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THE POLITICAL SETTING

'History,' it has been said, 'is lived forward but is written in retrospect. We know the end before we know the beginning and we can never wholly re-capture what it was to know the beginning only.' It is difficult to reconstruct the intellectual, political, and economic setting of the Bretton Woods Conference a quarter of a century later. But it is useful to try. The effort may help explain the international financial system we have inherited from the past — and it may even tell us something about the steps we can take to improve that system today. According to the old cliché, those who ignore history are condemned to repeat it. I doubt that this is any less true in the field of international monetary policy than in other areas.

Perhaps the first important thing to note at the outset is that the Bretton Woods Conference and the crucial negotiations that preceded it were very much an Anglo-American affair, with Canada playing a useful mediating role. For historical reasons that were unique, these three countries had an unusually large influence in the negotiations. Germany, Italy, and Japan, countries that today hold a large measure of economic power, were then enemy countries and thus not represented at Bretton Woods. France was still under German occupation; its government-in-exile played only a marginal role. The less-developed countries played nothing like the part they play today in international economic conferences. The Soviet Union came only at the last minute and sat on the sidelines.

The United States, of course, was the dominant element. For better or worse only the US had the resources to make these institutions work. Moreover — and people often forget this in recalling the Bretton Woods Con-
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...the war was still on. The Normandy landings took place only a month before the conference opened. The allies had not yet broken out of the Normandy beachhead; nobody knew when the war would end or how it would be won. There was almost complete dependence on the United States militarily, politically, and economically. No wonder, then, that the US role at Bretton Woods was decisive. It is unlikely that there will ever be another world conference in which American power is so preponderant.

Since the United States' role was so decisive at Bretton Woods, it is worth examining in some detail the political and economic factors that influenced the American delegation. The US negotiators operated with certain basic preconceptions. One was that the mistakes made after the First World War must be avoided. To begin with, this meant that planning for the postwar period should begin early — indeed, it began as early as 1941 and 1942. Secondly, the United States should join a system of world organizations and play a leading part in building a new world order. Unfortunately, thinking about the kind of world in which international organizations would operate tended to be somewhat naive. Cordell Hull, for example, could say at the time of Bretton Woods that once a United Nations was created, 'there will no longer be need for spheres of influence, for alliances, for balance of power, or any other of the special arrangements through which, in the unhappy past, nations strove to safeguard their security or to promote their interests.' 1 Harry White described as follows the assumptions under which he laboured in wartime Washington:

It was expected that the early post-war world would witness a degree of unity and good-will in international political relationships among the victorious allies never before reached in peace time. It was expected that the world would move rapidly ... toward 'One World' ... No influential persons, as far as I can remember, expressed the expectation or the fear that international relations would worsen during these years.

The widely shared assumption, in other words, was that there would be a new political deal — 'one world' — with power somehow exorcised from the system. There was no anticipation of the cold war. Nobody foresaw the need for huge US overseas expenditures for military defence and foreign aid; no one foresaw the magnitude of Britain's overseas spending. The working-papers for the Anglo-American financial negotiations in the fall of 1945 es-

1 References for this quotation and the others that follow may be found in my Sterling-Dollar Diplomacy (2nd edition, 1969).