RETROSPECTIVE ON THE BRETTON WOODS SYSTEM pdf

1: Nixon shock - Wikipedia

The book A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform, Edited by Michael D. Bordo and Barry Eichengreen is published by University of Chicago Press. A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform, Bordo, Eichengreen.

Abstract At the close of the Second World War, when industrialized nations faced serious trade and financial imbalances, delegates from forty-four countries met in Bretton Woods, New Hampshire, in order to reconstruct the international monetary system. In this volume, three generations of scholars and policy makers, some of whom participated in the conference, consider how the Bretton Woods System contributed to unprecedented economic stability and rapid growth for 25 years and discuss the problems that plagued the system and led to its eventual collapse in The contributors explore adjustment, liquidity, and transmission under the System; the way it affected developing countries; and the role of the International Monetary Fund in maintaining a stable rate. Suggested Citation Bordo, Michael D. To find whether it is available, there are three options: Check below whether another version of this item is available online. Perform a search for a similarly titled item that would be available. More about this item Access and download statistics Corrections All material on this site has been provided by the respective publishers and authors. You can help correct errors and omissions. See general information about how to correct material in RePEc. For technical questions regarding this item, or to correct its authors, title, abstract, bibliographic or download information, contact: General contact details of provider: If you have authored this item and are not yet registered with RePEc, we encourage you to do it here. This allows to link your profile to this item. It also allows you to accept potential citations to this item that we are uncertain about. We have no references for this item. You can help adding them by using this form. If you know of missing items citing this one, you can help us creating those links by adding the relevant references in the same way as above, for each refering item. If you are a registered author of this item, you may also want to check the "citations" tab in your RePEc Author Service profile, as there may be some citations waiting for confirmation. Please note that corrections may take a couple of weeks to filter through the various RePEc services. More services and features.

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2: A Retrospective on the Bretton Woods System

The primary value of A Retrospective lies in laying out enough facts about the Bretton Woods system to permit readers to draw this conclusion. The book's greatest failing lies in the reluctance of its contributors to make the same judgment.

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3: A Retrospective on the Bretton Woods system - PDF Free Download

A Retrospective on the Bretton Woods system: lessons for international monetary reform / edited by Michael D. Bordo and Barry Eichengreen. Includes bibliographical references and index.

Origins[edit] The political basis for the Bretton Woods system was in the confluence of two key conditions: Interwar period[edit] There was a high level of agreement among the powerful nations that failure to coordinate exchange rates during the interwar period had exacerbated political tensions. This facilitated the decisions reached by the Bretton Woods Conference. Furthermore, all the participating governments at Bretton Woods agreed that the monetary chaos of the interwar period had yielded several valuable lessons. The experience of World War II was fresh in the minds of public officials. The solution at Versailles for the French, British, and Americans seemed to be "make Germany pay for it all. Intransigent insistence by creditor nations for the repayment of Allied war debts and reparations, combined with an inclination to isolationism , led to a breakdown of the international financial system and a worldwide economic depression. In the s, international flows of speculative financial capital increased, leading to extremes in balance of payments situations in various European countries and the US. The various anarchic and often autarkic protectionist and neo-mercantilist national policies â€" often mutually inconsistent â€" that emerged over the first half of the decade worked inconsistently and self-defeatingly to promote national import substitution , increase national exports, divert foreign investment and trade flows, and even prevent certain categories of cross-border trade and investment outright. Global central bankers attempted to manage the situation by meeting with each other, but their understanding of the situation as well as difficulties in communicating internationally, hindered their abilities. Britain in the s had an exclusionary trading bloc with nations of the British Empire known as the " Sterling Area ". If Britain imported more than it exported to nations such as South Africa, South African recipients of pounds sterling tended to put them into London banks. This meant that though Britain was running a trade deficit, it had a financial account surplus, and payments balanced. One incentive for, say, South African holders of rand to park their wealth in London and to keep the money in Sterling, was a strongly valued pound sterling. Unfortunately, as Britain deindustrialized in the s, the way out of the trade deficit was to devalue the currency. Germany forced trading partners with a surplus to spend that surplus importing products from Germany. Preventing a repetition of this process of competitive devaluations was desired, but in a way that would not force debtor nations to contract their industrial bases by keeping interest rates at a level high enough to attract foreign bank deposits. The Gold Standard and the Great Depression, â€" and How to Prevent a Currency War ; in particular, devaluations today are viewed with more nuance. For a variety of reasons, including a desire of the Federal Reserve to curb the U. What was initially a mild deflationary process began to snowball when the banking and currency crises of instigated an international "scramble for gold". Sterilization of gold inflows by surplus countries [the U. Monetary contractions in turn were strongly associated with falling prices, output and employment. Effective international cooperation could in principle have permitted a worldwide monetary expansion despite gold standard constraints, but disputes over World War I reparations and war debts, and the insularity and inexperience of the Federal Reserve , among other factors, prevented this outcome. As a result, individual countries were able to escape the deflationary vortex only by unilaterally abandoning the gold standard and re-establishing domestic monetary stability, a process that dragged on in a halting and uncoordinated manner until France and the other Gold Bloc countries finally left gold in Bernanke In at Bretton Woods, as a result of the collective conventional wisdom of the time, [17] representatives from all the leading allied nations collectively favored a regulated system of fixed exchange rates, indirectly disciplined by a US dollar tied to gold [18] â€"a system that relied on a regulated market economy with tight controls on the values of currencies. Flows of speculative international finance were curtailed by shunting them through and limiting them via central banks. This meant that international flows of investment went into foreign direct investment FDI â€"i. Although the national experts disagreed to some degree on the specific implementation of this system, all agreed on the need for tight controls. Economic security[edit] Cordell Hull, U. Secretary of State â€"44 Also based on experience of the inter-war years, U. Specifically, he had in mind the trade and exchange controls bilateral arrangements [19] of Nazi Germany and the imperial preference system practiced by Britain, by which members or former members of the British Empire were accorded special trade status, itself provoked by German, French, and American protectionist policies. Hull argued [U]nhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war â€¦ if we could get a freer flow of tradeâ€¦freer in the sense of fewer discriminations and obstructionsâ€¦so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance of lasting peace. In the aftermath of the Great Depression , public management of the economy had emerged as a primary activity of governments in the developed states. Employment, stability, and growth were now important subjects of public policy. In turn, the role of government in the national economy had become associated with the assumption by the state of the responsibility for assuring its citizens of a degree of economic well-being. The system of economic protection for at-risk citizens sometimes called the welfare state grew out of the Great Depression , which created a popular demand for governmental intervention in the economy, and out of the theoretical contributions of the Keynesian school of economics, which asserted the need for governmental intervention to counter market imperfections. However, increased government intervention in domestic economy brought with it isolationist sentiment that had a profoundly negative effect on international economics. The priority of national goals, independent national action in the interwar period, and the failure to perceive that those national goals could not be realized without some form of international collaborationâ€"all resulted in "beggar-thy-neighbor" policies such as high tariffs , competitive devaluations that contributed to the breakdown of the gold-based international monetary system, domestic political instability, and international war. This was the foundation of the U. Thus, the more developed market economies agreed with the U. In a sense, the new international monetary system was a return to a system similar to the pre-war gold standard, only using U. Thus, the new system would be devoid initially of governments meddling with their currency supply as they had during the years of economic turmoil preceding WWII. Instead, governments would closely police the production of their currencies and ensure that they would not artificially manipulate their price levels. If anything, Bretton Woods was a return to a time devoid of increased governmental intervention in economies and currency systems. Atlantic Charter[edit] Roosevelt and Churchill during their secret meeting of 9â€"12 August , in Newfoundland resulted in the Atlantic Charter , which the U. The Atlantic Charter , drafted during U. The Atlantic Charter affirmed the right of all nations to equal access to trade and raw materials. Moreover, the charter called for freedom of the seas a principal U. As the war drew to a close, the Bretton Woods conference was the culmination of some two and a half years of planning for postwar reconstruction by the Treasuries of the U. Without a strong European market for U. By the end of , there had already been major strikes in the automobile, electrical, and steel industries. During the s, the British created their own economic bloc to shut out U. The combined value of British and U. While Britain had economically dominated the 19th century, U. One of the reasons Bretton Woods worked was that the U. At the time, one senior official at the Bank of England described the deal reached at Bretton Woods as "the greatest blow to Britain next to the war", largely because it underlined the way financial power had moved from the UK to the US. The British had no choice but to ask for aid. Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed. October Learn how and when to remove this template message Free trade relied on the free convertibility of currencies. Negotiators at the Bretton Woods conference, fresh from what they perceived as a disastrous experience with floating rates in the s, concluded that major monetary fluctuations could stall the free flow of trade. The new economic system required an accepted vehicle for investment, trade, and payments. Unlike national economies, however, the international economy lacks a central government that can issue currency and manage its use. In the past this problem had been solved through the gold standard , but the architects of Bretton Woods did not consider this option feasible for the postwar political economy. Instead, they set up a system of fixed exchange rates managed by a series of newly created international institutions using the U. Previous regimes[edit] In the 19th and early 20th centuries gold played a key role in international monetary transactions. The gold standard was used to back currencies; the international value of currency was determined by its fixed relationship to gold; gold was used to settle international accounts. The gold standard maintained fixed exchange rates that were seen as desirable because they reduced the risk when trading with other countries. Imbalances in international trade were theoretically rectified automatically by the gold standard. A country with a deficit would have depleted gold reserves and would thus have to reduce its money supply. The resulting fall in demand would reduce imports and the lowering of prices would boost exports; thus the deficit would be rectified. Any country experiencing inflation would lose gold and therefore would have a decrease in the amount of money available to spend. This decrease in the amount of money would act to reduce the inflationary pressure. Supplementing the use of gold in this period was the British pound. Based on the dominant British economy, the pound became a reserve, transaction, and intervention currency. But the pound was not up to the challenge of serving as the primary world currency, given the weakness of the British economy after the Second World War. The architects of Bretton Woods had conceived of a system wherein exchange rate stability was a prime goal. Yet, in an era of more activist economic policy, governments did not seriously consider permanently fixed rates on the model of the classical gold standard of the 19th century. Gold production was not even sufficient to meet the demands of growing international trade and investment. The only currency strong enough to meet the rising demands for international currency transactions was the U. The strength of the U. In fact, the dollar was even better than gold: The rules further sought to encourage an open system by committing members to the convertibility of their respective currencies into other currencies and to free trade. What emerged was the " pegged rate " currency regime. In theory, the reserve currency would be the bancor a World Currency Unit that was never implemented , suggested by John Maynard Keynes; however, the United States objected and their request was granted, making the "reserve currency" the U. This meant that other countries would peg their currencies to the U. At this rate, foreign governments and central banks could exchange dollars for gold. Bretton Woods established a system of payments based on the dollar, which defined all currencies in relation to the dollar, itself convertible into gold, and above all, "as good as gold" for trade. Additionally, all European nations that had been involved in World War II were highly in debt and transferred large amounts of gold into the United States, a fact that contributed to the supremacy of the United States. A major point of common ground at the Conference was the goal to avoid a recurrence of the closed markets and economic warfare that had characterized the s. Thus, negotiators at Bretton Woods also agreed that there was a need for an institutional forum for international cooperation on monetary matters. Already in the British economist John Maynard Keynes emphasized "the importance of rule-based regimes to stabilize business expectations"â€”something he accepted in the Bretton Woods system of fixed exchange rates. Currency troubles in the interwar years, it was felt, had been greatly exacerbated by the absence of any established procedure or machinery for intergovernmental consultation. As a result of the establishment of agreed upon structures and rules of international economic interaction, conflict over economic issues was minimized, and the significance of the economic aspect of international relations seemed to recede. International Monetary Fund[edit] Main article: International Monetary Fund Officially established on 27 December , when the 29 participating countries at the conference of Bretton Woods signed its Articles of Agreement, the IMF was to be the keeper of the rules and the main instrument of public international management. The Fund commenced its financial operations on 1 March It advised countries on policies affecting the monetary system and lent reserve currencies to nations that had incurred balance of payment debts. Design[edit] The big question at the Bretton Woods conference with respect to the institution that would emerge as the IMF was the issue of future access to international liquidity and whether that source should be akin to a world central bank able to create new reserves at will or a more limited borrowing mechanism.

RETROSPECTIVE ON THE BRETTON WOODS SYSTEM pdf

4: The Bretton Woods International Monetary System. A Historical Overview by NiccolÃ² Baldini - Issuu

At the close of the Second World War, when industrialized nations faced serious trade and financial imbalances, delegates from forty-four countries met in Bretton Woods, New Hampshire, in order to reconstruct the international monetary system.

Background[edit] In in Bretton Woods, New Hampshire, representatives from 44 nations met to develop a new international monetary system that came to be known as the Bretton Woods system. Conference attendees had hoped that this new system would "ensure exchange rate stability, prevent competitive devaluations, and promote economic growth. Thus, the United States was committed to backing every dollar overseas with gold, and other currencies were pegged to the dollar. With the Marshall Plan , Japan and Europe were rebuilding from the war, and countries outside the US wanted dollars to spend on American goodsâ€"cars, steel, machinery, etc. Furthermore, a negative balance of payments , growing public debt incurred by the Vietnam War , and monetary inflation by the Federal Reserve caused the dollar to become increasingly overvalued in the s. Simultaneously, the dollar dropped 7. Event[edit] At the time, the U. On the afternoon of Friday, August 13, , these officials along with twelve other high-ranking White House and Treasury advisors met secretly with Nixon at Camp David. There was great debate about what Nixon should do, but ultimately Nixon, relying heavily on the advice of the self-confident Connally, decided to break up Bretton Woods by suspending the convertibility of the dollar into gold; freezing wages and prices for 90 days to combat potential inflationary effects; and impose an import surcharge of 10 percent, [11] to prevent a run on the dollar, stabilize the US economy, and decrease US unemployment and inflation rates, on August 15, Nixon issued Executive Order pursuant to the Economic Stabilization Act of , imposing a day freeze on wages and prices in order to counter inflation. This was the first time the U. An import surcharge of 10 percent was set to ensure that American products would not be at a disadvantage because of the expected fluctuation in exchange rates. Speaking on television on August 15, the Sunday before the markets opened, Nixon said the following: The third indispensable element in building the new prosperity is closely related to creating new jobs and halting inflation. We must protect the position of the American dollar as a pillar of monetary stability around the world. In the past 7 years, there has been an average of one international monetary crisis every year I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States. Now, what is this actionâ€"which is very technicalâ€"what does it mean for you? Let me lay to rest the bugaboo of what is called devaluation. If you want to buy a foreign car or take a trip abroad, market conditions may cause your dollar to buy slightly less. But if you are among the overwhelming majority of Americans who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today. The effect of this action, in other words, will be to stabilize the dollar. The Dow rose 33 points the next day, its biggest daily gain ever at that point, and the New York Times editorial read, "We unhesitatingly applaud the boldness with which the President has moved. In March , the fixed exchange rate system became a floating exchange rate system. Later ramifications[edit] The Nixon Shock has been widely considered to be a political success,[citation needed] but an economic mixed bag in bringing on the stagflation of the s and leading to the instability of floating currencies. S officials could not get other countries to agree to a formal revaluation of their currencies. The German mark appreciated significantly after it was allowed to float in May Further, the Nixon Shock unleashed enormous speculation against the dollar. France also was willing to allow the dollar to depreciate against the franc, but not allow the franc to appreciate against gold Page 14 Douglas. Even much later, in , Paul Volcker expressed regret over the abandonment of Bretton Woods: The current world monetary system assigns no special role to gold; indeed, the Federal Reserve is not obliged to tie the dollar to anything. It can print as much or as little money as it deems appropriate. There are powerful advantages to such an unconstrained system. Above all, the Fed is free to respond to actual or threatened recessions by pumping in money. To take only one example, that flexibility is the reason the stock market crash of â€"which started out every bit as frightening as that of â€"did not cause a slump in the real economy. While a freely floating national money has advantages, however, it also has risks. For one thing, it can create uncertainties for international traders and investors. Over the past five years, the dollar has been worth as much as yen and as little as The costs of this volatility are hard to measure partly because sophisticated financial markets allow businesses to hedge much of that risk , but they must be significant. Furthermore, a system that leaves monetary managers free to do good also leaves them free to be irresponsibleâ€"and, in some countries, they have been quick to take the opportunity.

5: Bretton Woods system - Wikipedia

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6: A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform

A review of the performance of the international monetary system from to , with some discussion of implications for the future.

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