OPINION

The Myth of Bretton Woods

Much economic good ultimately flowed from the gathering 70 years ago, but its reputation is overstated.

By BENN STEIL

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This month marks the 70th anniversary of the historicUnited Nations Monetary and Financial Conference in Bretton Woods, N.H., today known simply as Bretton Woods. The conference, attended by 44 allied nations in the wake of the D-Day landings at Normandy, established the International Monetary Fund, the World Bank and a global fixed exchange-rate system based on the U.S. dollar and gold. The latter lasted until 1971, when President Nixon ended the last remnants of the dollar's gold convertibility.

The name of the remote New Hampshire town has become virtually synonymous with enlightened, cooperative globalization. After all, the quarter-century post-World War II "Bretton Woods era" was marked by robust economic recovery and the formalization of a multilateral trading system.

It is thus no surprise that in the wake of the 2008 global financial crisis world leaders were calling for "a new Bretton Woods" to restore economic order.

But was Bretton Woods actually the cause of the postwar economic revival? The simple answer is no, for the following reasons:

First, Europe's dramatic resurrection was driven not by the IMF or the World Bank, but rather by billions of dollars in direct aid and grants from the 1948 Marshall Plan—a repudiation of the American Bretton Woods playbook, which relied on the IMF piling more debt on already indebted nations to keep up their imports.

The IMF was mothballed by the Truman administration in the war's immediate aftermath and remained moribund for much of the next decade. In mid-1949, the IMF directors confessed that after four years of peace "dependence on bilateral trade and inconvertible currencies is far greater than before the war." The IMF's 1952 annual report lamented that there had been "little secure or sustained progress toward the Fund objectives of unimpeded multilateral trade and the general convertibility of currencies."

Second, the monetary system established at Bretton Woods cannot be said to have started until 1961, 15 years after the IMF was inaugurated, when the first nine European countries formally adopted the convertibility commitments required by IMF Article VIII. By then the

Mount Washington Hotel in Bretton Woods, N.H.
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system was already under strain as European nations converted excess dollars to gold, depleting the U.S. gold reserves underpinning the dollar's supposedly indelible gold-backing.

This was no fixed exchange-rate system such as the world had known before World War I, in which global imbalances were kept in check by falling interest rates when gold flowed in and rising rates when it flowed out. That system was praised even by British Bretton Woods delegation head John Maynard Keynes for having "maintained [currencies] on a stable basis in relation to gold and to one another, facilitat[ing] the easy flow of capital and of trade to an extent the full value of which we only realize . . . when we are deprived of its advantages."

The designer of the Bretton Woods monetary system, U.S. Treasury official Harry Dexter White, had told Congress that there was "no likelihood" that "the United States will, at any time, be faced with the difficulty of buying and selling gold at a fixed price freely." But the U.S. rejected any obligation to manage its monetary policy such that it would always have enough gold to back the dollars it issued. And so in the end it didn't.

Contrary to popular belief, the Bretton Woods agreements were not formulated through multilateral discussion in a quaint New England town. They were negotiated before the conference over two years of contentious, self-interested negotiations between the two nations critical to global monetary and financial stability: the U.S., the world's largest creditor, and the U.K., its largest debtor. The former agreed to assist nations struggling with balance of payments deficits and the latter to forswear competitive devaluation. The other nations were present mainly to find out what the U.S., which by 1944 controlled nearly 80% of the world's monetary gold stock, planned to do about a global monetary problem that it had done much to create.

Today, a road map to cooperative monetary reform appears politically out of reach. The world's largest creditor nation, China, and its largest debtor, the U.S., have been unwilling to subordinate their monetary prerogatives—China to control its exchange rate, and the U.S. to control dollar interest rates—to any abstract conception of the global good.

Although the IMF has since the end of the Bretton Woods era emerged as a critical player in the global financial architecture, it has become an institution that neither the U.S. nor the U.K. in the 1940s would have approved of—a crisis-manager. The IMF was merely supposed to grease the wheels of a fixed exchange-rate system. Countries were expected to change their own policies when crises emerged, mainly by devaluing their currencies to boost net exports.

While examples of effective, enlightened and enduring internationalism—such as the Marshall Plan and the General Agreement on Tariffs and Trade, the precursor to the World Trade Organization—did emerge in the 1940s, Bretton Woods does not deserve to be in that pantheon.

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