: 167. See also Urquidi 1994; McKinzie 1974, 13.

insurance maintained exclusively by the insured".[56] At the conference itself, Brazil became a leading proponent of a successful proposal for "waiver clause" that would allow the Fund to overrule its regular lending limits as a way to provide this support.[57] Some Latin American officials also attempted to resurrect development provisions from White's early drafts such as international commodity price stabilization and support for infant-industry trade protection. Because of the monetary/financial focus of the conference, these proposals were less successful, although the Bretton Woods meeting did endorse a Latin American-backed resolution that recommended governments seek to reach agreement on ways and means to "bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike".[58]

Finally, Latin American governments also made clear their preference for multilateral rules that would protect their policy autonomy by allowing capital controls and some flexibility in exchange rates. During the IAB negotiations, they had resisted membership obligations of any kind relating to their external financial controls and exchange rate policies. When White made clear in 1943-44 that they would need to accept some such obligations as Fund members, they worked hard to minimize the constraints in these areas, as did other countries such as Britain. Ultimately, they accepted the compromise provisions of the Fund that required member countries to embrace currency convertibility and fixed exchange rates, but allowed the use of capital controls and adjustments of currency pegs under certain circumstances.[59] Latin American willingness to accept these provisions was enhanced by the fact that US officials at the time went out of their way to highlight how the Bretton Woods framework was supportive of the autonomy of governments to pursue state-led development policies.

<u>The Triffin-Prebisch Partnership</u>

Particularly important in this respect was work of Robert Triffin of the US Federal Reserve who led a prominent US financial advisory mission to Paraguay at the very time of the Bretton Woods conference that explicitly rejected the liberal orthodoxy of previous US financial missions from the 1920s.[60] Triffin recommended that the Paraguayan government create a new powerful central bank and national currency that would strengthen its capacity to intervene in the domestic financial system in support of developmental goals. He also made a point of endorsing the use of adjustable exchange rates and capital controls to defend Paraguay's autonomy to pursue those policy goals, and he highlighted how these recommendations were in keeping with the new Bretton Woods agreements.

Paraguay immediately adopted Triffin's advice, seeing these monetary reforms as key for its developmental ambitions. The Paraguayan reforms, and Triffin's broader rationale for them, attracted enormous attention across the region at the time. For many Latin

[56] Otávio Gouvêa de Bulhões quoted in Helleiner 2014, p.166.
[57] Ibid, 166-8.
[58] US Government 1948: 1098. Helleiner 2014, 169-70.
[59] Ibid, 170-2.
[60] For this and the next paragraph, see Ibid, ch.5.

American officials, they highlighted how the US and the new Bretton Woods framework was not just accepting of their new state-led development goals but actively supportive of them. After the Bretton Woods conference, Triffin received a number of requests from governments in the region to repeat in their country the work he had done for Paraguay as part of their entry into the Bretton Woods system. Even Latin American governments that did not seek out Triffin's advice expressed their interest in, and support for, his work in the region.

Interestingly, Triffin himself gave credit for much of the content of his "wholly unorthodox" advice in Paraguay to the ideas of Raul Prebisch.[61] Probably the best known monetary thinker in Latin America at the time, Prebisch had helped create Argentina's 1935 central bank and then became its first head between 1935-43. Argentina's central bank had been assigned large powers to regulate banks, administer exchange controls, pursue activist monetary management through open-market operations, and adjust the country's exchange rate. Triffin explicitly drew upon the Argentine central bank legislation in developing his advice for Paraguay and he consulted actively with Prebisch during the mission. Prebisch in turn praised Triffin's advice to Paraguay and even helped implement Triffin's recommendations in the country (at Triffin's request).

At this time, Prebisch was consolidating some of the broader economic ideas for which he would soon become well-known beyond the region, notably his case for state-supported industrialization to help poorer countries escape from their vulnerability to external shocks and declining terms of trade associated with commodity exporting. At the core of Prebisch's thought at this time was a commitment to greater national policy autonomy. This commitment echoed that of Keynes except that Prebisch was critical of the fact that Keynes had ignored the distinct circumstances and difficulties facing poorer agricultural exporting countries. In Prebisch's view, these countries needed to insulate themselves from powerful shocks emanating from the industrialized countries and to carve out policy space to promote state-supported industrialization and economic development.[62]

It is noteworthy that these were ideas that Triffin and other US officials endorsed at the time, and that the Paraguayan mission showed how they were compatible with the Bretton Woods framework.[63] They represented a kind of Southern side of the broader ideology of embedded liberalism that infused the Bretton Woods agreements. As Ruggie notes, that ideology sought to reconcile liberal multilateralism with new interventionist economic practices that had become influential across the world during the 1930s.[64] In Northern countries, provisions such as adjustable exchange rate pegs and capital controls were designed to make liberal multilateralism compatible with new domestic commitments to full employment and social security. But in the South, they were seen as way to accommodate the new state-led development policies that had become influential

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[61] Quote from Triffin 1946, 23. For Triffin's debt to Prebisch, see Helleiner 2014, 150-3.
[62] Dosman 2001; 2008: 218-19; Love 1996: 126-7.
[63] Helleiner 2014, 151-2 and ch.5 more generally.
[64] Ruggie 1982.

across Latin America with the objective of promoting rising living standards, rapid economic growth, and latecomer industrialization.

The significance of the Triffin-Prebisch partnership receives little attention from historians of Bretton Woods. In some ways, this is not surprising because neither attended the conference. Triffin was in Paraguay in July 1944, while Prebisch – who had no official position at the time (and came from a country not even invited to Bretton Woods) – was forced to watched the meeting from afar, envying other Latin Americans who were at the centre of the action.[65] But their intellectual partnership helped to pioneer the Southern side of the ideology of embedded liberalism at this time and to solidify Latin American support for Bretton Woods by demonstrating how the agreements were compatible with, and supportive of, Latin American development ambitions.[66]

Both Triffin and Prebisch would later emerge as key critics of the Bretton Woods system. In the context of this history, Prebisch's later role is particularly noteworthy because he emerged as the leading proponent of the view that the Bretton Woods system was unfriendly to the development aspirations of poorer countries. But Prebisch's later criticism is best interpreted as a critique of how the Bretton Woods system (and US policy) evolved after the war rather than its original content. He held a much more favourable view of US policy in 1944-45. Here for example is a letter he wrote to Triffin in June 1945 after reading the latter's summary of the Paraguayan reforms:

> You have developed monetary principles in your projects which are most suitable to countries like ours. I deliberately include Argentina: if I had to prepare a new project for my country I would adopt a great part of what you have proposed. Paraguay now has an efficient instrument for the stabilization of its economy. If managed with good judgment and prudence, the reform will be the beginning of a new monetary orthodoxy in our countries, under the auspices of the big shots of the Federal Reserve. We shall be freed, my dear friend, of the exorcisms by which foreign advisors would have wished to purify the exchange policy of these countries in not too remote periods.[67]

Triffin replied, thanking Prebisch "for the nicest letter I have received in a very long time" and for his "extraordinary contribution to the success of those reforms in Paraguay." He noted: "If the reform is successful I think the credit should always go to you. Yours was really the hard work while mine remained perforce confined to more or less academic theorizing."[68]

Conclusion

Latin America played a more important role in the creation of the Bretton Woods system than is often acknowledged in existing scholarship. Part of its significance came before

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[65] Dosman 2008: 197.
[66] Helleiner 2014, ch.5,6.
[67] Quoted in Ibid, 152.
[68] Quoted in Ibid, 152-3.

the formal Bretton Woods negotiations even began. US-Latin American financial relations in the late 1930s and early 1940s – particularly the stillborn initiative to create an Inter-American Bank in 1939-40 - pioneered some of the core aspects of new Bretton Woods framework: inclusive multilateralism, the inter-governmental nature of multilateral financial institutions, the commitment to public international lending particularly for development purposes, and the governance arrangements of these institutions. These innovations had a clear influence on White's first drafts of the Bretton Woods institutions and broader US planning for the post international financial order.

US policymakers also saw Latin America as an important audience for their initial drafts of the Bretton Woods institutions. It was Latin Americas – not the British - that were first told of White's initial plans at an inter-American conference in Rio in January 1942 and those plans included provisions designed to appeal to Latin American policymakers. Delegates to that 1942 Rio conference were also the first to formally endorse the idea of holding a multilateral conference to discuss those plans. Latin American officials then continued to be actively involved in the 1943-44 negotiations leading up to the Bretton Woods meeting. At the July 1944 conference itself, they made up almost half of the countries represented and took an active role in the discussions.

In addition to securing strong representation in the Fund, Latin American officials were particularly interested in how the Bretton Woods negotiations could support their development aspirations. To this end, they played an important role in bolstering the development lending role of the IBRD which many saw as a successor to the earlier IAB proposal. They also helped ensure the potential for more generous IMF balance of payments support for commodity exporting countries (the "waiver" clause), and secured a conference resolution calling for a future international agreement relating to commodity marketing and pricing. Latin American countries also strongly supported the IMF's provisions allowing for adjustments to exchange rate pegs and capital controls, provisions that they saw as protecting their autonomy to pursue state-led development policies. The compatibility of the Bretton Woods framework with that goal was confirmed and reinforced by Triffin's financial advisory missions at the time that were, in turn, strongly influenced by Prebisch's ideas.

The context of US-Latin American relations is thus crucially important for understanding the origins of Bretton Woods. It shaped not just the political dynamics of the Bretton Woods negotiations but also the content of the final agreements. Two influences on the content stand out in particular. One was the inclusive multilateralism of the design of the Bretton Woods institutions. The other was the Bretton Woods support for international development. Both of these features of Bretton Woods were important innovations in global financial governance at the time and they have endured, outlasting many other aspects of the origins 1944 agreements. It is important to recognize that their source was the US-Latin American political context rather than the better known Anglo-American one.

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