



Source: Witteveen, 22 March 1984, Nationaal Archief, The Hague, Netherlands, photographer Rob Bogaerts

WITTEVEEN, Hendrikus Johannes (Johan or Johannes) Dutch politician and fifth Managing Director of the International Monetary Fund (IMF) 1973-1978

By **Bob Reinalda** · Version 10 May 2016

Was born 12 June 1921 in Den Dolder and passed away 23 April 2019 in Wassenaar, the Netherlands. He was the son of Willem Gerrit Witteveen, civil engineer and Rotterdam city planner, and Anna Maria Wibaut, leader of a local Sufi centre. On 3 March 1949 he married Liesbeth Ratan de Vries Feijens, piano teacher, with whom he had one daughter and three sons.

Biography

Witteveen spent most of his youth in Rotterdam, where his father worked as director of the new office for city planning. His mother was the daughter of a prominent Social-Democrat couple, Floor Wibaut and Mathilde Wibaut-Berdenis van Berlekom, but politically Witteveen's parents were Liberal. His mother was actively involved in the Dutch Sufi movement, inspired by Inayat Khan, the teacher of Universal Sufism. Sufism emphasizes establishing harmonious human relations through its focus on themes such as love, harmony and beauty. Witteveen felt attracted to Sufism, which helped him to become a more balanced young person. At the age of 18 the leader of the Rotterdam Sufi Centre formally initiated him, which led to his lifelong commitment to, and study of, the Sufi message. After attending public grammar school, the Gymnasium Erasmianum, Witteveen studied economics at the Netherlands School of Economics between 1939 and 1946. The aerial bombardment of Rotterdam by the German air force in May 1940 destroyed the city centre and marked the beginning of the occupation of the Netherlands by Nazi Germany. His father developed a reconstruction plan for the city which, due to German restrictions and lacking resources, was only partially implemented.

Witteveen enjoyed the econometrics lectures by Jan Tinbergen and his studies developed well. However, in early 1942 the Germans demanded that Dutch students sign a declaration of loyalty or be sent to work in German factories. Like many other students who refused to sign, Witteveen went into hiding in several places and managed to continue to study by himself, including reading *The General Theory of Employment, Interest and Money* (1936) by John Maynard Keynes. In the winter of 1943-1944 he prepared his thesis for Tinbergen in the library of the Peace Palace in The Hague, which proved to be an unexpected safe place. During the so-called hunger winter of 1944-1945 he remained in his parents' villa, where he could hide in a secret space under the roof, until the country's liberation by the Allied forces in May 1945. Both Tinbergen and Sufism had influenced Witteveen's ideas about economics as a science, as this should contribute to economic stability, hence without inflation and as little unemployment as possible, and to a healthy economy. Rather than laissez-faire, Witteveen favoured a free economy, with government intervening at strategic moments in order to guarantee the optimal functioning of the market. He joined the People's Party for Freedom and Democracy. While Tinbergen was a Liberal Socialist, Witteveen regarded himself a Social Liberal.

In the summer of 1945 Tinbergen asked four economists, including Witteveen, to help him set up the Bureau for Economic Policy Analysis (Centraal Plan Bureau), an independent government agency to deliver economic analyses and forecasts, which influenced the reconstruction of the Dutch postwar economy. As a Bureau staff member Witteveen represented the Netherlands at a United Nations conference in London in 1946, discussing the issue of how to best help war-devastated areas in Europe. That year he finished his studies and in September was appointed (half-time) lector of economics at the Netherlands School of Economics. In January 1947 he received his doctorate with a dissertation on the relationship between wages and employment. In September 1948, at 27 years old, he became full professor, serving as the School's Rector Magnificus between 1951 and 1952. He sharpened his ideas about government instruments to make the market function optimally, in particular through budgetary, monetary, competition, tax and social security policies. Every September between 1953 and 1961 he published an assessment of the budget the government had presented to Parliament in the journal *Economisch-Statistische Berichten*, which he did from a Keynesian perspective. In 1954 he established the Prof. Mr. B.M. Telders Foundation as a scientific institute for the Liberal party. During his sabbatical leave in 1956-1957 he travelled to the United States (US), where he visited several universities (Columbia, Harvard, Massachusetts Institute of Technology, University of California Los Angeles), followed by visits to the universities of Oxford and Cambridge in the United Kingdom (UK). While building his career, Witteveen had married a likeminded woman in 1949 who he had met at a gathering of young Sufis. Their four children were born between 1952 and 1960.

Through his advisory work within the party Witteveen eventually became politically active by serving as Member of the Senate between December 1958 and June 1963, which he combined well with his academic work. In June and July 1963 he served as Member of the House of Representatives, then became Minister of Finance in a Christian-Liberal coalition cabinet in July 1963. His professorship ended and as minister he found it hard to keep several ministers from overspending. A deficit in the balance of payments in combination with strong increases in wages resulted in increasing public expenditures, which in 1964 became known as Witteveen's hole in the budget. However, in early 1965 the coalition collapsed over a different issue. In September 1965 Witteveen returned to the Netherlands School of Economics as extraordinary professor and he served again as Member of the House of Representatives between September 1965 and April 1967, when he returned as Minister of Finance and also Deputy Prime Minister in another Christian-Liberal coalition cabinet, which governed between 1967 and 1971. Witteveen now better controlled his colleagues' spending, introduced the Value Added Tax (VAT) in the Netherlands and engaged in debates in the European Economic Community (EEC), where he discussed business cycle policy with Robert Marjolin and the high costs of the common agricultural policy with Sicco Mansholt. In 1970 the Dutch Parliament agreed on the EEC's own resources (import duties, levies on imports of agricultural imports and a percentage of VAT). Eventually Witteveen favoured the UK's entry into the EEC and, in the long run, a monetary

union. As a result of the devaluation of the British pound in 1967 a major international monetary crisis arose in 1968, characterized by paralysis of international monetary management, also in the Group of Ten (G10), which between 1965 and 1967 had devised a new international currency facility for the International Monetary Fund (IMF), the so-called Special Drawing Rights (SDRs), which still needed approval. At the G10 ministerial meeting in Stockholm in March 1968 Witteveen and his Italian colleague Emilio Colombo mediated between France and Germany, while Witteveen took the lead by promoting cooperation between Henry Fowler, the US Secretary of the Treasury, and the European countries, of which France refused to establish SDRs. Witteveen's effort resulted in a communiqué stating that the G10 ministers of finance and central bank presidents had agreed to establish SDRs, although these would not solve all monetary problems but would contribute substantially to the enhancement of the international monetary system. The agreement somewhat lessened the international paralysis. After his term as minister Witteveen returned to the Senate, where he served again between 1971 and 1973.

In May 1973 Dutch Central Bank President Jelle Zijlstra asked Witteveen whether he would be interested in succeeding Pierre-Paul Schweitzer as IMF Managing Director. Zijlstra had been asked first, but he did not want the job for personal reasons. Witteveen refused as well, but when attending a conference in Washington DC in June, he visited the IMF to see what the organization looked like. Afterwards Indonesia's Executive Director Byanti Kharmawan informed him about the support for his candidacy of the developing countries, while Valérie Giscard d'Estaing, who represented the European governments, invited him to Paris, where he asked Witteveen explicitly, informing him that other potential candidates did not have similar support. Witteveen's wife and children agreed to move to Washington. When the IMF's press release mentioned that Witteveen would continue in his function as Vice President of the International Sufi Movement, *Time Magazine* of 13 August 1973 announced the arrival of 'A Mystic at the IMF'. Witteveen replaced Schweitzer on 1 September, becoming the fifth Dutch executive head of an international organization at the time after Addeke Boerma (Food and Agriculture Organization), Emile van Lennep (Organisation for Economic Cooperation and Development, OECD), Joseph Luns (North Atlantic Treaty Organization) and Zijlstra (Bank for International Settlements, BIS). Within the IMF two more Dutch nationals played roles: Economic Counsellor Jacques J. Polak, who had attended Bretton Woods and had joined the IMF staff in 1947, and Piet Lieftinck, Dutch Executive Director between 1952 and 1976, who as dean of the Executive Directors used to propose compromises, which Witteveen was to elaborate. When Witteveen started his new job, the position of the IMF was weak and relations with the US government were disturbed. After President Richard Nixon's 1971 decision to stop ensuring the convertibility of the dollar into gold the Bretton Woods system had broken down. The IMF was losing some of its functions and the US government did not welcome policies developed by other bodies, such as the Europe-dominated G10, which it saw as 'nine against one'. Because Schweitzer had criticized US monetary policies sharply as Managing Director, the US had denied him another term in office. Witteveen's understanding of the needs of the international monetary system, however, as well as his initiatives and skills both as an analyst and a negotiator gave the IMF 'vitality and dynamism at a critical time in its history', according to IMF historian Margaret Garritsen de Vries (1985: Volume II, 1005).

When Witteveen first visited the US Under Secretary for Monetary Affairs as Managing Director, he was met with mistrust. He noticed that every word he spoke was written down, while his sole purpose was to get acquainted. Developing an open relationship with the Treasury took him a while, at the same time he also invested in Members of Congress who dealt with international monetary developments. Witteveen was aware of the potential monetary consequences of the oil crisis following the 1973 Yom Kippur war and suggested a temporary supplementary facility, to be financed mainly by the oil-exporting countries. This so-called Oil Facility would allow the IMF to finance member states whose balance-of-payments positions suffered because of the increased oil prices. In January 1974 the IMF Committee of Twenty supported the plan, with only the US unenthusiastic, but Witteveen found allowance from George Shultz, US Secretary of the Treasury, to travel to oil-exporting and some other countries in order to bring resources together (which Shultz could not refuse him).

The IMF's Oil Facility, to which the US did not contribute, helped many states to overcome the oil crisis. Witteveen made the staff elaborate the plan in the IMF's *World Economic Outlook* and began to use this yearly staff assessment of the state of the world economy not only in the Executive Board but also in consultations with member states, for instance on data about the Oil Facility, which enhanced the quality and value of the *World Economic Outlook*. Like the OECD's *Economic Outlook*, by the end of the 1970s the IMF had its own forecast for the world economy. Since many countries, such as the Latin American ones, also borrowed from commercial banks and became dependent on them, Witteveen began to increase IMF resources by setting up a Supplementary Financing Facility in 1977, which became known as the Witteveen Facility. Countries with strong economies lent money to the IMF, which then lent these resources to countries in need of financing their debts with the intention of encouraging adjustment to changes in the world economy. Notwithstanding the extensive lending activities, which resulted in an increased use of the IMF by member states, Witteveen forcefully argued that the IMF's essence was its monetary character (Boughton 2001: 4). He expressed his strong preference for managing floating exchange rates by monetary and fiscal policies, with IMF surveillance according to the rules and procedures that were agreed upon internationally. This, however, was contrary to the preference of the US government. While the role of gold had diminished, the world kept using dollars, which meant that SDRs, in fact the principal reserve asset in the system, did not become significant and the US, unlike other IMF member states, no longer felt the IMF's discipline: if required, the US could print more dollars, rather than use SDRs. Witteveen regarded this difference between the US and the other member states an imbalance. Unlike the US, he also believed the IMF was not big enough.

On the issue of what to do with the IMF's gold stock, Witteveen proposed selling the gold on the market, where the price was high, but met with strong French resistance in early 1974, while the US supported him. The US had relatively little gold, unlike the European states, which feared the price would sink as a result of large sales (which the US also did not mind for political reasons, given its attitude at the time toward gold exporter South Africa). A vehement struggle arose over the question of whether central banks could buy from the IMF, which the European countries proposed but Witteveen strongly opposed, as this was contrary to the Articles of Agreement. He pointed out that it was 'unwise for them to set an unfortunate precedent by violating international rules to which they had agreed' (Garretsen de Vries 1985: Volume II, 1006). He was more successful with his proposal to sell part of the gold stock on the market and use the returns to support poor developing countries. In 1975 this became Witteveen's three-way arrangement, with one-sixth of the stock sold accordingly, one-sixth returned to the members and a change of the Articles of Agreement for the use of the rest (which was agreed upon in 1976). Within the G10, which needed to agree as well, Witteveen had to forcefully defend the IMF Articles of Agreement in order to reach agreement about the conditions for selling and buying IMF gold. This was necessary as the BIS could buy from the IMF and sell to central banks again, which Witteveen wanted to avoid. As in many issues, Witteveen had helped forge the agreement by meeting with many officials informally to ascertain common ground. He enunciated emerging consensus and stated general principles around which agreement might be achieved. This was also true for the necessary reform of the IMF as an institution. Unsatisfied with the G10's effort to repair international monetary management after Nixon's 1971 decision, the US had created the Committee of Twenty within the IMF in 1972, consisting of the G10 and ten larger developing states, with the effect of the European states carrying less weight. However, the Committee of Twenty failed to achieve a stable exchange rate mechanism, which showed that a new, more flexible system was needed, but the US was not prepared to accept such proposals. Witteveen then initiated the IMF's historic break from its founding principle of fixed, but adjustable, exchange rates. In the present situation, he said in January 1974, 'a large measure of floating is unavoidable and indeed desirable' (quoted in Steil 2013: 339). In October 1974 he set up an Interim Committee, composed of selected ministers of finance and central bank presidents from both developed and developing states, which took charge of the exchange rate process. The necessary amendment of Article 4 of the Articles of Agreement followed in January 1976, obliging states to collaborate with the IMF and to follow domestic politics which would ensure orderly exchange arrangements and promote a stable system.

In May the Trust Fund was established to provide balance-of-payments assistance to developing member states with profits from the sale of gold.

To obtain funds and support for his policies Witteveen travelled a lot and was away from headquarters more often than previous managing directors, leaving work there to Deputy Managing Director William Dale, with whom he had a good relationship. While several Executive Directors did not appreciate his frequent absences, he tried to deal with this by keeping them informally apprised of what was going on. After the IMF annual meeting in Manila, Philippines in October 1976 he visited countries in Asia but was called to London secretly because of speculative attacks on the British pound. While most IMF people did not know where he was, he helped the negotiations with officials of the UK for a stand-by-agreement, as he had arranged for Italy earlier that year. However, the British government did not want to change its domestic policies and expected easy IMF conditions. Witteveen was able to withstand this pressure and succeeded in convincing Prime Minister James Callaghan to accept a shift from the governmental to the private sector as well as other severe IMF conditions, although Witteveen asked slightly less with regard to cutting public expenses than the IMF staff had calculated. After the government had devaluated the pound, it regained its strength and resources were returned to the IMF. Internally Witteveen pointed out how important it had been that the IMF had kept to its rule of law. In September 1977 Witteveen announced that he was not available for a second term, which would likely have been possible since he had enhanced the organization and improved relations with the US government. President Jimmy Carter even asked him to reconsider his decision. However, Witteveen's wife wanted to return to the Netherlands and Witteveen felt satisfied about the experience but also in the mood for something else. On 16 June 1978 he relinquished his post, a few months early in order to allow his successor Jacques de Larosière more time to prepare himself for the annual meeting in autumn.

After his IMF period Witteveen accepted many commissioner's posts, both in the Netherlands and internationally. He became a member of the International Advisory Council of the Morgan Trust Company and the European Council of General Motors. In 1978 he was the first chairman of the Group of Thirty, the Consultative Group on International Economic and Monetary Affairs, which was established in Washington DC and consisted of senior representatives of the private and public sectors. He laid the foundation of an institution, which would impact the international financial arena, and continued to function until 1985. In 1987 Philips President Wisse Dekker and Witteveen founded the Witteveen Dekker Indonesian Scholarship Foundation, which allows gifted Indonesians to study economics in Rotterdam. Once Witteveen started to give up his international economic activities, most of his social activities were related to the Sufi movement. Since 1997 he has published several books on this view of life as well as in relation to economics. In the late 1990s and around the 2010s he publicly commented on current international monetary developments, among them his article 'A Bigger, Bolder Fund Can Stop the Next Crash' (in *The Financial Times* of 22 August 2011). As a special guest at the annual meeting of the IMF that year, he advised Managing Director Christine Lagarde accordingly. In 2012 he published his memoirs. His wife died in 2006 and he lost two sons, Paul, who died of Hodgkin disease in the US, and Willem, who died when Malaysia Airlines Flight 17 was shot down over Ukraine in 2014.

April 2019: Date of death added

Archives

The H.J. Witteveen archive 1940-2007 is in the Nationaal Archief, The Hague, the Netherlands, see the inventory at www.gahetna.nl/collectie/archief/pdf/NL-HaNA_2.21.370.ead.pdf

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