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Cooperation, Conflict, and Compromise: The IMF and Scandinavia, 1944 to the 1960s

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Since its conception in July 1944, the International Monetary Fund (IMF) has been an important promoter of globalization by facilitating the growth of world trade and international market integration. Today, the IMF sets strict conditions of economic transformation and liberalization in order to provide financial and technical assistance to member countries. Historically, however, the Fund has not always had the power and legitimacy to force its demands. Based on a comparative study of relations between the IMF and three Scandinavian countries from 1944 until the 1960s, in this paper I demonstrate that in its early history, the IMF faced fierce opposition from governments that questioned the organization's right to intervene in domestic matters. I examine how and why the Scandinavian countries built different relationships with the IMF, ranging from relatively relaxed cooperation in the Danish case to extremely tense relations in the case of Sweden. I also suggest that the IMF responded very cautiously to such opposition, and adapted its advice to what was politically acceptable in the various member countries.

Since its conception in July 1944 at a United Nations conference held at Bretton Woods, New Hampshire, United States, the International Monetary Fund (IMF) has been an important promoter of globalization. According to Article 1 of the Articles of Agreement constituting the IMF, the purposes of the Fund are to promote international monetary cooperation, facilitate the growth of world trade, promote exchange rate stability, and help to create a multilateral system of payments; all factors which over time have contributed to market integration and increasing globalization. Today, the IMF is almost a universal institution, having

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grown from the 44 countries represented at the Bretton Woods conference to the current 184 members, and it includes nations with a wide range of political systems and economic development levels. Along with the World Bank, the IMF is widely known for intervening in national economies and making strict conditions of economic transformation and liberalization to grant loans and other types of economic support to developing countries.

Despite anti-globalization protests, in recent years the IMF has usually had the power and legitimacy to carry through its demands. This has not always been the case. In its early history, the IMF could face fierce opposition from governments that questioned the organization's right to intervene in domestic matters. Given the explicit goal of the IMF not only to create a new international institutional framework but also to change national policies towards liberalization and free trade, how did the Fund respond to such opposition? Did it, as it seems to do today, force its demands through, or did it adapt its requests and recommendations to the political climate in each member country? In addition, how did the member countries relate to the IMF, as a new organization without any previous experience or traditions? I discuss these questions using an analysis of relations between the IMF and three Scandinavian countries, Denmark, Norway, and Sweden, from 1944 until the early 1960s. Despite many similarities regarding policy goals, with emphasis on full employment and social security, the Scandinavian countries developed different relationships with the IMF, ranging from relatively relaxed cooperation in the Danish case to extremely tense relations in the case of Sweden. By examining reasons for, and consequences of, these differences, I shed new light on a formative phase in the history of the IMF and thereby on the history of post-World War II internationalization and globalization.

Establishment of the IMF and a New Monetary System

The International Monetary Fund came into official existence on December 27, 1945, with the signing of its Articles of Agreement, a contract that embodied the idea that free trade and international market integration would create economic growth and prosperity. By promoting exchange-rate stability and multilateral payments, the new international monetary system established at Bretton Woods was designed to facilitate the exchange of goods, services, and capital among countries and sustain balanced economic growth. An underlying reason for the Bretton Woods system was the perceived market failures of the 1930s, when the world economy was hit by severe depression, failures which included destabilizing short-term capital flows, break-down of capital markets, instability to finance payments deficits, widespread imposition of exchange controls, competitive devaluations, and a turn to trade protection. The Bretton Woods agreement represented an attempt to overcome such market failures by replacing the market-based exchange rates of the former gold standard system (the dominant international monetary regime from 1870 until World War II) with a regime of administratively-pegged "stable but adjustable" exchange rates. According to Article IV in the Articles of Agreement, exchange rates were in principle fixed to a par value expressed in terms of gold or U.S. dollars, but in cases of a long-term, fundamental disequilibrium (which in practice meant an unsustainable payments imbalance), the exchange rate could be altered with the approval of the IMF.[1]

The Articles of Agreement drafted at Bretton Woods constituted a compromise between the plans of the United States and the United Kingdom, the leading Allied economic powers during the war. Whereas the United States' paramount priority was restoration of a multilateral payments system based on stable exchange rates and convertible currencies, the British wanted more flexible exchange rates and freedom from the external constraint to pursue national full employment policies. In the end, the United States gained a superior position in the new monetary regime as the reserve center country. Still, the administrative pegging of exchange rates, combined with permission to maintain national capital controls, allowed member countries to pursue national economic-political strategies that could diverge from U.S. ideals.[2] The design of the Bretton Woods system also implied that politics played a far more important role than during the gold standard regime. Whereas the gold standard system had been outside politics in that there was no treaty to set it up, no intergovernmental authority to supervise it, and exchange rates were fixed to gold and adjusted through international market transactions, the Bretton Woods regime became an integrated part of international and national politics.

The umpire of the Bretton Woods system was the IMF. Through a combination of financial support, surveillance, and so-called technical assistance, the Fund was in charge of monitoring and promoting the declarations of the Articles of Agreement. Financial assistance was supposed to be both a principal purpose and a key instrument of the IMF. Members experiencing balance-of-payments problems were to apply to the Fund for loans in order to rebuild their international reserves, stabilize

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[1] Articles of Agreement of the International Monetary Fund (22 July 1944), Article IV. A full version of the 1944 Articles of Agreement is printed in J. Keith Horsefield, *The International Monetary Fund 1945-1965*, 3 vols. (Washington D.C., 1969), 3: 185-214. See also Michael D. Bordo and Harold James, "The International Monetary Fund: Its Present Role in Historical Perspective," *NBER Working Paper* 7724 (Cambridge, Mass., 2000), and Andrew Britton, *Monetary Regimes of the Twentieth Century* (Cambridge, U.K., 2001).

[2] The exception of capital controls from demands of liberalization was stated in Article VI, section 3 of the 1944 Articles of Agreement: "Member may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments...."

their currencies, and continue paying for imports without having to impose trade restrictions or capital controls. Borrowing (or "drawing" of quotas in IMF parlance) was related to the size of a country's initial quota to the Fund, a deposit which in turn was determined by a calculation based on the size of the national economy (Gross Domestic Product [GDP], current account transactions in the balance of payments).[3] Unlike the EPU (European Payment Union; a mechanism for multilateral settlement in Europe in effect between 1950-1958, which granted the nations involved automatic credit quota), the IMF provided loans on specified conditions. To draw on their IMF quota, members had to accept conditions stated by the Fund's Executive board and draw up a "letter of intent" that described future policies that would lead to economic equilibrium.[4] Consequently, for the IMF, financial assistance had the potential to be an effective lever to influence national policy solutions and priorities.

Surveillance of the financial status and economic organization of member countries was another of the IMF's main tasks. According to the Agreement, members were obliged to provide the IMF with any information it deemed necessary for its operations. The purpose of collecting such information was twofold: to control members' compliance with their contractual obligations, and to "facilitate the preparation of studies designed to assist members in developing policies which further the purposes of the Fund."[5] The latter formulation included what later was labeled '"technical assistance," that is, advice on policy design, which in practice usually implied deregulation and introduction of market-based policy measures. Technical assistance became a point of controversy; how far should the IMF go in directing national policies? The Agreement gave some guidelines by drawing a line between informal advice and public reports. On the one hand, it stated that "the Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this agreement" and, on the other hand, it prohibited the Fund to "publish a report involving changes in the fundamental structure of the economic organization of members."[6] In other words,

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[3] Bordo and James, The International Monetary Fund.

[4] Minutes of 25 Oct. 1958 from meeting of Samarbeidsnemnda [the Joint Cooperation Council], PEKO/GK/Gra, The Bank of Norway Archives, Statistisk avdeling [hereafter: BoN-S], box: D-0132 Samarbeidsnemnda 1958-1959. As an organization, the IMF operated at three levels: a Board of Governors with final decision-making authority, an Executive Board responsible for the conduct of the general operations of the Fund, and a Managing Director with staff in charge of day to day operations. The Board of Governors were appointed directly by each member country, while members were grouped in constituencies to elect the (original) 12 Executive Directors. The Executive Board, in turn, appointed the Managing Director, who was in charge of hiring the permanent IMF staff.

[5] The 1944 Articles of Agreement, Article VIII, section 5.

[6] The 1944 Articles of Agreement, Article XII, section 8.

IMF officials could express relatively open, explicit criticism as long as the setting was informal, but had to be more cautious in their public evaluations. As we will see, in the Scandinavian cases the IMF staff did take these instructions seriously and very carefully considered including fundamental criticism in their official reports.

The Article XIV Consultations: The Backbone in IMF-Member Relations

During its first operational years, apart from the Board of Governors' annual meeting, the IMF had only sporadic contact with most of its members, usually in connection with particular balance-of-payments problems and drawing of IMF quotas. In 1952, however, the Fund started systematic, mandatory consultations with countries under Article XIV, which allowed members to maintain restrictions on payments and transfers for international transactions during a "postwar transitional period." Article XIV stated that 5 years after the date on which the Fund began operations, members still included in this exclusionary provision would have to undergo annual consultations. Of the 51 countries that were members of the Fund at the end of January 1952, only a handful had accepted all deregulation obligations in the Agreement, and Article XIV; 43 countries were subject to annual consultations.[7] Gradually during the 1950s, these consultations formed the backbone of the relationship between the IMF and its members, and, I would argue, became a key element in increasing the Fund's legitimacy and power.

The author of the official history of the IMF examined the Article XIV consultations until the mid-1960s and concluded that the "individuality of each consultation makes it impossible to generalize about their contents except in the widest terms. Equally, no single consultation can be cited as fully characteristic."[8] The remaining IMF data on consultations with Scandinavia, which show substantial variation in scale and scope from year to year as well as among the three countries, confirm this impression. Nevertheless, in at least one respect, these consultations reflected a common trend: the IMF attitude towards its members seems to have changed from initial expectations of loyal submission to a more humble cooperative approach better adjusted to the expectations of the members.

The first active preparations for the Article XIV consultations began in January 1952. The plan was to hold as many as possible of the discussions in Washington D.C. The IMF requested that members travel to its headquarters, and hand over all available data on their restrictions, including a comprehensive questionnaire sent out in advance. The official

[7] J. Keith Horsefield, *The International Monetary Fund 1945-1965*, 3 vols. (Washington, D.C., 1969), 1: 312-13.
[8] Ibid., 405.

reason for this approach was that the IMF considered it too time-consuming and strenuous for their still relatively small staff to travel worldwide to hold meetings in each member country. In my opinion, however, this approach also reflected a general attitude: the Fund expected members to automatically comply with any requests regarding information gathering as well as policy.

In accordance with the Fund's plan, 25 of the 35 consultations completed in 1952 were held in Washington D.C.[9] In practice, the consultations did not proceed a smoothly as expected. Some countries only reluctantly handed over restricted information, and rather than sending a delegation of representatives, many member nations were represented by one or two civil servants, often from the local embassy, who either refused, or were unable, to hand over more information. This was, of course, partly pragmatic; many countries had financial or practical difficulties sending qualified representatives to the U.S. capital. However, the poor results might also reflect political resistance. Deregulation of exchange restrictions and introduction of monetary convertibility were not technical, neutral issues, they were highly politicized and controversial. As evidenced by the establishment of the Bretton Woods system, there were disagreements regarding the degree of market liberalization and national control of policy formulation. Thus, from many members' point of view, handing over complete information to the IMF (perceived by many as U.S. dominated) could weaken their negotiation position. In addition, as a newly-established organization in a postwar period characterized by economic, political, and institutional change, the IMF lacked the legitimacy and measures to enforce its demands. Hence, in order to complete its tasks of monitoring and phasing out exchange controls, the IMF had to change it strategies regarding the Article XIV consultations.

From 1953 to 1954 and after, the annual IMF consultations usually took place in each member country. IMF staff spent about a week in each country, holding meetings with politicians and civil servants of all ranks and positions. The aim was to gather as much information as possible, not only about exchange controls, but also about every aspect of the economic and political state of each country. The atmosphere and results of these annual missions varied substantially. Nevertheless, they represented the most stable connection between the Fund and its members, connections that over time strengthened the organization's ability to carry out its tasks.

The Scandinavian Case: Three Countries, Three Approaches

The outside world usually perceives Scandinavia as a uniform area, characterized by close geographical, cultural, political, and economic ties. In many respects, this is true. Despite previous centuries of military and political conflicts, during

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[9] Of the remaining consultations, nine took place in the countries concerned and one in Mexico City during the 1952 annual meeting of the Board of Governors. Horsefield, *The International Monetary Fund*, 1: 320.

the 1900s Denmark, Norway, and Sweden developed into rather similar industrialized societies with strong political emphasis on social equalization and distribution of wealth. Nevertheless, during the post-World War II period there were some notable differences among these countries in economic organization and financial state, differences that also influenced the countries' approach to the new monetary system created at Bretton Woods, including their relations to the IMF.

Denmark: Relaxed Cooperation

The case of Denmark represents one extreme in the story of IMF–Scandinavian relations. Examination of the IMF archives, combined with available literature, suggests that compared with its neighbors, the Danes developed an uncomplicated relationship with the Fund, characterized by relaxed cooperation.[10] Denmark took part in the process of creating a new postwar monetary system from the beginning, and had representatives present at both the 1944 Bretton Woods conference and the inaugural meeting of the IMF Board of Governors in early March 1946. Because Denmark while under German occupation during the war was without a government in exile (in contrast with Norway), it did not become an official member of the Fund until March 30, 1945; about 3 months after the first 30 countries signed the Articles of Agreement.[11]

Like most IMF members, Denmark initially received an extension of exchange restriction during a transitional postwar period under the provisionary Article XIV of the Article of Agreements. Hence, from 1952 onwards, the country received annual missions from Fund staff, who examined its general economic status, particularly the extent of market restrictions. The consultations proceeded without much agitation, as exemplified by the 1955 mission, which has been used to illustrate a typical consultation procedure "in a straightforward instance."[12] In February 1955, a mission of three IMF staff members visited Denmark. During this one-week mission, IMF staff held meetings with representatives of the National Bank of Denmark, Foreign Ministry, Ministry of Finance, Statistical Department, Ministry of Commerce, Industry and Shipping, and the Economic secretary. The mission report, sent to the IMF Board of Directors in March, contained an account of the interviews, the staff's comments, and a draft decision. Despite some criticism regarding trade liberalization, the staff was relatively satisfied with Denmark's tight

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[10] It is important to note that in the Danish case, I use preliminary and relatively limited empirical evidence. The content and quality of the Danish files in the IMF archive in Washington, D.C. varies during the period in question. This could be the result of incomplete archival routines, and researchers should check my observations against a broader selection of sources.

[11] Horsefield, *The International Monetary Fund*, 1: 79, 91, 117, 121; The International Monetary Fund, *Annual Report 1946* (Washington D.C., 1946), 1.

[12] Horsefield, The International Monetary Fund, vol. 1, 410.

economic policy, which the Danish intended to reduce pressure on the balance of payments. In April 1955, the Board of Directors considered the report, and after a brief discussion and reformulation of some paragraphs, the Board sanctioned the report and affirmed maintaining the transitional arrangements with Denmark under Article XIV.[13]

The remaining files on IMF missions to Denmark during the period between 1945 and 1970 indicate that the 1955 consultation was typical. Apart from some enduring discussions regarding liberalization of agricultural products, the Danish files contain little evidence of conflicts or serious criticism by the IMF, in conspicuous contrast to the Swedish and Norwegian records. Further empirical examination is necessary before any final conclusions can be drawn, but based on material from the IMF archives, it seems clear that Denmark's relations with the IMF were relatively relaxed and productive.

Sweden: Tense Conflicts

While the Fund's consultations with Denmark showed few signs of problems, the Swedish case represents the opposite extreme. Sweden only reluctantly joined the IMF in August 1951, and tension and suspicion characterized their relationship with the Fund. The main reason for joining was that if Sweden did not become a member of the Fund it would have to enter into a special exchange agreement with GATT (the General Agreement on Tariffs and Trade of 1948 that provided basic rules for multilateral trade of goods), which seemed less convenient than accepting the IMF's Articles of Agreement. In practice, however, Sweden continued to be extremely skeptical of letting the Fund intervene in its domestic affairs. In internal notes, the Fund's staff expressed considerable frustration over what they saw as a nationalistic and self-righteous attitude:

> The history of consultations with Sweden is not a very happy one. The Swedish attitude has largely been that as people outside Sweden cannot possibly know Sweden intimately, and hardly can be up to Swedish standards intellectually, they are not fit to praise what Swedish policies—if any—they find praiseworthy, and on the other hand, criticism is simply not welcome from anyone or anywhere outside Sweden.[14]

When Sweden joined the Fund, they refused to accept the quota of US$155 million calculated by a standard Bretton Woods formula, and only signed the Articles of Agreement after the amount was reduced to US$100

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[13] Horsefield, *The International Monetary Fund*, vol. 1, 410-412.

[14] Note of 21 Feb. 1957, no signature, "Consulting with Sweden represented by the Sveriges Riksbank." The IMF archives, Washington D.C. [hereafter: IMF], file: C/Sweden/420.1 Exchange Restrictions Consultations in 1956—Correspondence and memoranda.

million. A further illustration of Swedish skepticism towards the Fund is that central bank governor from 1951-55, Mats Lemne, who was supposed to represent Sweden in the Fund's Board of Governors, never attended any of the annual meetings, and according to IMF officials, he "did not miss any opportunity to express his lack of appreciation of these 'American' organizations."[15]

Despite the fact that Sweden was neutral during World War II and avoided the German occupation experienced by neighboring Denmark and Norway, the country was accepted as an "Article XIV" nation entitled to continued exchange restrictions. Hence, it also received annual missions from the Fund. Although the first consultations, mostly of a fact-finding nature, seemed to proceed without any major problems, the 1953 mission clearly exposed a negative Swedish attitude towards the Fund, and within 3 days of consultations, the Swedish representatives stated that Sweden might reconsider its membership in the organization. The following missions in 1954 and early 1956, according to IMF staff, were "marked by the same cool atmosphere." The Fund's representatives repeatedly, but in vain, asked the Swedish authorities to cooperate more fully, and internal notes reveal that the head of the Fund's mission considered ending the 1956 mission prematurely. Nevertheless, the Swedes were very reluctant to hand over the requested information, and Swedish civil servants refused to express opinions not sanctioned by the political authorities. Furthermore, in writing their report, the IMF staff expressed that they felt under constant pressure to delete any statements critical of Sweden. Only after accepting numerous corrections did they present the 1956 report to the Board of Directors.[16]

During the early 1950s, these conflicts often were related to topics unquestionably under the Fund's area of responsibility, such as deregulation of exchange restrictions, which the Fund tried to hasten and the Swedes principally wished to implement at their own pace. Even more problematic were matters related to domestic policy, for example Sweden's policy of keeping interest rates and rents at a low and stable level. As a matter of principle, the IMF usually recommended market-based policy solutions. The Fund's staff was highly skeptical of any price controls, whether of goods, capital, or exchange, fearing they would create economic instability and problems of inflation. Swedish authorities, on the other hand, were more in line with the post-World War II trend of increasing domestic market regulations and state intervention in the economy, and rejected monetary management by means of flexible interest rates and freely functioning money and capital markets for political as well as economic reasons. According to their reasoning, such orthodox monetary policy was not only socially unjust, it could also curb the level of

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[15] Note of 21 Feb. 1957, "Consulting with Sweden…," IMF file: C/Sweden/420.1 Exchange Restrictions Consultations in 1956—Correspondence and memoranda.
[16] Ibid.

investments by increasing costs and thereby undermine economic-political goals of economic growth and full employment. Thus, to the extent that IMF representatives expressed any criticism of Swedish economic policy, the Swedes perceived it as inappropriate interference in key domestic affairs.[17]

Underlying these controversial topics there seemed to be a basic distrust between the two parties. In the early 1950s, this reflected not only different views on policy formulation and the Fund's general right to guide member countries, but suspicion on a personal level. The Managing Director of the IMF from 1951-56, Ivar Rooth, had previously been governor of the Swedish central bank, the *Riksbank*, from 1929-48. Rooth was a known opponent of centralized economic planning and market controls, and, according to IMF officials, the Swedish authorities suspected Mr. Rooth personally used the Fund "as a sounding board for his well-known disagreements with the Government and the *Riksbank*."[18] However, even if this personal issue intensified the Swedish authorities' distrust in the initial phase of their IMF membership, it can hardly explain the duration of these tense relations. Internal notes from the late 1960s depict a skeptical Swedish attitude towards the Fund, similar to that in the early 1950s, even though the personal relations between IMF and Swedish officials seem to have improved considerably, as evidenced by this internal report from the Fund's 1969 mission:

> The Swedes, who have the reputation of being among the least enthusiastic hosts of Fund consultation teams, received us better than I had expected, and even Mr. Joge [senior civil servant of the central bank (?)], though inclined to warn his colleagues not to disclose too much information, thawed out considerably, particularly in private, before the end of our stay.

Hence, despite a friendlier tone on the personal level, Swedish officials appear to have kept up their reserved professional attitude towards the Fund. In addition, as in the 1950s, the IMF staff continued to curb their public criticism of Swedish policy solutions: "Our policy recommendations are rather vaguely worded, as seemed appropriate in dealing with a

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[17] For examples of internal IMF evaluations of Swedish economic policy, see: Note of 7 Feb. 1955, no signature, "Notes on the Swedish Paper," C/Sweden/420.1 Exchange restrictions consultations in 1954-Correspondence and memoranda; Note of November 10, 1955, no signature, "Monetary Policies in Denmark, Norway and Sweden," IMF file: C/Norway/320 Economic Conditions 1950; Office memorandum of 9 May 1957, by E. Elmholt, "The Recommendation on Sweden," C/Sweden/420.1 Exchange Restriction Consultations in 1956—Correspondence and memoranda; Memorandum of 3 June 1969, by J. Markus Fleming, "Report on Article VIII Consultations with Sweden," C/Sweden/420.1. Article VIII Consultations 1968/69-Correspondence and memoranda.

[18] Note of 21 Feb. 1957, "Consulting with Sweden...," IMF file: C/Sweden/420.1 Exchange Restrictions Consultations in 1956—Correspondence and memoranda.

country so jealous of its sovereignty and so touchy about outside interference as Sweden is."[19]

Norway: Pragmatic Compromise

Like Denmark, Norway took part in the formation of the Bretton Woods system from the beginning. Supporting the British approach to the new monetary system, which emphasized flexible exchange rates and freedom to pursue national policies, representatives of the Norwegian exile government were present at the 1944 meeting, and Norway became one of the first official members of the IMF by signing the Articles of Agreement in December 1945.

In Norway, the Labor Party, which won a clear majority in the 1945 Parliamentary election and stayed in government until 1965, developed an economic policy similar to Sweden: characterized by domestic planning and regulation combined with heavy reliance on international exports and imports. Thus, on the one hand, Norway depended on being part of the new international regime of free trade and multilateral exchange institutionalized by the GATT and Bretton Woods agreements. On the other hand, the Labor government wished to control the domestic economy by centralized planning and market regulations, not only during a postwar reconstruction period, but on a long-term basis. Hence, as in Sweden, provisions of trade and exchange liberalization stipulated in the agreements were mainly viewed as necessary yet undesirable conditions in order to access international markets. Based on this, one could expect that the Norwegian relations with the IMF would be similar to those of Sweden. However, remaining sources suggest a Norwegian approach characterized by an increasing willingness to compromise, even if initial relations to the Fund were rather tense.

Until the Article XIV consultations began in 1952, correspondence was the primary basis of the Fund's relationship with Norway, in addition to a 1948 mission to Norway in connection with applications concerning drawing from the IMF quota. During this early period, the Fund was primarily interested in gathering information on Norwegian economic organization and policy, in particular how the country handled internal inflationary pressures and external balance of payments problems. In order to secure rapid reconstruction of war damages and promote long-term economic growth and full employment, Norway kept an extraordinary high level of investments, a policy dependent on an extensive supply of foreign credit. Norway also pursued a cheap money policy similar to Sweden's, and refused to let supply and demand of credit

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[19] Both quotes: IMF memorandum of 3 June 1969, marked "Confidential," to Managing Director and Deputy Managing Director from J. Marcus Flemming, "Report on Article VIII Consultations with Sweden," IMF file: C/Sweden/420.2 Article VIII Consultations 1968/69—Correspondence and memoranda.

dictate interest rates. When the Fund criticized these policies, arguing they would increase internal and external balance problems, Norwegian authorities perceived this as unwelcome interference in domestic affairs. In some instances, the Norwegians responded similarly to the Swedes (for example, by resisting handing over unpublished information regarding exchange controls, holdings of foreign exchange, and national budget figures).[20] However, in contrast to Sweden, Norwegian relations with the Fund improved considerably.

One probable explanation for the improved atmosphere between Norway and the IMF is the general strategic change to a more cooperative approach by the Fund to its members. Internal IMF notes also suggest there was a conscious, systematic effort by the Fund from 1953 onwards to improve relations with Norway, which were considered to be difficult.[21] In addition, during their Article XIV mission to Norway the following year, the Fund staff concluded that the effort had worked, as this personal letter from an IMF representative in Norway to his superior in Washington, D.C. attests:

> I had been warned before we came here that we might find our reception a little sticky since there was some resentment about from past Fund Missions. Our experience has proved quite the opposite in that we have found the Norwegians extremely forthcoming and friendly and, at our final meeting with the Minister of Commerce, the Minister welcomed us all back to Norway.[22]

Norway also continued its welcoming approach to the IMF. Despite persistent fundamental differences between the Labor government and the Fund regarding the effects of economic planning and market controls, the two parties managed to develop a relatively productive relationship during the 1950s and early 1960s based on an atmosphere of pragmatic compromise. On the one hand, the Fund toned down some aspects of its public criticism of Norwegian economic policy, internally even acknowledging that the Norwegian authorities gradually became "expert and respected borrowers" in foreign capital markets and (somewhat surprisingly to the Fund's staff) succeeded in financing an extraordinarily

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[20] Note of 31 Jan. 1949, by R. Evensen, "Improvement of our Information About the Norwegian Economy," IMF file: C/Norway/320 Economic Conditions 1948-1949.

[21] Letter of 27 Jan. 1954, to R. Evensen from E. Sturc, IMF file: C/Norway/810 Visit. Evensen, Rolv—1954; letter of 25 Oct. 1954, marked "Confidential," to Mr. H.M. Cochran, Deputy Managing Director, IMF, from J.M. Stevens, IMF file: C/Norway/420.1 Exchange Restrictions Consultation in 1954—Correspondence and memoranda.

[22] Letter of 25 Oct. 1954, marked "Confidential," to Mr. H.M. Cochran, Deputy Managing Director, IMF, from J. M. Stevens, IMF file: C/Norway/420.1 Exchange Restrictions Consultation in 1954—Correspondence and memoranda.

high level of investments.[23] On the other hand, the Norwegian authorities were more tolerant than Sweden of the Fund's critical views of the cheap money policy and lack of orthodox monetary policy and flexible capital.

We cannot attribute Norway's readiness to cooperate with the IMF only to changes in the Fund's efforts to improve relations with its members. For Norwegian authorities, good relations with the IMF seem also to have been a virtue of necessity. A dominating challenge of Norwegian economic policy was balance of payment problems. Because the IMF was not only a potential creditor but also could influence a country's credibility in the international financial markets, Norway could hardly afford any serious disputes.

Why Did the Scandinavian Countries Relate Differently to the IMF?

In the remaining minutes, letters, and notes accounting for the interaction between the IMF and the Scandinavian countries, two topics recur as sources of worry, controversy, and sometimes surprise: the countries' domestic economic policies and their balance of payment positions. To what extent do these topics serve as explanatory variables in understanding why the Scandinavian countries developed such different relationships to the Fund? Can these political and economic factors clarify why Denmark approached the Fund in a relatively relaxed way, Sweden repeatedly confronted it, and Norway chose a midway of pragmatic compromise? Or are additional explanations required?

For Fund-member relations, a country's domestic economic policy has been, and still is, a potential source of conflict. This was certainly the situation in the case of post-World War II Scandinavia. Sweden and Norway pursued economic policies in which state intervention played a pronounced role. Both countries made the most of opportunities institutionalized in the Bretton Woods system to combine international free trade with regulation of capital movements and domestic credit markets, and both chose credit market policies based on direct controls of the rate of activity and allocation of capital as well as interest rates. By curbing market forces, the Swedish and Norwegian authorities sought to prevent repetition of the economic crises of the inter-war years and in a systematic and politically controlled fashion guide the economy towards stable economic growth and full employment.

To the IMF, such market interventions represented potential economic imbalance and a waste of resources. Based on a more liberalist economic-political tradition, the Fund argued that freely functioning markets would generate a more efficient allocation of resources, and to the

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[23] Office Memorandum of 5 April 1965, marked "Confidential," to the Managing Director and the Deputy Managing Director from L. A. Whittome, "Norway," IMF file: C/Norway/320 Economic Conditions 1950—

extent that political authorities intervened in the economy, they ought to use market-based instruments.[24] Thus, the Fund recommended orthodox monetary policy based on flexible interest rates and freely functioning money and capital markets as a means to promote balanced economic growth. While Sweden and Norway perceived these policy suggestions as highly provocative, they were far more agreeable to the Danish authorities. Orthodox monetary measures were traditional weapons in Denmark for dealing with payment difficulties and inflationary pressure, and, in contrast to its Scandinavian neighbors, Denmark continued to use these weapons throughout the post-World War II period. Whereas Norway and Sweden insisted on keeping interest rates at a low level during times of increasing economic pressure, Danish authorities actively used the discount rate of the central bank to influence the activity rate. Hence, while the issue of domestic monetary policy induced Sweden and Norway to take a skeptical approach to the Fund, this was not a point of controversy to the Danish.[25]

Domestic economic policy seems to explain much of Sweden and Norway's differences in approaches to the IMF. However, it cannot clarify why the Swedish case was characterized by far more tension than the Fund-Norway relationship. Judging from the IMF archive, a key to this puzzle could be the countries' balance-of-payment positions. Whereas foreign payment deficits were a constant challenge to Norway, where the authorities tried to combine a rapid recovery from war-damages with long-term ambitions to keep investment levels high, Sweden held a relatively strong financial position and by the end of the war was by far the richest country in Scandinavia. Sweden, having modernized much of its manufacturing industry during the inter-war period and escaped damage to their means of production during the war, was in a more favorable position with more freedom to maneuver. From this perspective, a seemingly plausible explanation to the two countries' different approaches to the IMF is their balance-of-payment positions. While Norway was on constant lookout for foreign capital to cover their payment deficit and

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[24] By "liberalist" I do not mean liberalist in a nineteenth-century sense. The IMF seems to have shared economic-political perspectives which had spread world-wide since the inter-war period, that the State should intervene in the economy in order to avoid economic crises and moderate economic cycles. However, in contrast to countries like Norway and Sweden, the IMF was based on the dominant U.S. view at the time that such state intervention should be carried out with market-based instruments, that is policy measures which affected supply and demand by for instance varying interest rates. In this economic-political frame of mind, the concepts of rationing and price controls were unfamiliar, or at least unwelcome.

[25] For an interesting comparative evaluation of the different Scandinavian economic policies made by IMF staff, see Note of 10 Nov. 1955, no signature, "Monetary Policies in Denmark, Norway and Sweden," IMF file: C/Norway/320 Economic Conditions 1950-.

chose to compromise with the IMF, Sweden could afford to be opposed. However, taking a closer look at the current balance-of-payment position of the Scandinavian countries (see Table 1), the qualitative sources suggest are not that straightforward.

TABLE 1
Current Balance of Payments of Denmark, Norway, and Sweden, 1946-1960 (in millions of Norwegian *kroner*)

Year	Denmark	Norway	Sweden
1946	-	-604	-144
1947	-370	-1227	-2000
1948	-279	-714	-563
1949	-203	-1196	669
1950	-764	-839	236
1951	-209	252	1288
1952	232	-22	246
1953	181	-907	458
1954	-446	-1164	-229
1955	291	-803	-571
1956	-30	174	-175
1957	380	258	-131
1958	953	-948	-386
1959	177	-	-47
1960	-416	-	-811

Sources: Nationalregnskabsstatistikk 1947-1960, *Statistiske undersøgelser* no. 7, København: Det statistiske departement 1962, table 13; NOS A24, *National accounts 1938 and 1946-1958*, Oslo: Central Bureau of Statistics of Norway 1961, table 15; *National räkenskap 1946-62*, Stockholm: Konjunkturinstitutet 1963, table 8. The Danish and Swedish figures has been converted to Norwegian *kroner* based on average foreign exchange sales rates at Oslo Stock Exchange, see NOS C188, *Historical Statistics 1994*, Oslo-Kongsvinger: Statistics Norway 1995, table 24.28.

Table 1 confirms the impression that the Swedish financial position was somewhat stronger than that of Denmark and Norway. While Denmark and Norway had persistent deficits during the first postwar decade, except during the upturn of the Korea Boom, Sweden had some years of solid surplus from the late 1940s. For the entire period from 1946 to 1960 however, the Swedish balance of payment position was regularly negative, especially from the mid-1950s onward. Even if these balance-of-payment deficits were modest (an impression accentuated by the Swedish GDP being approximately double that of GDP Denmark and Norway) Sweden's imports of goods and services exceeded its exports, and one would expect the Swedes to have taken a more cooperative approach to the IMF in financing this deficit. So how can we explain Sweden's less than forthcoming attitude?

One way to answer this question would be to reduce the importance of this economic variable, and instead give more emphasis to particular circumstances such as the personal controversy between the Fund's Managing Director and the Swedish authorities in the early 1950s. Individual conflicts can certainly influence organizational relations, and there is little reason to doubt that the Swedes' suspicion of Rooth using the Fund for his personal purposes, whether imaginary or real, had a profound impact on their attitude for years to come. However, if Sweden had experienced serious, continuing balance-of-payment problems would it not have overcome these and started cooperating more openly with the Fund? In the case of Norway, it is evident that the weak balance-of-payment position fundamentally influenced the relationship with the Fund. Norway was one of the first countries to seek financial assistance from the Fund by drawing US$ 5 million on its quota in 1948. [26] In addition, throughout the 1940s and 1950, the question of financial assistance was a frequently reoccurring topic in the country's communication with the Fund. [27] Sweden, on the other hand, never drew a cent from its IMF quota during this period. [28]

Despite the fact that both countries had balance-of-payment deficits, Swedish reservations about the Fund could still be a result of its relatively stronger financial position. An alternative (or supplementary) explanation relates to the development of the Fund itself. The original intent was that financial assistance be both a key instrument and a main purpose of the IMF. In practice, however, in the formative phase of the Fund's history this became far less important, mainly because of the establishment of the ERP (European Recovery Program, also known as the Marshall-aid). When the United States decided to launch an extensive program in 1947 to accelerate the recovery of war-stricken Europe, the

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[26] The International Monetary Fund, *Annual Report 1948* (Washington D.C., 1948).

[27] For examples of Fund-Norway communication regarding financial assistance, see: Letter of 4 June 1948, to G. Kielland, IMF, from Norwegian central bank governor, G. Jahn, and letter of 6 June 1948, to G. Jahn from G. Kielland, both: IMF file: C/000 Norway; Office Memorandum of 6 March 1953, "Discussion with Personnel of the Norwegian Government," IMF file: C/Norway/820 Member Missions to Washington; Confidential note of 13 July 1953, unsigned, "Norway," IMF file: C/Norway/420.1 Exchange Restrictions Consultations in 1954 – Correspondence and memoranda; Minutes of 13 Dec. 1957 from meeting in the Joint Cooperation Council [Samarbeidsnemnda] 3 Dec. 1957, PEKO/GK/Gra, BoN-S, box: D-0132 Samarbeidsnemnda 1956-1957; Letter of 30 April 1958, to R. Evensen, IMF, to P. Walter, IMF, IMF file: C/Norway/420.1 Exchange Restriction Consultations (Art. XIV) 1958 – Correspondence and memoranda.

[28] The International Monetary Fund, *Annual Reports 1952-1970* (Washington D.C., 1952-1970).

IMF had to reconsider its own role in international efforts to promote exchange rate stability and create a multilateral system of payments. Because availability of dollars under the ERP would ease the general disequilibrium in the international balance of payments and substantially make up for the serious dollar shortage, the IMF stated that members receiving EPR assistance could request the purchase of U.S. dollars from the Fund "only in exceptional or unforeseen circumstances."[29]

For the Scandinavian countries, the launching of the ERP meant that the Fund became relatively less important in regards to financial assistance. Rather than being a frequently used financial source, the ERP members drew from their quota on few occasions. Apart from drawings by Norway in 1948 and 1949, and Denmark in 1948 and 1958, the Scandinavian countries did not use the IMF as a financial source during the period covered in this paper.[30] The potential for such assistance, however, continued to be a key subject of discussion for Denmark and Norway, whereas Sweden never used this option.

Further research is necessary before drawing any reliable conclusions as to why relations with the IMF differed among the Scandinavian countries. While it seems likely that domestic economic policies played an important part, the balance-of-payment position is more tentative as an explanatory variable, particularly in the case of Sweden. Even so, these two variables, in addition to more specific, contextual factors, seem to sum up important aspects of the Fund-Scandinavia relations. As a financially strong country with a domestic economic policy that diverged from IMF recommendations, Sweden had both the ability and the motive to develop a tense, conflicted relationship with the Fund. Norway's economic policy could have provoked discord with the Fund, but because of its total dependence on foreign credit, chose

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[29] The International Monetary Fund, *Annual Report 1948* (Washington D.C., 1948), 48 (quote); The International Monetary Fund, *Annual Report 1949* (Washington D.C., 1949), 42. In addition to the three Scandinavian countries, the participants in the ERP were: Austria, Belgium, France, Greece, Iceland, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Switzerland, Turkey, the United Kingdom, and Western Germany.

[30] In 1948, Norway drew an amount of US$5 million, or 0.91% of the total IMF withdrawals between July 1947 and April 1948, while Denmark drew US$10.2 million during the same period, which represented 1.9% of total withdrawals. In 1949, Norway was granted an exceptional, additional withdrawal of BF 200,000, or US$5 million, in order to solve an acute payment problem with Belgium. That year, the only other draw was by the Netherlands, which was allowed BF 300,000. During the 1950s and 60s, the only additional draw by a Scandinavian country from the IMF quota was by Denmark in 1958: US$34 million for strengthening its foreign exchange reserves. The International Monetary Fund, *Annual Report 1948* (Washington D.C., 1948); The International Monetary Fund, *Annual Report 1949* (Washington D.C., 1949); The International Monetary Fund, *Annual Report 1958* (Washington D.C., 1958).

to compromise not only to obtain direct financial assistance from the Fund but also to avoid undermining the country's general credibility in international financial markets, a credibility that heavy criticism by the Fund could seriously harm. The variables of domestic economic policy and balance-of-payment position can also explain the relaxed cooperation between Denmark and the Fund; the monetary policy of Denmark gave little reason for conflict with the Fund, while a weak financial position gave incentives to avoid confrontations.

Concluding Summary: Adaptations and Relations

Compared to today's image of the IMF as an authoritative organization that intervenes extensively in its members' domestic affairs, I suggest that in its formative phase the IMF had to take a far more accommodating approach to its members. As an organization without prior experience and traditions, which was closely associated with controversial U.S. demands of liberalization and free trade, the Fund's staff quickly discovered that promoting international monetary cooperation and exchange stability was not limited to technical procedures but was also a highly politicized process. Thus, after initially expecting (somewhat futilely) loyal submission by its members, the Fund adapted its strategies to better accommodate members' expectations to get better access to information in order to influence policy solutions more effectively. In the case of Scandinavia, two words sum up these new strategies: adaptations and relations.

When faced with direct opposition as in the case of Sweden, the IMF staff chose to "tone down" its public criticism. This complies with the paragraph in the Article of Agreements prohibiting the Fund from publishing comments on the fundamental structure of the economic organization of members. However, the Swedish case also demonstrates that even though the IMF staff was fully entitled by the Articles to communicate their views informally, they could moderate their off-record views in order to improve working relations with a member.[31]

The Norwegian case illustrates that members could also adapt to the Fund's expectations. Even though Norway with respect to economic policy had plenty of reason to oppose the Fund, the authorities quickly chose an approach of cooperative compromise. In contrast to Sweden, from the mid-1950s, IMF officials perceived the reception of their missions to Norway as friendly and accommodating. A main reason for this seems to have been the Norwegian balance-of-payment problems,

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[31] It is important to note that during the 1950s and early 1960s, even though there were many areas of controversy between the Fund and Sweden, the Swedish economy preformed relatively well and the authorities do not seem to have violated their obligations to liberalize exchange controls. Thus, this case does not illustrate if the Fund would have been less willing to adapt in such instances.

which caused the country to approach the Fund with caution as a possible creditor and important actor in the international financial markets.

Another likely reason for the relatively friendly relations between the Fund and both Norway and Denmark (which seems to have had relaxed relations with the Fund) was the personal relations that gradually developed during the Article XIV consultations as well visits by Norwegian and Danish officials to IMF headquarters. When the Fund lost its potentially important instrument of frequent financial assistance due to the ERP, it was short of alternative measures to influence its members and get access to information. In addition, as a newly founded organization, the Fund also lacked legitimacy, and with neither power nor means, it had to find a way to build relations with its members. One way of doing so was to establish informal, personal relationships between IMF staff and officials of member countries, preferably at the same hierarchical level of their respective organizations, through written correspondence, or if possible by personal contact.[32] An example with an unusually explicit description of this strategy is found in the letter sent by a senior IMF staff member, Mr. Ernst Sturc, in Washington D.C. to a subordinate, who normally worked in the IMF headquarters but in 1954 was on vacation in his native country of Norway:

> I think it would be very useful for your work if you were to utilize part of your home leave to visit some technicians in the Central Bank, as well as in the respective Ministries, to gather such information and impressions as you may feel would be useful for your work here. . . . I feel that while doing this, you should be extremely careful so as not to give anyone even the slightest opportunity to complain about the nosiness of the Fund staff or otherwise.[33]

Furthermore, Mr. Sturc advised his subordinate not only to establish such personal relations with his compatriots, but also to befriend his Danish colleagues on his way back to the United States:

> It would also be helpful for your work if, on your way back to Washington, you would stop over in Denmark and establish closer friendly relations with technicians of the Central Bank and the appropriate Ministries who are on your working level. I need not add again that you should use the utmost discretion. Your visit to Copenhagen should be viewed as a gesture of friendship and a sign of the desire on the part of the Fund staff to work closely with their

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[32] Note of 31 Jan.1949, by Rolf Evensen to Mr. R. Bertrand, "Improvement of our Information About the Norwegian Economy." IMF file: C/Norway/320 Economic Conditions 1948-1949; Letter of 18 Aug. 1950, to J. V. Mládek, European and North American Department, IMF, from Norwegian central bank governor, Gunnar Jahn. IMF file: C/Norway/810 Mission, Evensen—1950.

[33] Letter of 27 Jan. 1954, to Rolv Evensen from Ernest Sturc. IMF file: C/Norway/810 Visit, Evensen, Rolf—1954.

> counterparts in the Government, rather than as a fishing expedition for information, although, of course, you should gather as much information as possible.

This anecdote gives interesting insight into what seems to have been a key IMF strategy to get access to information. Without intimate knowledge of the economic and political state of member countries, the Fund would be unable to perform its tasks. Despite the Fund's formal rights to information access, in practice, members were not automatically forthcoming. Because conditional financial assistance was a less important instrument during the late 1940s and 50s than planned, personal relations became a way for the IMF to get information access and over the long-term accumulate legitimacy and trust to influence its members.