

Name: Baumgartner

Surname: Alexandre

Student Number: 2006086

Name of the course: Introduction to Political Economy 2021

Teacher: Dr. Rees



Subject: The Bretton Woods Conference

## Table of contents:

- I. Introduction:
- II. The birth of the Bretton Woods Conference (1944)
  - a) the origins
- III. The process of the Bretton Woods System
  - a) Fixed exchange rate system
  - b) A new international currency
  - c) IMF
  - d) World Bank
- IV. The end of the Bretton Woods System (1971)
- V. Conclusion:

## I. Introduction:

The Bretton Woods agreements are economic accords which aimed to create the big aspects of the international financial system after the second world war, which took place from the 1<sup>st</sup> to the 22<sup>nd</sup> of July 1944 in Bretton Woods, New Hampshire. The conference hosted representatives from 44 countries including the United-States, Canada, Western European countries, Australia, and Japan and the goal was to reach a reliable financial situation. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. Their main objective was to set up a world monetary organization and to promote the reconstruction and economic development of countries affected by the war. The consequences of the war made it difficult to set up the system, which forced the United States to play a leading role, particularly through the dollar.

Over the years, the Bretton Woods system has had many flaws, and this has marked the beginning of the neglect of these agreements.

How did the Bretton Woods agreements come to the world and what did it bring to it before this system collapsed?

## II. The birth of the Bretton Woods Conference (1944)

### a) The origins

To avoid the same things happening like in the 1929 crisis, but also to ensure its leadership in the post-World War II world, the U.S. government began working on the creation of international financial institutions. The two main protagonists of this conference were Harry Dexter White, assistant secretary of the treasury of the United States, and John Maynard Keynes, who led the British delegation who both prepared a comprehensive plan.

The main ideas of each one of their plans are: for the American side it was to emphasize the pivotal role of the U.S. dollar and proposed the creation of a stabilization fund built on the deposits of member states and a post-war reconstruction bank. For the Britain side, the Keynes plan was drafted as early as 1941 and prepared a world monetary system based on a non-national reserve unit, the bancor.

More specifically, Keynes was very concerned about the interests of his country and advocated a multilateral organization that left each country a certain amount of economic, commercial, and monetary leeway. In a very audacious and visionary way, he suggests leaving behind the gold which he describes as a "barbaric relic" and to replace it with a purely conventional international monetary standard, the bancor, which would be managed by a multilateral international institution.

All this is in radical opposition to White's aims. He realized that the United States has become the world's creditor and as such has a say in the policies of its partners. It was time for them to finally reap the benefits of their involvement in the war. White consequently wants a centralized and rigid system with fixed exchange rates against gold... and the dollar, with a supranational institution that offers loans to countries with trade deficits under very strict conditions.

In the end, it was White's proposal that prevailed, organizing the world monetary system around the U.S. dollar, but with a nominal link to gold.

### III. The process of the Bretton Woods System

Many things are adopted, and several institutions or organizations are born during this conference:

- a) Fixed exchange rate system: The parities of currencies are fixed in relation to a standard which is gold, but only one currency is convertible into gold, the dollar. Currency parities are fixed and can only vary within a range of +/- 1%.

- b) A New International Currency: since the dollar was the only currency convertible into gold, it became the currency of settlement for international payments. This convertibility was guaranteed by the fact that in 1944 the United States held three quarters of the world's gold reserves. An implicit rule is that there is no requirement to convert U.S. dollars into gold. All U.S. dollars that enter a country are therefore used to create local currency, while most of the time they are placed back in the U.S. Treasury. Global growth and inflation now depend on the dollar.
- c) The International Monetary Fund (FMI): When it was created, the IMF was given three functions:
- A function of stabilizing currencies.
  - A function of financing balance of payments deficits by obtaining credits.
  - A recommendation function to monitor national policies to ensure that they did not get out of hand and to intervene in the event of exchange rate crises to provide liquidity to the country concerned by implementing a recovery policy.
- d) World Bank: created to provide financial assistance to countries during the reconstruction post war. This international institution is responsible for granting long-term loans to finance specific reconstruction projects and more generally for economic development when private capital refuses to do so. Economists recognized in 1944 that the new system could only start after a return to normality following the disruption of World War II. It was expected that after a small transition period, the international economy would recover, and the system would enter into operation. To promote the progression of world trade and finance after the war reconstruction, the organizers at Bretton Woods created another institution, the International Bank for Reconstruction and Development (IBRD), which is one of five agencies that make up the World Bank Group and is probably now the most important agency of the Group.

#### IV. The end of the Bretton Woods System (1971)

The collapse of the Bretton Woods system happened in 1971 as the currency was no longer linked to the American Dollar. The monetary system born at Bretton Woods in 1944 was built to ensure international cooperation. The signatories wanted to prevent national egoisms from aggravating a financial crisis, as had been the case in 1929. All currencies are fixed to the dollar, which is convertible into gold at a price of \$35 per ounce. But how and why did this system break down? Well since the end of the 50's, the pressure on the dollar has intensified. The capital movement is where the problem comes from. The biggest U.S companies invest as much as they can abroad, because it's where they want to open new markets and even produce at the lower cost possible. U.S. banks gladly extend credit to these investors, creating as many dollars as they demand. Nevertheless, every dollar invested in Germany, France, the United Kingdom, must be changed into francs, deutschemarks, pounds sterling. This is how an ever-increasing mass of dollars, spreading inflation, fills the reserves of the Banque de France, the Bundesbank, the Bank of England, and many other central banks.

On August 15, 1971, while he faced the accelerating depletion of the U.S. Federal Reserve's gold stock, President Nixon took the decision to denounce the gold convertibility of the dollar, which marked the end of the Bretton Woods system. The Central Banks of the main European countries then decided to stop supporting the dollar and the international monetary system switched to a floating exchange rate regime.

Finally, the collapse of the Bretton Woods system originated from the accumulation of dollars by economic representatives during the 1960s, which was coupled with a gradual decline in gold reserves in the United States.

## V. Conclusion:

As for my personal point of view, I think the original intention of the Bretton Woods Agreement was goodwill, but the United States exercised too much control over it through the U.S. dollar. This was seen when the agreement fell in 1971. It would have been better if during this conference, the ideas of other representatives, especially those of Keynes, had been taken into account. The short life of these agreements, about thirty years, proves that the system was far from perfect, but it proves that leaders can agree and make real decisions. Even today some institutions of this conference are still in place, but for this system to be re-established one day, it is necessary not to be based on a single country/power but to integrate the countries in difficulty in order to ensure their economic integration, to minimize the risks of crisis etc.

The objectives of the Bretton Woods Conference are still the same today: to respect monetary stability and to promote international economic cooperation in order to encourage economic expansion and free trade.

## Webliography:

<http://abc.economie.free.fr/gratuit/brettonwoods.html>

<https://www.youtube.com/watch?v=GVytOtfPZe8>

[https://en.wikipedia.org/wiki/Bretton\\_Woods\\_system](https://en.wikipedia.org/wiki/Bretton_Woods_system)

<https://www.universalis.fr/encyclopedie/accords-de-bretton-woods/>

[https://www.herodote.net/1er\\_au\\_22\\_juillet\\_1944-evenement-19440722.php](https://www.herodote.net/1er_au_22_juillet_1944-evenement-19440722.php)

<https://www.thebalance.com/bretton-woods-system-and-1944-agreement-3306133#:~:text=The%20Bretton%20Woods%20agreement%20was,t heir%20currencies%20and%20the%20dollar.>

<https://www.c-span.org/video/?316979-1/bretton-woods-conference-harry-dexter-white>

<http://reesonomics.eu/themes/Keynes/Bretton%20Woods%20student%20presentation%202017.pdf>