The Birth of Development

How the World Bank, Food and Agriculture Organization, and World Health Organization Changed the World, 1945–1965

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A spate of new studies has recently broadened the conceptual parameters of the field of U.S. foreign relations. Some scholars have explored the construction and projection of identity—both national and international. Others have shed light on the important role that international organizations have played in shaping U.S. foreign policy—and the role that Americans have played in shaping international organizations. Still others have helped to move our understanding of the Cold War from an exclusively East-West ideological conflict to a tendentious North-South struggle between the developed and developing worlds and to make plain the role of cultural assumptions in foreign policy formulation and implementation across those two worlds.

Amy L. S. Staples’s innovative *The Birth of Development* makes a major contribution to the literature in all of these areas. Employing a wide variety of primary sources from repositories in six countries, it delineates postwar efforts to ameliorate the destructive role of the nation-state in world affairs by constructing truly international organizations with truly global agendas in the service to all of the world’s peoples, not just a privileged few. Specifically, Staples brings to light the various developmentalist efforts undertaken by the World Bank, the Food and Agriculture Organization (FAO), and the World Health Organization (WHO). In illuminating the largely overlooked—and ultimately largely unsuccessful—early postwar efforts of these organizations, Staples argues effectively that their real significance lies in their goals, not their actual accomplishments. Yes, the World Bank, FAO, and WHO failed in the immediate postwar period to foster economic development, agricultural reform, and public health advances throughout the developing world. Far more important than their ultimate failure, however, are the nature and character of their developmentalist schemes.

The international civil servants who staffed the UN specialized agencies held a worldview that transcended national boundaries. Experts in economics, agriculture, and medicine/health, they sought to use their professional skills and specialized knowledge in a disinterested, dispassionate, and denationalized manner to improve economic conditions, food production, and health and living conditions for people throughout the developing world. Although a good many, but not all, of these experts were Americans, they subsumed their national identities to an
international one that privileged service to the world and had no place for individualized national loyalties. In their minds, their jobs as midwives to development throughout the nations of Asia, Africa, and the Middle East superseded any loyalty or allegiance they may have held for their own homelands. Yet as Staples makes clear, the international civil servants who staffed the UN specialized agencies often looked to one-size-fits-all solutions that failed to take account of local customs, traditions, and realities. Unable to escape their Western-oriented mindsets, they accomplished little despite their deep knowledge, scientific expertise, and good intentions. The role of cultural assumptions in derailing many of the UN specialized agencies’ developmentalist schemes is one of the most valuable aspects of Staples’s story, and it provides an important warning for similar present-day development efforts.

Additionally, *The Birth of Development* places the UN specialized agencies in their proper place as important post–World War II historical actors. As Staples makes abundantly clear, nation-states in the developing world lacked the resources to adequately address issues of development, food production, and health care. The responsibility for addressing those problems therefore fell to international organizations, which alone seemed to possess the requisite professional expertise and financial wherewithal. National rivalries, moreover, had been largely responsible for the two world wars of the twentieth century and the scramble for foreign empire that had left much of Asia, Africa, and the Middle East underdeveloped. This reality was not lost on those international civil servants who hoped to transcend national boundaries in a wholesale effort to remake the world and eliminate the glaring gap between the developed and developing worlds. For them, only real international cooperation toward global economic, agricultural, and medical development could point the way toward a better tomorrow.

By bringing to light these early post–World War II international efforts to reshape and improve the world, Staples demonstrates that much more was under way during that period than simply the solidification of the Cold War along East-West ideological lines. These years, Staples establishes, were also marked by profound North-South tensions between the developed and developing worlds. The cultural clashes that ultimately dashed many early developmentalist efforts reveal the profound gap between these two worlds, as well as the difficulty of bridging it. The end of the Cold War and the collapse of the Soviet Union have brought to the forefront the North-South side of the postwar era, and *The Birth of Development* is part of a much-needed and much-welcomed reconsideration within the U.S. foreign relations literature.

Although the story told here is sobering and often depressing, it is also one that must be told—and heeded—for it has much to tell us about that important historical moment that Staples calls the birth of development. Given the current role of international peacekeepers and multinational aid agencies around
the world, this story is also extremely timely and makes clear that the issues that confronted—and confounded—early postwar planners and reformers remain in many ways unsolved even now. The unintended consequences of the early post-war international developmentalists also resonate in the present and shed light on current dilemmas concerning the ongoing challenges of globalization. Staples’s book is international history at its best and a fitting inaugural volume for “New Studies in U.S. Foreign Relations.”

Mary Ann Heiss
The Birth of Development

With the end of the Cold War, historians of international relations began to realize that the most significant conflict of the twentieth century was likely the North-South debate over economic development rather than the ideological East-West armed standoff. But few historians and even fewer Americans know much about the international efforts spearheaded by the World Bank, the Food and Agriculture Organization (FAO), and the World Health Organization (WHO) to promote economic development efforts that were at the heart of the North-South debate. This book, however, does more than simply provide a history of these three international entities in the postwar period. By putting these groups and their actions into historical context, it also illuminates a key moment in human history—what I have labeled “the birth of development”—when discrete groups of people with international stature, expertise, money, power, influence, and the best of intentions began working to better the lives of other human beings whom they had never met or known, for no reason other than the desire to improve the fate of the human race. Unlike imperial powers, these people did not seek to govern; unlike missionaries, they sought no religious conversion of program recipients; unlike multinational corporations, they derived no monetary profit from their work (other than their wages); unlike revolutionaries, they actively sought to avoid political questions; and unlike charitable organizations, they had access to broader influence and resources within the international community. Through their work, they helped to create a sense of an international community and an obligation among its members to promote the well-being of the whole.¹

While it is clear that I see this as a majestic moment, it is certainly true that the push toward economic development described in these pages is far, far from an unalloyed success. Clearly the international civil servants studied here viewed economic development in the Third World as a process that would improve the lives and standard of living of peoples by rationalizing and modernizing economies and states. More often than not, however, their efforts tell a story of unfulfilled
dreams, unintended consequences, bitter rivalries, and tragedies on a global scale. One reason for these failures was that the ideas of economic development studied here were based on an interpretation of European and American history in which investments of mostly foreign capital into a country’s infrastructure and industrial capacity increased both national and personal wealth. But in focusing on the end product—development—these international civil servants often overlooked the human misery and social disruption caused by industrialization. The result of the application of this Western model to the Third World was disruption of extant social, economic, and cultural systems (often without providing workable alternatives) and a program of development generally characterized today as unsustainable, especially in terms of the high rate of consumption of natural resources. In other words, while motivated by the best of intentions, the UN specialized agencies did much harm. Yet these failures should not obscure the fundamental significance of people working on behalf of the human race as a whole instead of just one part of it. Indeed, I would echo the reminder that Brock Chisholm, the first director-general of the World Health Organization, gave his 1954 audience at the University of British Columbia: “The fact is that the peoples of the world are trying to do things now that they never had any idea of attempting to do before in the history of the human race, and because they are trying to do these things for the first time, it is not to be expected that their relatively primitive efforts should be successful on the first occasion or undertaken without difficulties.”

The story told in these pages is a story of beginnings—the beginning of the idea that development was an international obligation, the beginning of a broad international civil service, and the beginning of the continuing effort to find a way of promoting the well-being of the earth’s people as a whole. Certainly the international civil servants described in these pages were not the first group of people to organize and work across international boundaries—far from it. They drew upon more than a century of international work and organization to take up an important position at the intersection of several realms of international activity: they formulated their own international ideas and plans, they consulted with nongovernmental organizations (NGOs) interested in their work, they often worked closely with other UN agencies, and they relied on national governments to approve their actions and budgets. Accordingly, their story offers important insights into the development of internationalism in the twentieth century. For it is clear that they actively and consciously constructed for themselves and their organizations an international identity that animated their revolutionary work around the globe. That international identity grew out of their faith in progressive ideals, their own professional ideology, and their commitment to building networks of cooperation that included a broad range of organizations.

These ideas had come to prominence in the generation before World War I, when the people of many countries attempted to adjust their economic, politi-
cal, philosophical, and social structures to the jarring transformations caused by industrialization. That process had created national and international markets and systems of communication that integrated previously self-sufficient “island communities” into a national and world economy, with all the attendant implications for local cultural, political, and social institutions. Beginning in the 1870s, in response to these profound changes, a group of European and American philosophers discarded the platonic notion of pure forms and theorized that truth must be derived from experience, that politics should replace individual moral responsibility as the locus of reform, and that ethics could be derived only from a rational benevolence rather than an ideal notion of justice. From 1890 to 1920, these suppositions undergirded the Progressive and Social Democratic movements, which sought gradual, democratic, expert-guided change through reforms meant to remedy the worst ills and abuses of laissez-faire industrialization. Often starting with local reforms, people committed to Progressive and Social Democratic change usually came from the ranks of the new professional middle class—including educators, social workers, agribusinessmen, journalists, doctors, lawyers, business managers, and economists.3

These envoys of the new social, political, economic, and cultural order embraced the experiential and rational philosophy enunciated in the 1870s and 1880s, which complemented their own professional training. While each profession developed somewhat differently, these new professionals were more likely than their predecessors or contemporaries to have university degrees and, increasingly, state-bestowed certification to practice. Their educations were grounded in new scientific methods and in a determination to apply their studies to the betterment of the society and people around them. As part of this mission, these professionals often helped draft state and national legislation. The Pure Food and Drug Law of the United States is a prominent example of such Progressive-inspired legislation.4 The international civil servants of the World Bank, FAO, and WHO inherited this faith in the ability of professionals to craft rational social policy, as did U.S. Secretary of Commerce Herbert Hoover, who believed that rational analysis and cooperation could replace conflict in negotiating between functional groups in the economy.

The First World War had stultified but did not stop the Progressive agenda. Professional businessmen in the United States, many of whom had constructed benevolent public images by contributing their talents to the war effort as dollar-a-year men, played a large role in remaking postwar America by cooperating with the government and even, to a limited degree, with workers in an attempt to rationalize economic and social issues at home and abroad. Under the leadership of Hoover, the Department of Commerce was at the center of this cooperation in the 1920s. Hoover was widely considered a model Progressive, an engineer whose personal fortune had been built on his professional expertise. As secretary of com-
merce, he sought, through rationalization of industry, agriculture, and labor, to
cure many of the social ills that had been identified by the Progressives; he even
promoted rationalization of contentious international economic issues, such as
inter-Allied war debts. Hoover organized conferences, committees, business as-
sociations, and the expert analysis of economic statistics to show businessmen the
advantages of rationalization not only for themselves but for American society as
a whole. Like the Progressives, he believed that if he simply illuminated the facts of
any issue, businessmen, as rational professionals, would take the necessary action
to remedy the situation, making formal governmental regulation unnecessary.

This voluntarist system of cooperation crumbled under the pressure of the
Great Depression, however, and was replaced by a system that was far more for-
mal and government-directed but that still sought to combine governmental ex-
pertise with cooperation between, and reform of, the various economic sectors
(industry, agriculture, and labor). To carry out this task, the federal government
employed many of the professionals who had been displaced by the economic
downturn; the Agriculture and Treasury departments, for example, employed a
legion of economists in an attempt to rationalize key sectors of the economy.
Interestingly, the history of internationalism followed a similar pattern, moving
from individual and professional efforts at the turn of the century to more cen-
tralized, government-controlled initiatives by the eve of the Second World War.

Just as individuals and countries sought to adjust to the profound changes
wrought by turn-of-the-century industrialization, people who believed that pro-
gress toward an international society, economy, and culture would be the primary
characteristics of the twentieth century sought to facilitate this movement and to
create appropriate institutions to foster this change. Legal internationalists strove
to define and enforce a code of international law that would govern the conduct
of countries in this new age, and at the Hague Conference of 1899 they succeeded
in establishing the International Court of Justice. At the same time, economic
internationalists, such as French author Gustave Hervé and British author H. G.
Wells, argued that modern science and technology had contributed to an interna-
tionalization of capital and labor that made national boundaries obsolete, while
socialists proclaimed their own particular brand of economic internationalism.
Taking a different tack, cultural internationalists saw the world as a single com-
munity whose members, if they learned to communicate and cooperate with one
another, could live together peacefully. During the period 1870–1914, some four
hundred international organizations of all sorts came into being, prompting the
1910 creation of the Union des Associations Internationales in Brussels, Belgium.
What the International Institute of Statistics, the Universal Postal Union, the In-
ternational Council of Women, the Parliament of Religions, and the Esperanto
movement all had in common was a belief that international meetings and coop-
eration would improve understanding, preserve peace, and promote the advance-
ment of the human race. All of these forms of internationalism had their headquarters in Europe or the United States, and they consisted almost exclusively of Europeans and North Americans (with an occasional Japanese representative), who were almost inevitably representatives of the upper classes of their respective nations. Like the rest of European and North American society, however, internationalism was changed by World War I, as internationalists of all stripes sacrificed the cause to the nationalistic frenzy of war.⁷

Four years of previously unimaginable slaughter led, however, to the rebirth of a cultural internationalism that was more broadly based, embracing people of all countries and extending beyond the elite levels of society. Ironically, the war itself was a cause, because it had emphasized the universality of human experience, something that was particularly evident in much of the war’s writing. For example, the German main character in All Quiet on the Western Front, guarding Russian prisoners of war, reflects that

any noncommissioned officer is more of an enemy to a recruit, any schoolmaster to a pupil, than they are to us. And yet we would shoot at them again and they at us if they were free. I am frightened: I dare to think this way no more. . . . But I will not lose these thoughts, I will keep them, shut them away until the war is ended.

Indeed, many combatants as well as noncombatants emerged from the war with a deep commitment to reviving internationalism and dampening the nationalism that had led to such brutal wartime excesses.⁸

The League of Nations was the most prominent example of this new internationalism. Its members hailed from around the world; it focused on intellectual, scientific, economic, and cultural matters as well as traditional diplomacy; and in these ways, it evidenced the increasing institutionalization of cultural internationalism, which had previously been more of a private effort. The postwar movement to spur intellectual cooperation and understanding across national boundaries led to the creation within the League of Nations of the International Institute for Intellectual Cooperation and of the International Educational Cinematographic Institute. These and other, similar efforts aimed at inculcating international relations and area-studies courses into college curricula, reforming school textbooks, promoting student exchange programs, and otherwise promoting internationalism among the young. A growing sense that the world was more knowable also came in an informal manner from the expanding number of tourists during the 1920s as well as from the increasingly global economy, which was marked by the spread of American goods and movies and their significant cultural implications.⁹

The Great Depression and the events leading to World War II led many countries to appropriate culture for nationalistic ends. Such nationalism might have
been expected to quash cultural internationalism, but proponents of the movement clung to its tenets. Due to the fervor of 1920s internationalism, many of its institutions, such as the International Institute for Intellectual Cooperation, carried on into the 1930s. Both the League of Nations and the Comintern promoted cultural internationalism and condemned the Nazis' nationalistic assault on culture, symbolized as it was by book burnings, but the Americans, British, and Japanese also took steps to nationalize culture and to use it as an official tool of foreign policy. As war loomed larger on the horizon, cultural internationalists did not turn to nationalism as they had in 1914 but seemed to accept and even promote a definition of this new world war as an international crusade against the chauvinistic forces of fascism. In other words, culture and internationalism remained vital forces throughout the decade, even if their definitions were sometimes plastic.¹⁰

Postwar internationalism sprang from a loss of faith in the ability of the system of nation-states and traditional diplomacy to cope with modern problems, coupled with a search for solutions. Two world wars, a global depression, the advent of the atomic bomb, and the reality of biological weapons had convinced many people that the nation-state was obsolete “in a world where security and indeed life has become indivisible.” Additionally, this common set of experiences served as a point of departure for a global discussion on how future international relations should be structured. The development of commercial airlines, telephones, radios, and newsreels also fostered a sense of belonging to a knowable, global community. Some commentators went so far as to declare that national sovereignty and loyalty were obsolete: “We shall survive as members of the human race or not at all.”¹¹

This potent mixture of disillusion and universality was the basis of the postwar international ideal, a new and expanded version of the internationalism of the 1920s. There was not only a United Nations organization, to which the United States belonged, but also an Economic and Social Council to oversee the varied work of the organization’s specialized agencies, which included the World Bank, the Food and Agriculture Organization, and the World Health Organization. In other words, the internationalists had created new organizations that would, to an extent, shift the impetus in global cultural, social, and economic relations away from private groups and into these new international bodies as a counterweight to national strength. What was more, the people entrusted with running these new agencies largely maintained the Progressive and professional ideologies of their earlier training, which they saw as largely value neutral and objective. The UN agencies used the methods of public-private cooperation previously developed at the national level as models for their own work in the postwar years and specifically as ways to limit competitive nationalism, promote economic integration, and thereby establish a more stable and prosperous international system.
Moreover, they sought to apply scientific methods to their work and to promote cooperation among both public and private groups in order to eradicate outstanding problems and improve the quality of life for all groups and countries, whether measured in terms of income, employment, health, nutrition, infant mortality, or agricultural productivity.

This book explores this process and its implication in three parallel sections on the World Bank, the Food and Agriculture Organization, and the World Health Organization. In the introductory chapter to each section, I illustrate the development of a professional ideology and of international cooperation in economics, agriculture, and medicine respectively, and then proceed to detail the impetus behind the creation of each of these UN specialized agencies. The substantive chapters on each organization analyze the key elements in its development and its economic development work during the period stretching roughly from 1945 to 1965. Finally, in chapters 4, 7, and 10, I analyze a key part of the appropriate specialized agency’s program, thereby providing a case study of how its international agenda worked in practice. This organizational framework, I hope, situates key developments in their proper historical context and thereby demonstrates how they fit together to form what I have termed “the birth of development.”

In addition to illuminating this key moment in the past, this volume has much to tell us about today’s world. The debates about globalization in all of its aspects is certainly not ended, but simply beginning. This book brings us back to some of the first and crucial days of that process, when people began seriously to consider how they might best live together on the planet they shared. While these days were characterized most often by failures caused by ignorance and inexperience, they also helped mark this as “the greatest generation.” Today, the world continues to shrink due to jet travel, the Internet, and modern telecommunications, and globalization and international organizations have gained ever-larger places in our consciousness. The language we use and the ways in which we think about these phenomena today are deeply influenced by the thoughts and deeds of that first generation of international civil servants. By understanding these pioneers—the choices they made, the options they rejected, and the ideas they developed that did not come to fruition—we can better understand today the world around us as it is, as well as how it might be.
During July 1944, the forty-four Allied and Associated states arrayed against the Axis powers met at the Mount Washington Hotel in Bretton Woods, New Hampshire, where they drafted the Articles of Agreement for the World Bank and the International Monetary Fund (IMF)—the most powerful international financial institutions ever created. The Bretton Woods Conference thereby launched a new era in international economic cooperation. As a discipline, economics itself was barely a half-century old, and cooperation across national boundaries to this point had been largely informal, tentative, and voluntaristic. The conference changed this; cooperation was now systematized and centered in these new UN agencies, which were run by economic professionals. The perceived lessons of the previous fifty years, notably the conviction that nationalistic and autarchic economic and financial policies had contributed to the Great Depression and the Second World War, were the impetus for the change. Peace and prosperity in the future, the delegates believed, required multilateral trade and convertible currencies, but the delegates held that in addition to these automatic economic stabilizers, new international regulatory, coordinating, and stabilizing institutions were needed. Professionals, much like themselves, would run these organizations, analyzing economic problems scientifically and dispassionately applying their expertise in order to coordinate national policies, promote development, and regulate the global economy. These were the lessons and goals that shaped policymaking at Bretton Woods and that guided the World Bank in the years ahead.

Also guiding the World Bankers in this new endeavor was a shared sense of professionalism, developed in the discipline over the previous half-century and clearly evident throughout the conference. U.S. treasury undersecretary Harry Dexter White and John Maynard Keynes of the British Treasury were central in drafting the Bretton Woods accords. White, the son of Jewish immigrants, and Keynes, the son of British aristocrats, were different in many ways, but they saw the world in similar terms—terms defined much more by profession and experi-
ence than by nationality or class. As part of this common professional ideology, they shared a progressive faith in the ability of experts to act objectively on behalf of the common good, which meant acting on the basis of “the facts” regardless of political considerations or national interests. This shared professionalism allowed the two men to write into the Bretton Woods accords a sense of international purpose and ultimately to lay the foundation for an international identity that characterized the individuals who later worked for the World Bank and the IMF.

*Early Formative Experiences*

This ideology and worldview were a direct outgrowth of the professionalization of economics, which combined an emphasis on the new social science methodologies with a continuing commitment to social improvement. Anglo-American economics evolved into an independent academic discipline by using new statistical and “scientific” methods to command authority and to differentiate itself from the humanities, but it did not entirely abandon its ethical and religious roots. Indeed, the most influential economist of the time, Alfred Marshall, who chaired the Economics Department at Cambridge University, embodied both the scientific and ethical dimensions of the new profession; he influenced an entire generation of economists, including John Maynard Keynes. Marshall convinced Cambridge to create an economics curriculum separate from history and moral science, because he believed that economists could and should meet the objective, apolitical, and impartial standards of the physical sciences. But he also pioneered the concept of welfare economics—the notion, in other words, that economic analysis must supply policymakers with the tools and information needed to improve the lot of humankind.¹

The same sense of social purpose suffused the American economics profession, which also came into its own around the turn of the century, when such public issues as currency reform, the growth of trusts and railroads, and the rise of the labor movement encouraged a strong interest in the discipline and its ability to solve difficult economic and political problems. Influenced by this sense of purpose and confident of their own professional abilities, American academic economists rejected many of the ideas attached to laissez-faire and the neoclassical economic theory that supported it. In fact, the declaration of principles they drafted for the fledgling American Economic Association envisioned “the State as an agency whose positive assistance is one of the indispensable conditions of human progress.” Although economists later abandoned this rhetoric as they strove to become more apolitical and dispassionate, the sense of social purpose it conveyed and the belief in government responsibility (which was emblematic of the Progressive Era) remained relatively constant in the American economics profession.²
On both sides of the Atlantic, economists and their professional cousins in banking sought to act on this sense of social purpose by translating their professional worldview and growing authority into prominent roles in national economic policymaking and international relations. On the national level, progressive American bankers and economists urged the creation of the Federal Reserve System, in response to the financial instability and attendant social problems that plagued the United States between 1873 and 1907. This system and similar reforms sought to remove questions of currency, banking, and money from the partisan political arena and instead to entrust them to nonelected economic experts, thereby enhancing the role of these experts in governmental policymaking and their self-constructed identity as apolitical professionals.3

American economists and bankers, together with their British counterparts, also tried to spread their newly acquired professionalism to other, usually less-developed, areas. Financial and governmental officials from both the United States and Great Britain energetically promoted the gold-exchange standard in the countries of eastern Europe and Latin America. They also urged these same countries to adopt a centralized banking system, tax and accounting reforms, and a formal system of revenue collection, all of which, they claimed, would lay the foundation for financial stability, increased trade, and more private investment. Montagu Norman, who headed the Bank of England, sent his employees across Europe, Latin America, and the British Dominions carrying this message. He also invited banking officials from these areas to visit London, where they could study the British system of centralized banking and learn firsthand how an institution like the Bank of England, which was supposedly run by disinterested professional experts, could contribute to financial stability and growth.4

All of these activities demonstrate the sense of mission that infused American and British economists and bankers in the early years of the century as well as their faith in experts, their belief that financial management offered solutions to far-ranging economic, social, and political problems, their conviction that fiscal restraint and responsibility were key to economic progress, and their tendency to equate economic progress with advancement toward “civilization.” These financial experts believed that their prescribed reforms would replace revolution and anarchy with order and stability as well as integrate these less-developed nations into a mutually advantageous system of world trade. Economic regulation ensured the proper functioning of the mechanisms of credit and markets, which these Anglo-American officials believed were capable of instilling the “manly” virtues of discipline, regularity, and responsibility. In other words, these financial missionaries also saw themselves as advocates of moral and social as well as economic uplift.5

In the United States of the 1920s, these convictions seemed to be embodied in Herbert Hoover, who served first as secretary of commerce under Presidents Warren G. Harding and Calvin Coolidge and then as president himself. Although
Hoover believed that American prosperity rested in part on an expanding world economy, he did not believe that the government should be primarily responsible for promoting economic growth and stability, in large part because government involvement would actually politicize economic affairs and lead to inefficiency, waste, and war. Instead Hoover wanted the government to rely heavily on private, nonpolitical experts, who would supposedly act on a rational, scientific basis—not on the basis of political considerations. With these ideas as a guide, he encouraged Benjamin Strong, governor of the New York Federal Reserve Board, to cooperate informally with British and European central bankers to stabilize currencies and foster trade. Hoover also backed the formation of the Dawes Commission, a committee of business and banking experts appointed to reorganize German finances and determine that country’s ability to pay reparations. He hoped to construct similar machinery to deal with the inter-Allied debts, which were a drag on the international economy, and he asked private banks to consult voluntarily with the Treasury, Commerce, and State departments to ensure that their loans did not conflict with national policy, were made only for “reproductive purposes,” and would therefore contribute to global growth and stability. Unfortunately, Hoover overestimated the ability of bankers, economists, and other professionals to solve the world’s problems, just as he underestimated the negative effect that a high American tariff, war debt collections, and poor lending policies would have on the international economy.

The Great Depression convinced many that private bankers alone could not solve the world’s economic problems, that more effective economic management was necessary, and that that management had to be more official and more international than Hoover had anticipated. Gradually, the locus of economic decision making began to shift from informal to formal mechanisms of cooperation and from the private banking community to national governments. To be sure, governments sometimes acted with little regard for the effects of their policies on other countries, as was the case with the London Economic Conference of July 1933, which collapsed when the conferees were unable to agree on a common approach to economic stabilization. But more typical was the realization that new international institutions and new forms of collaboration and government action were needed not only to deal with the Depression but also to guarantee growth and stability over the long term.

Indeed, the Depression eventually precipitated new efforts at international economic collaboration. In 1934, for example, the United States established an exchange stabilization fund to sustain the dollar and then expanded the fund to support a number of other currencies and provide for consultation on common economic problems. In 1936, the Treasury Department formalized this arrangement in the Tripartite Declaration between the United States, France, and Great Britain, under which the three countries pledged to consult on ways to expand
trade, end exchange controls, and avoid new international monetary disturbances. As it turned out, however, the signatories were unable to make progress toward their economic goals in the face of autarchic German trade and currency policies, and most came to believe that international monetary stability was only possible within a more broadly based international system.8

The Tripartite Declaration called for national treasuries to deal with each other directly rather than through central banks or private banking interests, a change that placed a new emphasis on government action. Reinforcing this new emphasis was the introduction of Keynesian economic theories, which stressed the paramount importance of government management of the economy, especially in spending and control of interest rates. These theories began to gain wide credence after 1936 among professional economists, who brought these ideas into government, where they began to shape public policy on a variety of issues, including those having to do with the international economy.9

Keynesian economists and government officials also moved toward more formal governmental efforts to alleviate the Depression when they focused on economic development. Traditional wisdom held that economic growth occurred as the result of large-scale private investment, but the New Deal seemed to demonstrate that the government itself could mobilize the resources necessary to promote development, at least in some areas. The Tennessee Valley Authority (TVA), begun in 1933, was the marquee example of this kind of government-funded economic development. It became the model for similar river-development schemes throughout the United States and the world, as well as for the Rural Electrification Administration, which brought electricity to rural areas across the country in order to encourage their economic development and modernization.10

By the beginning of World War II, therefore, the economics profession had become confident in its ability to improve both economies and societies. Not only had the profession distinguished itself within academia but governments had also begun to seek regularly the advice of economists. This had begun informally, as economists advised legislators on economic reforms and became more formalized as governments took increasing control of national economies. These governments also built upon the informal coordination of the international economy that had flourished in the Progressive and interwar periods. Now they were ready to build an international organization to formalize this economic work.

Bretton Woods: Constructing a Cooperative International Order

The movement toward formalized international economic cooperation seen in the Tripartite Declaration accelerated during the Second World War and culminated at the Bretton Woods Conference. Shortly after Pearl Harbor, U.S. treasury
secretary Henry Morgenthau Jr. appointed Harry Dexter White to begin American postwar economic planning. White had fought in World War I, studied economics at Stanford and Harvard, and taught economics briefly before entering the Treasury in 1934, where he quickly became second in charge. Recognizing the close relationship between domestic and international economic issues, White was convinced that U.S. prosperity depended on the world’s countries being wealthy enough to buy American goods and being willing to sell their raw materials. Because such an open trading system demanded a level of exchange-rate stability that could only be achieved through the cooperation of all countries, White considered establishing an international stabilization fund that would provide formal cooperative machinery as well as assets to support national currencies. At the heart of the plan was the New Deal concept of shifting responsibility for international economic policy from private and central bankers to national governments acting through international organizations.11

To create such a system, however, required some sacrifice of national sovereignty. In order to maintain stable exchange rates, each country would have to abandon high tariffs, export subsidies, foreign-exchange restrictions and controls, bilateral clearing arrangements, and domestic policies that promoted inflation or deflation. White knew that such sacrifices would be difficult for governments, but he believed that the benefits of doing so would be enormous. Keynes was not so certain. He and other British leaders who believed that the premature return to the gold standard in the 1920s was at the root of Britain’s financial woes wanted to avoid any postwar system that would allow automatic stabilizers or powerful international institutions to deny national governments the flexibility they needed to determine their own economic policies. Therefore, Keynes and his colleagues sought to limit the power of the proposed International Monetary Fund while simultaneously seeking a well-endowed World Bank that would float large loans, build investors’ confidence, and restore international capital flows to underwrite Britain’s postwar reconstruction.12 But whatever differences in emphasis existed between Keynes and White, they shared a professional ideology, a common view of the shortcomings of the interwar period, and similar visions of a postwar economic order based on formal international institutions staffed by experts. In the sometimes contentious three-year process of hammering out draft accords for these international institutions, the Allied economists came to think of themselves as “a group of friends working together for a common cause.” This sense of common purpose and professionalism found its way into the Joint Statement by Experts on the Establishment of an International Monetary Fund.13

Central to the Joint Statement’s broad outline of the World Bank’s operations was the clear desire for a bank with the necessary independence to pursue an international agenda. To establish sufficient financial strength, World Bank vaults would hold member contributions totaling $200 million in scarce gold and dollars,
but to build its own economic resources and to attain a greater degree of indepen-
dence, the bank would also charge borrowing nations a “fairly substantial flat rate
commission.” The bank’s internationalism and professionalism, however, were as
important as economic independence. To these ends, Keynes and the other Euro-
peans believed that it should charge all borrowers the same rate of interest, that
its lending should be based only on expert analysis of the desirability of a loan
and the ability of the nation to repay it, and that its loans should be completely
untied so that the proceeds could be spent in any country offering the needed
goods and services at a competitive price. In other words, to Keynes and the other
drafters of the statement, the World Bank was to be an international organization
that so far as possible promoted the best interests of the international economy as
a whole—a revolutionary idea that later became key to the identity of the World
Bank and its staff as international public servants operating independently of na-
tional governments.  

A sense of optimistic possibility animated the Bretton Woods Conference, a
spirit that grew out of a common sense of professionalism, the “lessons” of the
interwar period, and the desire to construct a new global economy. Almost ev-
everyone at the Mount Washington Hotel seemed to view the world economy as a
single organic unit that required international institutions to ensure its proper
regulation. They also seemed to believe that the absence of effective international
regulators, together with economically nationalistic policies, had been respon-
sible for the Depression and world wars of the previous decades.

At Bretton Woods, construction of the new international order required bal-
ancing different national interests without allowing any concession that could
unbalance the multilateral system. There were a great many national issues to
be balanced: the Mexicans wanted to move toward the monetarization of silver;
the Indian delegation demanded the return of its blocked sterling balances in
London; the Europeans were more concerned with the bank’s role in the recon-
struction of their economies, while the Latin Americans fought to advance the
development function of the World Bank; the Soviets were suspicious of the
Western powers and protective of their socialist system; and a large segment of
the American people and Congress were only slowly abandoning their suspicion
of international institutions. The task of reconciling these differences fell largely
to the American delegation (aided by the conference’s technical experts), but out
of the process of reconciliation came the renewed conviction that it was possible
to reconcile national interests with a new spirit of internationalism, that new in-
ternational institutions could succeed where strictly national policies had failed,
and that a new class of professional experts and international civil servants could
avoid the problems that had marred the interwar era.

In negotiating with Great Britain and the Soviet Union, for example, the Ameri-
can delegation went as far as possible toward meeting those nations’ reservations
without compromising the core of the institutions’ missions. In the case of the United Kingdom, the framework for cooperation had been laid during three years of preparatory talks, and this habit of cooperation, according to a British delegate, was the key to the conference’s success. The U.S. delegates appreciated the willingness of Great Britain to contribute $1.2 billion to the lending pool of the World Bank, and they sought at every turn to consult with the British delegation, to work together on controversial issues, and to maintain good relations. Toward the end of the conference, Keynes went so far as to describe relations between the American and British delegations as “perfect.” More challenging was the task of cultivating the cooperation of the Soviet delegation and easing its suspicions, but Morgenthau was determined to secure full Soviet participation in the Bretton Woods institutions. Although Dean Acheson of the State Department thought that Morgenthau “coddled the Russians,” and some of the Europeans also accused the U.S. delegation of caving in to Moscow, Morgenthau unabashedly emphasized his role in the Roosevelt administration’s reestablishment of diplomatic relations with the USSR in 1933 and sought to portray himself as a friend, even a “grandfather,” to the Soviet delegation. To garner the goodwill of the Soviet delegation, he and other Americans also acceded to the USSR’s request for an IMF quota of slightly more than a billion dollars, an amount close to that of the British and one the Soviets thought emblematic of their standing as a major power. The Soviets appeared to be pleased with this concession, though they were less than happy when the U.S. delegation rejected their proposal that they and all war-devastated countries be allowed to reduce the amount of the capital they paid into the bank and the fund without a corresponding reduction in voting power. Fears that all nations would claim such an exemption and that the subsequent reduction in available capital would cripple the institutions had led the United States to issue this rare refusal.

In addition to assuaging British and Soviet concerns, the American delegation at Bretton Woods also tried to meet the concerns of other countries in constructing the new international economy. Although these countries could not contribute as much to the resources of the fund or the bank, their participation was necessary if the international system was to function correctly. China and France, for example, were still important to the continuing war effort as well as to the stability of the postwar world, and because of this the U.S. delegation was willing to allot each a sizeable quota in the fund and bank, which gave them automatic seats on the executive boards of both institutions. The Third World nations represented at the conference, primarily India and the Latin American countries, also sought effective representation on these boards, primarily to promote their own interests, which lay largely in tapping international resources for their economic development. In these cases, too, the American delegation made concessions: India received a permanent seat on the boards of both organizations, while the Latin Americans received enough votes collectively to elect two executive directors.
In spite of these national issues and the need to accommodate them, a spirit of internationalism continued to suffuse the conference, and many delegates hoped that it would also permeate the Bretton Woods institutions. They hoped the World Bank would become a community of countries that came together cooperatively to solve international problems in a rational manner, just as the conference had managed to deal effectively with national concerns at Bretton Woods. To be sure, the bank and the fund were not to be supranational institutions with the power to dictate national policies, but the charter of both institutions pledged member states to common policies and obliged each to uphold those policies. In addition, both organizations had the power to make recommendations to member countries and to refuse to underwrite their loan projects. They also had the ability to mobilize more capital than any single nation or private investor and to make this capital available without regard to political considerations. In these and other ways, they were empowered to act as truly international institutions of global cooperation and to do so, at least in theory, on the basis of professional, businesslike principles, not political or national considerations.19

Clearly, the Bretton Woods delegates hoped that their creations would bring a new day of international economic progress and cooperation. Hopes for the World Bank were particularly high, as the delegates believed that it would prevent a relapse into the horrible political and economic conditions that had characterized the interwar period and would usher in a new age of rising productivity, employment, and living standards through international cooperation. This hope for postwar cooperation and appreciation for the achievements of the conference was well expressed by Keynes, who had headed the commission responsible for drafting the bank’s Articles of Agreement, when he moved to accept the final act at the closing plenary session of the conference:

We have not been trying, each one to please himself, and to find the solution most acceptable in our own particular situation. That would have been easy. It has been our task to find a common measure, a common standard, a common rule applicable to each and not irksome to any. . . . We have shown that a concourse of 44 nations are actually able to work together at a constructive task in amity and unbroken concord. . . . We have been learning to work together. If we can so continue, this nightmare, in which most of us here present have spent too much of our lives, will be over. The brotherhood of man will have become more than a phrase.20

The cooperative nature of the new world order being constructed at Bretton Woods was not limited to cooperation between countries; on the contrary, the conferees also sought to foster a partnership between the bank and private enterprise to rejuvenate the international economy and to provide some regulation
of private lending. To do so the bank would guarantee the bonds of nations undertaking reconstruction or development projects, in order to make those bonds attractive to private investors, and it would finance loans from its own resources when private investors were not available. Its relatively low interest rates and high standards would hopefully prevent both usurious rates in the private market and a relapse into the poor lending policies of the 1920s. In addition, the bank’s lending to Third World countries was supposed to foster an environment conducive to private foreign investment while at the same time underwriting the kind of infrastructural projects—roads, railroads, communications, port facilities, and public utilities—that attracted few private investors. “If you build a public road you get no returns at all,” explained Alvin Hansen, Keynesian Harvard economist and Bretton Woods adviser, “and yet it is extremely productive and induces private investment. It is that kind of loans this Bank has to make.”

The Bretton Woods delegates also realized that cooperation with private businessmen and bankers was a two-way street. If the World Bank was to be able to rely on Wall Street to buy its bonds and support its approach to international lending, the bank would have to win the New York financial community’s confidence. For this reason the drafters of the bank’s Articles of Agreement established a very conservative lending posture for the fledgling organization, under which it could not lend more than its $10 billion in subscriptions. Although most private banks could lend two or three times their reserve capital, the American delegation argued that Wall Street would not purchase the bank’s bonds or recognize its guarantee of national bonds unless the World Bank adopted a very fastidious lending posture.

As they left the Mount Washington Hotel, the Bretton Woods delegates could be justifiably proud of what they had achieved. The Articles of Agreement seemed to lay a sound foundation for international economic cooperation, and they had been provisionally approved by all the Allies, including the Soviet Union. But it remained to be seen whether they would pass muster with the U.S. Congress, which had been the bane of the League of Nations, and whether they would work in practice.

Passage of the Bretton Woods Legislation

If Wall Street’s support was essential to the World Bank’s success, congressional support was first needed to give it and the IMF life. To assuage concerns on Capitol Hill, Morgenthau and his colleagues had included congressional leaders from both political parties in the Bretton Woods delegation, and they also made sure that the United States would exercise a degree of influence over the World Bank and the IMF commensurate with its financial contribution to both institutions. With the latter goal in mind, Congressman Brent Spence (D-KY),
a Bretton Woods delegate and chair of the House Committee on Banking and Currency, was “unalterably opposed” to locating the headquarters of either the bank or the fund anywhere but in the United States. He believed that congressional ratification of the accords would be impossible under other circumstances and urged Morgenthau to express this to Keynes “as plainly as diplomacy will allow.” Said Spence, “I don’t know how plain that is, [but] profanity wouldn’t hurt.” For similar reasons, he and other members of the American delegation also demanded a system of weighted voting that tied voting power to the size of a member’s financial contribution. This system gave the United States something like a veto in both the bank and the fund and went a long way toward assuaging the concerns of conservatives like Republican senator Robert A. Taft of Ohio, who had proclaimed that Congress would never approve a “plan which places American money in a fund to be dispensed by an international board in which we have only a minority voice.”

Despite such conservative opposition, the U.S. delegation was confident that both Congress and the American people would ultimately approve the Bretton Woods accords, and not only because they secured the concessions that Spence and others had in mind. According to Edward E. “Ned” Brown, chairman of the First National Bank of Chicago and a conference delegate, the bank and fund were “clearly to the direct interest of American investors and the American public.” Because the United States was certain to emerge from the war as the world’s dominant financial, industrial, and agricultural power, it needed markets for its surplus capital and production if it hoped to avoid a recession, perhaps even another depression. The fund and bank promised to loan Europe and the Third World the dollars they needed to buy American goods and at the same time spread the risk of such loans across the international community rather than leaving it on the shoulders of U.S. taxpayers. Also, because the entire international community was, in effect, making the loans, the members of the U.S. delegation believed that “no country would dare default to an international organization of this kind.”

The hearings before the House and Senate Committees on Banking and Currency that followed the 1944 election vindicated the confidence and hard work of the Bretton Woods delegation and the Treasury Department. During the course of the hearings, the Treasury was able to reverse initially negative press coverage of the Bretton Woods accords and build something close to a consensus behind the notion that it was necessary to stabilize the entire international economy with fixed exchange rates and ample reconstruction loans. Over one hundred organizations adopted resolutions and statements recommending approval of the Bretton Woods legislation, and of these organizations none was more aggressive in its support than the Congress of Industrial Organizations (CIO). In a pamphlet titled Bretton Woods Is No Mystery, which closely followed the Treasury’s line of argument, the labor union asserted that currency instability disrupted interna-
tional trade and hurt employment in the United States, that the total U.S. capitalization of both institutions would cost less than the country spent in a single week during World War II, and that the bank would create “a decent relationship between nations,” “more exports and imports,” and “more jobs.” Indeed, the CIO claimed that foreign trade could create five million jobs in the United States, which was “the difference between prosperity and depression,” and it lashed out at the private bankers who constituted the most persistent opposition to the Bretton Woods legislation. It accused the American Bankers’ Association (ABA) and its chairman, Winthrop Aldrich, of seeking to monopolize the international economy in order to advance their own interests. According to the CIO, people knew that a banker-run international economy would again lead to world depression, fascism, and war and that far better results could be expected from the Bretton Woods agreements, which had been formulated over three years by economic experts who had “studied the problem not for personal gain but for the good of their own nations and for the good of the world.”

Nonetheless, opposition to the Bretton Woods accords came from a number of quarters. In addition to the ABA, organizations going on record as against the new institutions were the Association of Reserve City Bankers, the Bankers Association for Foreign Trade, the New York State Bankers Association, the Los Angeles Chamber of Commerce, the U.S. Chamber of Commerce, and the Guaranty Trust Company. Several individual economists also expressed reservations, particularly about the IMF. Together with the bankers, they supported international monetary stabilization but wanted it to begin with the British pound and other key currencies. They argued that the World Bank could provide the necessary currency stabilization loans, in addition to its reconstruction and development loans, without the extensive rules and regulations envisioned in the IMF accords. Congressmen Frederick C. Smith and Howard H. Buffett summed up this point of view in a minority report to the House Committee on Banking and Currency.

But the committee report, some business and bankers’ organizations, many Republicans, and, eventually, Congress as a whole concluded that large changes to the Articles of Agreement formulated at Bretton Woods would make it difficult for the legislatures of other signatories to ratify the articles. Any delay in doling out reconstruction loans or encouraging currency stabilization, they feared, would result in a repeat of post–World War I economic chaos. To those few critics who had argued for a return to the gold standard or individual and bilateral national currency stabilization, the committee responded that international monetary and financial cooperation was essential to a rebirth of global trade and investment. Two months of congressional testimony resulted in no substantial change to the agreements. The most substantive alteration in the enabling legislation was a new provision creating the National Advisory Committee on International Monetary and Financial Matters (NAC), which merely formalized consultation between
representatives from the Treasury and State departments and the American executive directors of the World Bank and IMF. Now the sole remaining question was how the Bretton Woods accords would work in practice.

Savannah: The First Meeting of the World Bank

Keynes’s opening address at the inaugural meeting of the World Bank and IMF in Savannah, Georgia, in March 1946 suggested appropriate christening gifts for the newborn institutions. First on his list was “a many-coloured raiment to be worn by these children as a perpetual reminder that they belong to the whole world and that their sole allegiance is to the general good.” He then suggested vitamins that would instill in the bank and fund “energy and a fearless spirit, which does not shelve and avoid difficult issues, but welcomes them and is determined to solve them.” Finally, as a complement to this fearless spirit, he urged “wisdom, patience and grave discretion.” For if the new institutions were to “win the full confidence of the suspicious world,” he said, they would have to act with a Solomon-like wisdom and “without prejudice or favour” in all their actions. Keynes’s words well reflected the optimism of the Bretton Woods Conference, but these high hopes were not to be realized, if the Savannah meeting was any indication. Compared to the relative consensus and international goodwill achieved at Bretton Woods, the proceedings in Savannah generated a surprising level of national bickering and hard feelings. The divisiveness stemmed from the ebbing of the spirit of international cooperation that the U.S. delegation had tried to foster at Bretton Woods. The new president, Harry S. Truman, and his treasury secretary, Fred Vinson, seemed to pay little heed to the reservations and concerns of other countries and opted instead for what the Manchester Guardian termed “steam-roller tactics.”

France, India, and Great Britain had assumed that the headquarters of the Bretton Woods institutions would be in New York City, close to the United Nations and the world’s financial capital and away from the political influences of the U.S. capital. “These bodies could not be regarded as international institutions,” warned Keynes, if they “were being treated as an appanage of the American Administration,” which would be the case if they were headquartered in the nation’s capital. The American delegation, however, believed that a Washington location was desirable, because the bank and the fund would be close to foreign legations (which would make consultation easier) and because it would symbolize the shift in responsibility for international economic stabilization from private banking interests to national governments. But rather than seeking the views of other national delegations or even enunciating his own justification for the decision, Vinson had gone directly to Truman, obtained authority to demand that Washington be the headquarters’ site, and curtly informed Keynes and the other delegates that the decision was final.
A similar confrontation occurred over the role of the executive directors. The Americans saw full-time executive directors as key to making the World Bank an independent and professional authority. Keynes, on the other hand, wanted the directors to be “in close touch with their own central banks and Treasuries,” which would be impossible if they were full-time, Washington-based employees. Similar differences led the British and Americans to disagree on bank officials’ salaries. The Americans favored substantial salaries, seeing this as the way to attract talented individuals and thereby enhance the bank’s stature and authority, whereas the British did not want to create a new class of international bureaucrats who had more prestige, authority, and money than national leaders. They eventually agreed on a compromise figure of thirty thousand dollars for the bank president and seventeen thousand for the executive directors, but the British, who were still disgusted that the head of the World Bank would be paid more than their prime minister, refused to go along and cast the only negative vote on the matter. Their thinking was accurately summed up in a *Manchester Guardian* editorial: “The American Treasury . . . seems to have made no secret of its belief that the United States, which pays the piper, has a right to call the tune. In fact, the worst fears of those who had always warned us that this was what the United States meant by international economic co-operation were borne out at Savannah.”

Keynes might have believed that Vinson had cursed the christening of his “twins,” but the animosity at Savannah largely proved to be an aberration. In the next twenty years, the bank lived up to many of the hopes of the Bretton Woods planners and, to a large extent, recaptured the cooperative, international spirit of that conference. This reflected the professional heritage of the World Bankers (which combined equal parts of social responsibility, scientific expertise, and belief in the efficacy of cooperation) as well as the hard lessons of the Depression about the organic unity of the global economy. With this background, they constructed an identity for themselves and their bank that emphasized internationalism, professionalism, objectivity, and an apolitical nature, the very things that Keynes and the fathers of economics had stressed. Now the World Bankers were ready to undertake the new work of economic development on a global scale, a task they believed would change the world. They did ultimately do so, but often not in the ways they had anticipated.