BRETTON WOODS: THE PARLIAMENTARY DEBATES IN THE UK

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Our interest in Bretton Woods lies in seeking to identify the nature of contemporary deliberation in the British Parliament relative to the proposed post-war monetary and financial organizations. Britain is the focus of the study because along with the United States, it was the main designer of the Bretton Woods system, starting with the so-called Keynes and White Plans, which formed the basis for negotiations for each country. [See document Preliminary Draft Outline of a Proposal for an International Stabilization Fund for the United and Associated Nations (July 10, 1943)]

The US, as the foremost creditor among the wartime allies, and Britain, whose debt to the rest of the world had increased during the war both substantially and rapidly, played out their designated roles in a way which reflected their respective global positions. But British acceptance of Bretton Woods was fraught with difficulties, for the terms of the agreement were a stark and formal indication of British decline. From at least 1942 onwards, it was clear to many observers that though Britain would emerge from the war victorious, she would also be depleted of resources, financially prostrate, with her colonial Empire in disarray, and highly-dependent on the benevolence of wartime allies, most notably the United States.

Prior to Bretton Woods, the international monetary system had evolved incrementally and at times accidentally. All previous efforts to modify by design had failed. A change of this magnitude inevitably required the US to engage internationally, which it had not done in the institutional structure created after the First World War, and for Britain to overcome its historical and ideological attachment to Empire. As a means of understanding this engagement by Britain and the US, we examine the debates in the British Parliament between 1943 and 1945 in order to understand how Britain came to accept Bretton Woods when there were so many ideological obstacles to such acceptance.

We interpret the parliamentary debates by reference to Britain's financial position, and the British party system. The latter was not unimportant for while a Conservative-led coalition government was in power for most of the war, between May 1940 and May 1945, it was succeeded for two months by an interim 'Caretaker Government' pending the result of the 1945 election. This Ministry was then succeeded by the first majority Labour government, whose peacetime socialist agenda, propelled by a huge victory at the polls, was different to the approach of the wartime Ministry. Thus, while monetary and financial negotiations were ongoing throughout the period, and there was a select cadre of officials who had come to the fore in wartime, there was a degree of discontinuity in government as well as the more pronounced economic dislocation.[1]

Throughout the negotiations leading to the Bretton Woods agreement, it was fully apparent that any international agreement would involve striking a balance between establishing, on the one hand, multinational and multilateral rules and institutions, and on the other hand, maintaining nation-state discretion in the post-war international system.[2] At Bretton Woods, there was a tension involving the rights of nations to revise their exchange-rates without International Monetary Fund (IMF) agreement. Determining boundaries and rules, and appropriate multilateral institutional structures, involved the thorny issue of agreeing limits to national sovereignty in shaping domestic policies, with the tension between international adjustment needs and domestic political requirements forming a central dilemma of international monetary relations.

Important to understanding Bretton Woods are two roles that the institutions created there would fulfil. First was the role of an international reserve currency and its part as a credible anchor for domestic monetary policy. The two principal architects of Bretton Woods, John Maynard Keynes and Harry White, began the process by outlining plans for the post-war system from respectively British and American positions. The Keynes Plan envisaged a supra-national currency, whereas the White Plan had the dollar playing the anchor role though formally tied to gold.

Second was the role of an institution to solve international collective action problems and thus achieve adjustment of national imbalances which were misaligned with fixed exchange-rates, and whether this action was to be symmetric or asymmetric, and thus on all countries or just debtors, and to prevent competitive currency devaluations as well as tariffs.[3] Such a system required limiting national discretion in macroeconomic policymaking, and giving force to this constraint required an enhanced role for national governments operating through international institutions. The international monetary system as it had evolved in the nineteenth and twentieth century, had meant that national governments, by linking their currencies to gold, were *de facto* linking their currencies to each other. While providing a kind of spontaneous order to the international monetary system, ultimately, the system had proved to be too much of a constraint.[4]

Keynes and White acknowledged that the gold standard had proved excessively rigid, as had been painfully evident in the inter-war period when nations had been required to impose domestic recessions to maintain the international standard. International macro-economic policy was led more by central banks than national governments, but had failed to provide a stable institutional framework. With the benefit of hindsight, this was a failure in the conception of central bank independence—that is, central banks not operating under transparently delegated parliamentary authority with clear objectives set in national statute. Beyond this observation on the appropriate setting for central bank independence, tackling international macro-economic policymaking required an institution that embodied the authority of national governments alongside the remit of central banks.[5]

A further important change was to require a clearer, but by no means absolute, separation of public and private interests in financing external government deficits. The inter-war system had depended largely on private, mainly New York banks, providing lending facilities to debtor governments. These same banks stood accused of benefitting from currency speculation alongside debtor government financing. Bretton Woods therefore sought to separate a public good function from a private good. It was therefore viewed by the New York banks as challenging their interests, specifically by allowing capital controls between nations, and by promoting the IMF as substitute lender to indebted nations. In doing so, it was considered a radical departure from sound banking principles, in giving debtors a voice in determining the policies of creditors.[6]

While these features represented the broad prospective financial architecture, the evolution of the respective plans and the progress of the war led to heightened debate on the post-war monetary and international order which was inseparable from the growing awareness of changes in global politics and leadership.

The 1943 debate: The White and Keynes Plans

Amidst increasing wartime cooperation between Britain and the US, plans for the post-war financial world were advanced in the respective countries with the White and Keynes plans. [See document Preliminary Draft Outline of a Proposal for an International Stabilization Fund for the United and Associated Nations (July 10, 1943) and Proposals for an International Clearing Union (April 1943)] In 1943, Parliament debated the Keynes Plan, in the following year it debated a White Paper summarising the "combined" White and Keynes Plans (which formed the basis of the Bretton Woods conference), and in 1945 debated and accepted the agreement. Across these years, the circumstances were very different.[7]

The debates in 1943 and 1944, in considering post-war plans, took place while the war was continuing. They were therefore aspirational and somewhat removed from the reality of the post-war world. In contrast, the 1945 debates were precisely focused on approving a Bill to put in place the necessary technicalities for Britain to approve the Bretton Woods agreement and join the new institutions.[8]

As previously stated, the question of national discretion in economic policymaking was at the heart of the economic issues surrounding the debates. For Britain, this assumed the form of whether Bretton Woods could impose domestic deflation as the inter-war gold standard had, and whether it would limit or end Britain's development of imperial trade preference and the sterling area. The concern with national interests and economic and political freedom informed the legislative scrutiny and debate in Britain, and these concerns were framed within the context of the financial crisis enveloping the country at the end of the war, but which had been apparent much earlier. The post-war world was going to be a very difficult place for Britain, and politicians of all parties were aware of it.

In May 1943, the respective plans of Keynes and White for post-war international monetary reform were debated in Parliament. The schemes were presented "as a basis for discussion, criticism and constructive amendment."[9] [See document Proposals for an International Clearing Union (April 1943)] At this stage, debate primarily concerned seeking approval for new monetary institutions and mechanisms facilitating international trade and full employment. In his 1930 *Treatise on Money*, Keynes had projected the idea of a "Super-national Bank-Money" issued by a Super-national bank which would supplant gold as the ultimate reserve asset. Keynes refurbished this idea in the 1940s, naming the currency "bancor" with the aim not just of supplanting gold but of preventing the global hegemony of the dollar.[10]

Keynes defined his plan's broad purpose as to "provide that money earned by selling goods to one country can be spent on purchasing the products of any other country."[11] Awareness that Britain would be highly-indebted after the war led to praise for Keynes' requirement that creditor countries should restore trade imbalances by accepting payment in goods and not merely in specie. The US plan was notably silent on creditor nations, and a few speakers argued that global trade could not recover by placing the onus on debtors.[12] The White Plan, as it developed and became the blueprint for Bretton Woods, made the dollar, backed by gold, the dominant post-war currency, which White viewed as essential for the success of the proposed institutions. [See document Preliminary Draft Outline of a Proposal for an International Stabilization Fund for the United and Associated Nations (July 10, 1943)] Another view of US motives, often associated with Treasury Secretary Henry Morgenthau, involved the US intentionally acting as benevolent guide, in the sense that what would be good for the US would be good for the rest of the world—an attitude redolent of nineteenth-century British free trade imperialism. A further element in the US approach to negotiations was the "Congress won't agree" position when resisting unpalatable proposals. Keynes himself perhaps underestimated the legitimacy of Congressional and popular resistance to his plan, often described as a "credit scheme," the bill for which Congress was unlikely to accept.[13]

The configuration of national interests explains why the Keynes Plan involved the IMF being able to impose symmetric adjustment responsibilities for deficit and surplus nations whereas in White's Plan (the eventual outcome), the adjustment fell on debtor nations. The US objection to the Keynes Plan was that it involved too much discipline falling on the US as the creditor nation, as well as exposing the US to almost unlimited extensions of credit to other countries—on this issue the US strongly played the Congressional objection card. Thus, the White

Plan envisaged a smaller IMF in terms of balance-sheet capacity, with more constraints on nations using it, and preserving gold standard-type discipline but adding the modern concept of required economic adjustment or conditionality for IMF lending. [See documents Proposals for an International Clearing Union (April 1943) and Preliminary Draft Outline of a Proposal for an International Stabilization Fund for the United and Associated Nations (July 10, 1943)]

Both plans had grown out of the same intellectual climate and possessed an identical purpose, in establishing new global monetary institutions aimed at exchange-rate stability.[14] White's fund would bring about a world congenial to American economic interests, where US exports would be protected by the commitment of other countries not to raise tariffs or engage in competitive devaluation—stipulations underpinned by Fund penalties. Keynes insisted on a system that left more discretion to national policy-making, but his clearing bank incorporated corrective action on balance of payments by debtors and creditors. British concern with creditor obligations led to suggestions that the US should reduce their credit balances, in the interest of pursuing a genuinely multilateral system, and the US appeared to comply, with a scarce currency clause allowing debtor countries to limit imports from persistent creditor countries. Under White's plan, a creditor country's currency could become scarce owing to fixed exchange-rates and by demand exceeding supply. However, it was not long before White reneged by implying the burden of adjustment lay with debtors.

At this early stage, British aims were defensive: to seek the survival of as much of the pre-war imperial preference system as possible, and to create a post-war system with some measure of protection from a sudden outflow of cash, and to prevent exporters being outcompeted by overseas rivals. Britain was opposed to the presumed effect of the White Plan that the IMF could prevent a country devaluing its exchange-rate. These defensive aims were reflected in the parliamentary debate on the plans, with support being cautious and lukewarm and opposition or concern being forthright and stridently expressed. Government support for Keynes was signaled by the Chancellor, Kingsley Wood, who contrasted the Clearing Union proposal and the attempt at international financial organization with the economic instability and political extremism of the inter-war period.[15] Further government support came from Ralph Assheton, Financial Secretary to the Treasury, who sought to allay fears of the magnitude of the proposed changes by stating:

> The essence of the plan is that no change should be made in the exchange rate between countries except under well-defined conditions ... the marriage with gold, so far as the British plan is concerned, is more in the nature of a companionate marriage than an indissoluble union.[16]

Further support came from Conservatives such as Henry Brooke, who welcomed further discussion on monetary planning without committing to specific measures. While these sentiments were the main tenor of the debate, unanimity was unlikely, and anticipating his opposition to the final Bretton Woods agreement, the Conservative MP Robert Boothby considered the White Plan a return to the Gold Standard, accompanied by a cycle of falling prices, profits, and purchasing power, with competitive tariffs, subsidies, and devaluation.[17] At this stage, Boothby was positive towards the expansionist effects of the Keynes plan but warned there must be no compromise on full convertibility or interference with the right to impose exchange restrictions. Boothby was uncompromising:

> If we do this again, it will be the end. The end of all our hopes of an expansionist policy, and of social advance. It will be the end of the Beveridge plan, of improved education, of housing reconstruction, the

> end of the new Britain that we are fighting to rebuild. It will lead once again to world depression, to chaos, and, ultimately, to war.[18]

Comparing the merits of the two plans, Sir A. Lambert-Ward (Conservative) saw fundamental differences, most pertinently the role of gold in the US plan. The accumulation and hoarding of gold indicated that the US "do not appear to have realized the responsibility which attaches to a creditor nation." Frederick Pethick-Lawrence (Labour) saw more rigidity in the American plan, which was "in fact a full return to the gold standard" and appeared to ignore the lesson that "shackles of gold" had damaged international trade in the inter-war period but he thought the British scheme was more expansionist compared to the deflationary aspects of the American plan.[19] Despite concerns and criticisms, plans continued apace for further discussion on the shape of the post-war monetary world.

Negotiations on the Keynes and White plans

Negotiations for a Joint Statement between the US and the UK took place in Washington between 15 September and 9 October 1943. Though the British government had supported the proposals made by Keynes, by late 1943 the government had abandoned hope of the Clearing Union being accepted by the US but now "sought to secure changes in the White plan that they believed were essential for Britain's welfare and for acceptance by the British Parliament."[20]

For the duration of the war, Churchill had little to say about monetary and economic issues but trusted the judgement and expertise of the legion of economic advisers now attached to the government. Keynes was brought into the Treasury as a Special Adviser in 1940, and many academic economists, especially in the Economic Section, were closely associated with Keynes in Anglo-American and international negotiations and in post-war planning.[21] Lionel Robbins recounted how the Americans appreciated the size of the British delegation, as an indication of how seriously Britain was taking the talks. Robbins recorded how domestic political considerations had influenced discussions, for the experience of 1925 and the over-valuation wrought by the Gold Standard "had so burnt itself into the memory of the public that it was safe to say that no British government could commit itself to a settlement which ever appeared to involve inflexibility. The Americans seemed to be impressed by this."[22]

With sufficient modifications between the schemes, Robbins remained convinced a settlement could be reached, and British optimism was buttressed by recognition of a clear shift in US policy from bilateralism to multilateralism by 1943. Both Britain and the US had reached the same conclusion, that the world needed a multi-lateral trading system, tariff reductions, and multi-lateral inclusion and input into the design and operation of the system's rules and guidelines facilitated by an international financial organization.[23]

The 1944 Debate: The Plan for Bretton Woods

Before the Bretton Woods proceedings, Lionel Robbins recorded how the *New York Times* launched "an almost continuous barrage of hostile and, for the most part, ignorant criticism" of the prospective arrangements.[24] Much of the disagreement at Bretton Woods between the two countries was framed by the US desire to reform the pre-war international system while assuring US control, which effectively limited the discretion of other nations. While accepting the need for change, Britain's immediate desire was to secure a path of adjustment that did not destabilise the British economy, and which preserved some national discretion for exchange-rate adjustment. We can aptly characterize US objectives as seeking to impose macro-economic adjustment obligations onto debtor and not creditor nations while limiting the scope for national discretion on exchange-rate revaluation by empowering the IMF, in which there was a built-in US veto.[25] British objectives were constrained by the immediate need to deal with its difficult post-war legacy, while favouring an international system with more symmetric adjustment by debtors and creditors, consistent with Britain's new position as a net debtor.

Above all, Britain sought a reduction of the wartime national debt to the US, and the means to set its own terms in resolving the problem of sterling balances. Those objectives required tariffs and capital controls, ostensibly to enable the British economy to adjust, with the intention that balances should be used only to buy British goods.[26] Britain had purchased goods to support the war effort from countries within the sterling area (broadly but not exactly Commonwealth countries) paying for goods in sterling. Consequent of exchange controls in the sterling area, balances were not convertible into other currencies, thus creating significant short-term indebtedness for Britain which persisted after the war. While mobilising the economic resources of the Commonwealth countries to support the war effort, it left liabilities far exceeding British gold and foreign exchange reserves, and led to the continuation of capital controls, notwithstanding the objective of Bretton Woods to end controls and establish currency convertibility.

Rejecting the idea of alternative financing, in the form of a loan from private New York bankers, Keynes continued dealing with Morgenthau and White, in the hope of blending the Keynes and White plans.[27] The result was the "Joint Statement by Experts of United and Associated Nations in the Establishment of an International Stabilization Fund". [See document Joint Statement by Experts on the Establishment of an International Monetary Fund (April 1944)] The Joint Statement was only an agreement of principles by technical experts and not approved by national governments. The British government was in no way committed to the IMF, and Parliament only considered the Statement as "a suitable foundation for further international consultation with a view to improved monetary co-operation after the war."[28] The plans provided for establishing and maintaining exchange-rate stability based on free convertibility, while proposing an orderly process for exchange-rate adjustment. Moreover, the external value of the domestic currency would conform to the internal value, not the reverse, leaving countries in full control of domestic monetary policy.

At a War Cabinet meeting on 17 December 1943, Herbert Morrison, along with other Labour Ministers, did not allow fond imperial sentiment to cloud his judgment, in stating:

> On sentimental grounds we should all of us favour Empire Trade. But this country could not live solely on it, nor could the Dominions live on trade merely with the United Kingdom and the other Dominions.[29]

Divided counsels became more apparent on 23 February 1944, with Hugh Dalton recording Lord Beaverbrook's opinion that "We are giving up our economic Empire."[30] The winter of 1943-4 had seen a combined effort between Bank of England officials and Beaverbrook to thwart moves towards a liberal, international order. Keynes castigated what he saw as old arrangements and old-fashioned ideas, and informed Beaverbrook "it is only under the aegis of an international scheme that we can hope to preserve the sterling area" though it remained unclear whether a genuinely multilateral system could coexist alongside imperial preference.[31]

In the Commons debate of May 1944, Left and Right attacked the notion of non-reciprocal trade, that is, where preferences, typically lower tariffs on imports from developing countries, were given to particular countries. The Chancellor of the Exchequer Sir John Anderson denied there was anything in the monetary plan prohibiting reciprocal commercial agreements. A key issue was whether countries in balance of payments disequilibrium could restore their position through the system's mechanism. Keynes argued the plan placed an appropriate share of responsibility for adjustment on creditor countries, and not over-reliance on debtors as the gold standard had.[32] [See document Speech by Lord Keynes on the International Monetary Fund debate, House of Lords (May

23, 1944)] The survival of imperial preference and the sterling area were a concern for many MPs but Anderson pre-empted Keynes in stating there was "nothing in the proposed scheme to preclude continuance of sterling area arrangements."[33] [See document Speech by Lord Keynes on the International Monetary Fund debate, House of Lords (May 23, 1944)] Moreover, free convertibility of sterling within an international system was deemed necessary for Britain to maintain imperial preference, otherwise, Commonwealth countries would realize they were better off in another arrangement. Yet many peers and MPs voiced concern over the uncertainty of the future arrangements and the survival of Britain's monetary infrastructure.[34]

In debating the proposed new monetary institutions, specifically the IMF, allusions to past mistakes of central banks in the interwar period surfaced. However, Keynes stressed the primacy of national sovereignty and political authority, in describing the IMF as "an organisation between Governments, in which Central Banks only appear as the instrument and agent of their Government." [See document Speech by Lord Keynes on the International Monetary Fund debate, House of Lords (May 23, 1944)] For many members, protecting Britain's "vital interests" was a paramount consideration, and the sense of dictation a concern and a blow to national prestige and pride. Trying to assuage these fears, Viscount Simon, the Lord Chancellor, despite acknowledging that achieving approximately equal voting strength to the US was important, argued that the new body was "a forum for consultation" which could not "impose its will on every country."[35]

The debates drew on the contrast between the flawed inter-war gold standard whereby the US had stockpiled gold, the result of her trading surplus, and the classical nineteenth century gold standard whereby Britain recycled her trade surplus into productive overseas investment rather than gold stockpiling. In the Commons, Pethick-Lawrence, Leader of the Opposition to the Coalition Government, thought the scheme went some way towards returning to a "gold basis" though not the historical Gold Standard. The Liberal MP Graham White supported the proposal and held that the US realized that the days of isolationism were over, and that they would co-operate for the sake of global prosperity. However, pessimism over US intentions and objectives were not hard to find, with the socialist Emanuel Shinwell arguing there was not the "remotest prospect" of the US reducing tariffs to allow British goods to enter the market. In another vein, the Liberal MP, George Schuster, doubted tariff reductions would lead to a great increase in imports because the economic position of the two countries was not complementary. Richard Stokes, an independent-minded Labour MP, argued that the scheme was "a cunning way of re-introducing into the European monetary system the hoards of gold at present locked in America." Predictably, Boothby, a persistent critic of international monetary organization, argued there was no assurance that the US intended to pursue a policy of deliberate expansion in the post-war world.[36]

In the Lords, Keynes made a robust case that there must be no return to the 1930s, when the huge trade surplus of the US led to stockpiling gold as the countervailing asset on its capital account. [See document Speech by Lord Keynes on the International Monetary Fund debate, House of Lords (May 23, 1944)] He found substantial support across the political spectrum. Referring to Keynes' long-standing opposition to the gold standard, the Conservative Lord Melchett argued Keynes "has spent a lifetime fighting the restrictive effects of the gold standard, and it is quite amazing to hear people coming forward at this stage to accuse him of trying to tie us to the gold standard system." Another Conservative, Lord Balfour of Burleigh, stated that Keynes had proved the new arrangements did not anchor Britain's economy "to other people's conditions through the medium of gold" but provided for domestic adjustment, thus retaining economic sovereignty. Viscount Simon (Liberal), reflecting the

Government position, viewed gold as a convenient "measuring stick" for the "comparative relations of currencies" and "nothing to do with going back to the gold standard or anything of that kind."[37]

The parliamentary exchanges of 1944 reveal that few were ready to accept the full implications of Britain's decline. To cushion the effects of change it was anticipated that the proposed transition period would be lengthy, with some continuation of Lend-Lease to avoid dislocation, something some speakers mistakenly assumed the US would feel obliged to do as recompense for Britain's wartime sacrifices.[38] Keynes' supra-national reserve currency idea had been jettisoned and the dollar assumed the role of anchor currency tied to gold. While currencies would set their value against the dollar and gold, Keynes stipulated this relationship merely expressed the relative value of currencies, not a return to a gold standard. [See document Speech by Lord Keynes on the International Monetary Fund debate, House of Lords (May 23, 1944)] As we have seen, most speakers, while acknowledging superficial similarities, recognized the substantive differences.[39]

Overall, the tone of the 1944 debates was one of slight pessimism and considerable uncertainty, though, with a few exceptions, criticism was primarily focused on the absence of specificity.[40] Party divisions were largely though not completely blurred in debate by wartime bipartisanship, for normal party politics was suspended for the duration of the Coalition Government between 1940 and 1945. Nevertheless, there were grounds for criticism and anxiety, primarily over IMF powers, the survival of the sterling area and imperial preference, and fears of a return to a gold standard. Yet hope remained that the new international system would be underpinned by symmetrical adjustment between creditors and debtors, and that domestic policy would not be constrained by the IMF.

The 1945 parliamentary debates: the Bretton Woods agreements

Several points are relevant to understanding the 1945 debates. Firstly, they were not solely, or even mainly, focused on Bretton Woods. They also covered the end of Lend-Lease, and conditions for a US loan designed to sustain a faster transition to the new international system than envisaged in 1944. Accepting the loan and faster transition was a condition placed on Britain by the new Truman Administration. Secondly, the 1945 debates did not concern the design of Bretton Woods and whether it could be amended, and there was dissent at the circumscription of the role of Parliament. Thirdly, the debates also involved a request from the government to approve a negotiating position in a future international trade conference as part of the post-war shift towards international cooperation. The 1944 debates had been somewhat nebulous for it was unclear what the specific proposals would be, when the war would end, and which countries would participate in the post-war financial institutions. The more informed sessions of 1945 were based on the greater clarity and substance of the Bretton Woods agreement which had superseded the aspirations of the 1944 Joint Statement. [See document Final Act (Text)]

The US and Britain held fundamentally differing conceptions of the scope and nature of the IMF—reflecting their relative positions as debtor and creditor nations. Commensurate with debtor nation status, Britain stressed national discretion, especially in adjusting exchange-rates, a longer transition period, and while seeking a larger Fund, was unhappy with the proposed national quota formula. As dominant creditor nation, the US held an almost diametrically-opposed position, emphasizing exchange-rate stability, promoting the powers of a smaller Fund with a short transition period, and with no change in the proposed quotas for borrowing capacity and voting power.[41]

In the event, the IMF agreement on July 22, 1944, formalized the shift towards the dollar becoming the dominant currency with a link to gold. White argued that the Fund's special purpose was to prevent competitive devaluation of currencies, but the 10% devaluation permitted by the so-called "exchange clause" was accepted. Sterling was to be freely convertible after five years when, as a founder member of the IMF and the International Bank for Reconstruction and Development, Britain would fully abide by IMF rules. [See documents Articles of Agreement of the International Monetary Fund (July 22, 1944) and Articles of Agreement of the International Bank for Reconstruction and Development (July 22, 1944)]

After Bretton Woods, moves were made towards formal ratification of the agreements. In the policy document "Overseas Financial Policy in Stage III", of March 1945, and circulated to Cabinet on 15 May, Keynes had warned of the high external debt, weakened export industries, and bloated overseas expenditure that Britain was now burdened with. Keynes starkly outlined Britain's choices and famously considered the views of economic nationalists and imperialists, and their advocacy of autarky and bi-lateral trade agreements, and opposition to an American loan, as leading to extreme austerity and "Starvation Corner" for Britain. The bleak economic position was exemplified at the end of the war, with Britain having lost one-quarter of her wealth, with sterling debts of $14 billion, and her volume of exports reduced by 54% between 1938 and 1945.[42]

In August 1945, the US terminated Lend-Lease. With its end, underlying tensions in Anglo-American relations surfaced, with both sides contending with domestic interests resistant to any agreement. There had been a change of government in Britain, with the Labour party coming to power in July. In the US, the new Truman Administration appeared hostile to favourable deals, not least because of suspicions surrounding the financial prudence of a socialist government.[43] After the 1945 election victory, the composition of the Labour party and the extent of its parliamentary majority, became a crucial element in ratifying Bretton Woods. In the 1930s, Labour's economic policy had been based on a planned domestic economy alongside a foreign policy component termed "international planning." By 1945 this rather vague concept was rejected, replaced by a "theological maze" surrounding how to align subscription to a liberal international economic order with a domestic economy based on socialist planning.[44] It appeared contradictory to aim at controlling most aspects of one's own national economy while trying to abolish "economic nationalism" in the world.

During the war, international economic issues had been discussed to an unprecedented degree. Labour ministers had been privy to Cabinet discussions on international affairs, and had access to expert advice. Labour economists and politicians, including Hugh Gaitskell, Douglas Jay, and Evan Durbin laid particular emphasis on extensive planning in the post-war world, and by 1943, many of them held government posts.[45] Labour was not primarily Atlanticist, and its somewhat paradoxical behaviour after taking office in 1945 can be explained by the exceptionally tough conditions the government faced and the fundamental contradiction of the "planning paradox" in reconciling its socialist aspirations towards domestic planning with international capitalist institutions.[46] Labour's commitment to Empire trading connections was also a difficult issue and Labour's continued and undoubtedly genuine internationalist aspirations were called into question, not least by American opinion, and by the party's defence of Britain's preferential trade privileges.

Britain's dire financial position had forced her to seek financial assistance but negotiations in Washington in 1945 went badly, and Keynes, meeting American resistance to his calls for a grant reimbursement in recognition of wartime sacrifices, had to retreat. After proposals and counter-proposals between the respective governments, including an American loan conditional on Britain dismantling imperial preference, making sterling freely convertible, and cooperating with the US in establishing global free trade, Britain accepted a $3.75 billion loan at 2% interest, which represented a humiliation for Keynes, who also conceded free convertibility of sterling for current transactions one year after enactment of loan terms. The US argued that the loan changed Britain's position and that the transition period, the five-year buffer for convertibility secured at Bretton Woods, should be adjusted accordingly.[47]

There were further shocks. Attlee's statement to Parliament on 6 December was accompanied by details of the financial agreement and joint statements on the preliminary Anglo-American trade agreement and the Lend-Lease settlement. The US had warned that financial aid was conditional on Britain accepting Bretton Woods, and with ratification one of the few negotiating weapons Britain possessed, the new Chancellor, Dalton, tied the parliamentary passage of Bretton Woods to the "even more strongly disliked, but scarcely escapable" loan proposal.[48] [See document Final Act (Text)] The loan was the keystone of the arch in Anglo-American relations for without it Parliament was unlikely to accept Bretton Woods. Equally, the British government was clearly not going to terminate the imperial preferential arrangements without recompense.[49]

The Cabinet was sufficiently nervous of negative reaction as to allow very little parliamentary debate, and though the terms were not debatable by Parliament, the deadline for ratification, making Britain a founding member of the Fund and Bank, and for accepting the American loan, was 31 December 1945. The 1945 debates were far less consensual than in 1944. The early end of the war had produced a set of unusually unfavourable circumstances for Britain. Debate focused on three main areas: firstly, the loan terms; secondly, the IMF's remit, terms of reference, and operational capability; and thirdly, the ramifications of new commercial arrangements. Additionally, there was disquiet over process, with members complaining Britain was being forced to hastily accept unfavourable terms under duress without proper parliamentary debate and scrutiny.[50]

Despite promoting the loan's positive features, Keynes was ashamed of the interest charges, and his speech has been characterized as partly "an apology", for he was angered by the unfavourable final terms which, reflecting the dominance of the White Plan, veered heavily towards US interests.[51] Wartime sacrifices were not seen by the Americans as justification for special treatment, and Keynes' argument that US negotiators stressed "future mutual advantage rather than past history" provoked fury among many MPs. Sir John Anderson called for a "clean slate" and the Labour MP Rhys Davies thought the terms very hard. Lord Woolton stated that he could accept Bretton Woods but not the loan. For the government, the loan was presented as a means of minimising austerity, a stance aimed at inducing loyalty among Labour MPs and peers, and one that was broadly accepted.[52]

Voicing the deep disquiet which characterized the debate, the Conservative MP Oliver Stanley likened it to a "vanquished people discussing the economic penalties of defeat."[53] For the government, Sir Stafford Cripps described the agreements as "inter-dependent" and "not quite independent" of the loan. Many MPs were disturbed by this connection, and even leading Ministers possessed little enthusiasm for the loan. Dalton described it as "a strange and ironical reward" for Britain's wartime efforts, and conceded that the agreements fell short of what Britain had hoped for. For Boothby, onerous loan terms were of a nature "never hitherto imposed on a nation that has not been defeated in war." For Denis Kendall MP, the loan was a "very bad bargain" which would cost Britain her "economic liberty and the development of our Empire."[54] Others argued Britain should have sought a loan from the Empire, or insisted that the US provide a loan with fewer punitive conditions but Cripps stated that other options had been carefully considered.[55]

Those supportive of the loan pointed to the proviso that Britain could cancel interest payments if exports in any year did not cover the pre-war level of imports adjusted for inflation, and if official reserves were inadequate to make payments. However, both opponents and abstainers questioned the value of this waiver clause because, on the assumption that trade levels would always be above pre-war rates, they argued the bar was set in the wrong place for it to be meaningful.[56]

The Bretton Woods agreement provided greater scope for debating the shape of the post-war world. For its supporters, an optimistic view prevailed that the IMF provided a balance between national discretion in policy-making, and reasonable domestic freedom to adjust exchange-rates, while securing financial advantages of international cooperation. Despite a linkage to gold, the system was not a return to the gold standard. By establishing multilateral trade based on exchange-rate stability it was hoped that competitive devaluation would be prevented. However, opponents held, in the event correctly, that the 10% permitted devaluation would be insufficient.

The scarce currency clause provided that if the IMF had low stocks of a currency it could be deemed a “scarce currency”, and members would be entitled and expected to discriminate against that country’s goods by their commercial practices. Those supporting the clause claimed it allowed other countries to apply sanctions, like import restrictions, if the US pursued a mercantilist-type policy. Opponents argued the clause could not be invoked so long as the Fund could borrow dollars from the US, thus enabling the US to avoid changing its pattern of trade.[57] They had little confidence that concessions made over scarce currency were not easily evaded, and the one-year conversion was considered too short an interval for a change of this magnitude, though voting power in the IMF, with Commonwealth votes at 25%, including 13% for Britain, almost matching the 27% for the US, provided some reassurance.[58] It was widely expected that after the war the dollar would become a scarce currency but owing to the Marshall Plan and other aid programmes, this did not in fact occur.

The loan and Bretton Woods arrangements were conflated most often in relation to imperial preference and the sterling area. The proposal to make sterling convertible for current payments and terminate the wartime form of the sterling area was vigorously debated.[59] Point 4 of the 1941 Atlantic Charter had stated the desire of the US and UK for open trading conditions, and Article VII of the 1941 Mutual Aid Agreement, anticipating pressure from the US for ending imperial preference, projected elimination of all forms of trade discrimination. This connection was known as “The Consideration” for American help with Lend-Lease.

It was acknowledged as early as 1941 that, despite the insertion of the words “with due respect to their existing obligations” at the behest of the War Cabinet, such a course might conflict with the 1932 Ottawa Agreements. Visiting Washington in May-July 1941, Keynes, as principal adviser to the Chancellor, had acknowledged this could be a difficulty for Britain.[60] The Ottawa Agreements had significantly strengthened and extended preferential tariffs throughout the British Empire, with fifteen bi-lateral preferential agreements made representing an extension of imperial preference at the expense of non-Empire countries, but divisions now arose over defending or even extending and strengthening imperial trade.

In 1943, the future Conservative politician Enoch Powell viewed the United States, not Japan or Germany, as the real enemy of the British Empire.[61] Roosevelt for his part deprecated past “artificial barriers created through senseless economic rivalries” and after the loan agreement, expectations ran high that the end of imperial preference was in sight.[62] Arguably, Churchill had not understood how costly American support would prove to be, for Lend-Lease was used by White and Morgenthau to secure the “grand principle” of non-discriminatory, multilateral trade. Many MPs made the connection, broadly believing “loss of preferences was the price of the loan.”[63] For the US, arguments for equal access to Britain’s export markets acquired more urgency from the accumulating sterling balances which blocked the conversion of pounds into dollars. Those balances had grown during the war. In 1940, Britain was dangerously short of dollars, and currency transactions by British residents were subject to exchange controls, with imports only permitted under license. Inhabitants of sterling area countries could use sterling accumulated from exports within the area, but as British exports declined, so the sterling balances, that is, British debts increased. By agreement, the dollars secured for exports were collated in London and drawn on only to pay for essential American exports. Regarding non-sterling countries, Britain negotiated agreements with neutrals in Europe and Latin America to pay for exports in “area pounds sterling” which could be used only for goods and services purchased within the sterling area. The overall effect was to keep the demand for American exports artificially low by blocking conversion of sterling into dollars and by controlling Dominion spending of directly earned dollars.[64]

The evolution of the sterling area led to divergent interpretations of its utility and value. Keynes warned that the sterling area would be destroyed if Britain rejected currency convertibility, but opponents argued otherwise, and Boothby went further in arguing that London’s position as a financial centre would be threatened by currency convertibility.[65] By 1945, Attlee’s government, while indicating imperial preference was negotiable, nevertheless assured MPs that contracting preferences was contingent on compensation of US tariff reductions. Despite mutual professions of support for freer trade, the Americans suspected the British of wanting to maintain preferential tariffs, while the British were convinced the Americans wished to maintain high tariffs.[66] Both Sir John Anderson and Churchill maintained that wartime agreements did not compromise imperial preference, with Britain no more bound to remove preferences than the US was to reduce tariffs. However, while viewing the IMF as no threat to the sterling area, Anderson was concerned at the unprecedented use of the word "elimination" entering the international vocabulary. The new Foreign Secretary, Ernest Bevin, dismissed such sentiments, stating that the price of American aid was the elimination of the discriminatory preferences of Article VII "and we knew it."[67]

More positively, the government argued that without a multilateral agreement there could be a return to economic blocs, unstable currencies, and trade discrimination. Viscount Samuel (Liberal) praised the US for seeking to facilitate free trade while Keynes added that the US commitment to full employment indicated renunciation of high tariffs. Some members, such as the Labour MP Richard Stokes, doubted the legitimacy of the American conversion to free trade internationalism, for while the pressure to export to promote domestic employment might be greater, it would not be uncontested, for Congress and public opinion also influenced policymaking, and following post-war demobilization, protectionism would just as likely re-emerge as a solution to unemployment.[68]

Those who favoured acceptance and abstention had different reasons for not rejecting the agreement. In the main, the former made a virtue of a necessity by placing, despite misgivings, the best possible construction on the deal. The acquiescence of the latter was underscored by general dissatisfaction with the terms. With a large Labour majority in the Commons, the Bill passed by 345 to 98 but 24 Labour MPs, including future leaders James Callaghan and Michael Foot voted against, and some Labour speakers saw Bretton Woods as sealing American economic hegemony and a surrender of economic sovereignty.[69] There was also some politicking by Ministers. As Leader of the Commons, Herbert Morrison informed the Parliamentary Labour Party the government would not discipline any member opposing ratification and the loan. Dalton even told Callaghan that he didn't mind if some MPs voted against, as it would show the US that the Labour Government was not a pushover and had its own domestic problems and dissensions to deal with.[70]

Despite a two-line whip instructing Conservative MPs to abstain, 47 MPs voted against Bretton Woods. The Conservative opposition included mavericks like Max Aitken but also "coming men" including Oliver Stanley and two future Chancellors, John Selwyn-Lloyd and Peter Thorneycroft. Boothby, a veteran Empire free-trader, typically viewed the agreement as compromising the sterling zone and imperial preference, central pillars of economic sovereignty, while caustically reminding abstaining Conservatives of the party's imperial identity. Treading the line between accepting the need to approve new arrangements while deprecating the terms was difficult but Churchill tried his best. Weakly stating that Conservative votes "could not affect the position" he maintained that abstention reflected refusal to accept responsibility for the proposals.[71]

Ultimately, possessing a large parliamentary majority, it was Labour party opinion that mattered. During the war-time political truce, there had been little in the way of partisan politics. MPs like Aneurin Bevan and Emanuel Shinwell had been critical of the wartime coalition but only once forced a division—on the Beveridge Report in February 1943, a vote closely associating Labour with social welfare reform.[72] In relation to Bretton Woods, there were multi-faceted factors involved for Labour MPs, of ideology, party discipline and loyalty, national interest, and the blunt determination to reject any policy which might lead to a return to the economics of the 1930s. Indeed, the 1945 Labour Manifesto had described the inter-war years in dramatic terms:

> Great economic blizzards swept the world in those years. The great inter-war slumps were not acts of God or of blind forces. They were the sure and certain result of the concentration of too much economic power in the hands of too few men.[73]

While there was a tension in the Labour Party between Keynesian demand management and socialist planning, the 1945 Manifesto broke with the Coalition consensus, with an explicit commitment to strict economic controls, planning and a socialized sector of the economy. These concerns seem at odds with accepting international institutions aimed at regulating international commerce and capital. The IMF and World Bank were hardly socialist organisations, yet Labour Ministers, except (until 1945) Bevin, were strong supporters. Bevin's eventual conversion was important, for his authority and popularity in the labour movement, especially in the trade unions, was considerable.[74] That Dalton, Gaitskell, and others fell in with what has been termed an Atlanticist approach to the post-war world should occasion little surprise, for it was no longer theoretical speculation but practical realities and difficulties of the post-war domestic economy which intruded.

Labour's course was a product of contradictions in previous thinking and the need to comply with Britain's powerful wartime ally. As Keynes predicted, most sceptics acquiesced when faced with the alternative of "trying to survive the post-war transition without United States aid."[75] Attlee and Dalton were ultimately pragmatists in recognizing that Britain badly needed the loan, and that Anglo-American co-operation was essential to post-war reconstruction—an acknowledgment of the harsh realities of the post-war world. The extent to which Britain should accept restrictions on her freedom in return for claiming a more satisfactory international environment continued to be a dilemma for the Attlee government in the post-war period.[76]

It was never likely, despite the Conservative majority, that the House of Lords would reject the agreement though it was less of a foregone conclusion than the Commons vote. While deprecating the government's handling of negotiations, Viscount Cranborne stated "it is not our job to make their task impossible." That advice was heeded, for of 98 votes cast, only eight votes were against the agreement though there were many abstentions. Two-thirds of those who spoke against the agreement, abstained, and of all who spoke most were against the arrangement, yet the predominantly silent majority prevailed.[77] For those abstaining, the lack of a viable alternative explains their actions but behind the decision not to reject the Bill lay fears of a constitutional struggle with the Commons. Abstention attracted criticism as it was (correctly) suspected that it would allow the Conservatives to make political capital from later austerity and privations.[78]

Conclusion

The changing tone of the parliamentary debates reflected the changing relationship of the US and Britain based on their respective political and financial fortunes between 1943 and 1945. The debates reveal that by using the loan as a condition and forcing-device to secure agreement to Bretton Woods, there remained several unresolved substantive points on the design of the post-war system. Arguably most important was the consequence of introducing the asymmetric adjustment obligation on debtor countries, which was raised but not resolved. As a feature of the White Plan it was carried into the final agreement, and alone, contradicted the argument advanced by proponents of Bretton Woods, more so in 1944 than 1945, that the new system protected national sovereignty, and that unlike the inter-war gold standard, domestic economies would not be compelled to respond to international developments. In the event of structural disequilibrium, national solutions were expected, such as changes in currency values or improvement in a country's competitiveness but discretion in national policy would be limited to what other governments believed necessary to maintain fixed exchange-rates.[79]

Secondly, flaws in the scarce currency clause, projected as the bulwark against asymmetric adjustment, were raised but not adequately debated, though in the event, the clause was never triggered. Thirdly, Britain was in no position to undertake a one-year transition to convertibility, a point made forcefully in the debates and almost universally agreed, and fully demonstrated when the time arrived, with severe austerity, dollar scarcity, balance-of-payment difficulties, and ultimately devaluation.[80] Fourthly, the waiver clause on interest payments on the loan was rightly criticized for setting the bar in the wrong place, though ultimately it proved difficult to adjust the repayment burdens of countries to domestic economic performance.

The question posed at the beginning as to whether political deliberation on Bretton Woods in the British legislature recognized the main issues relating to limits on national discretion in macroeconomic policymaking against the operations of international financial institutions, can be answered affirmatively. There was broad awareness that past mistakes must not be repeated but while most parliamentarians were prepared to make a leap in the dark, idealists, optimists, and visionaries were very much a minority. Hard-headed pragmatism and cynicism held sway, and few concurred with Keynes that Bretton Woods represented an attempt "to implement the wisdom of Adam Smith."[81] Among economists however there was great admiration for Keynes' contribution, for as Robbins recorded:

> I think he may well feel that with all the faults of the agreement which has emerged, something has been accomplished in the way of constructive internationalism which, despite the vagaries of Parliaments and Congresses, will not easily be brushed on one side.[82]

Regardless of how the agreement was presented, the compelling nature of arguments for acceptance, of pressing financial necessity, and the need for international cooperation to promote stability and prosperity, reflected the divergent economic reality of the respective countries. Opposition to Bretton Woods and the loan was grounded on the fear of American economic dominance, with little hope or expectation that the US would treat Britain favourably in the post-war world. An air of general disgruntlement characterized much debate, with regrets for a world now lost accompanied by fears for the future. Keynes was despondent that many politicians refused to accept clear evidence that Britain's resources were not what they once were.

While the urgency of securing an agreement was fully apparent, Britain's subordinate position created difficulties. Members of all parties appreciated that the US could not be blamed for seeking to protect her own interests, though there was divergence over the justice of that stance, but the perceived harsh treatment meted out by a wartime ally cut deeply. Even if loss of economic sovereignty and termination of imperial preference did not immediately materialize, the blow to national and imperial prestige remained great.

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