

Bretton woods

The cavernous Mount Washington Hotel, situated in Bretton Woods, N.H., was the scene in 1944 for the refashioning of the world's monetary system. Representatives of 44 nations, led by the United States and Great Britain, resolved to anchor the dollar to gold and the other currencies to the dollar. The arrangements thereby established lasted, in one form or another, until 1971, when the dollar was redefined as a piece of paper of no intrinsic value.

Harry Dexter White, representing the U.S. Treasury, and John Maynard Keynes, speaking for the British Treasury, were the principal monetary architects. They sought to bring order out of the chaos of the 1930s, when governments manipulated the value of their currencies to steal a competitive march on their neighbors. The Bretton Woods dollar was defined as one thirty-fifth of an ounce of gold, while the values of the other currencies, major and minor, were fixed in terms of the dollar.

White and Keynes wanted only so much fixedness. Yes, exchange rates would not be allowed to float, but nations could devalue by 10% at will and by another 10% if they felt they really had to. As to the golden dollar, only governments could make the conversion from paper to bullion and back again; American citizens could not legally own gold, let alone redeem their Federal Reserve notes for it.

White, a New Dealer and in his spare time a Soviet agent, and Keynes, a devout believer in the efficacy of central bank management, each rejected the liberal ideals of the classical gold standard, in which anyone could exchange metal for paper and money and merchandise moved freely from one participating gold standard nation to another. A characteristic feature of the Bretton Woods system was tight government control of investment capital.

Sharp devaluations, notably of the pound, marked the early years of the Bretton woods system. Later, the United States began to run short of gold. Only in the early to mid-1960s did the world's currencies behave in the ways that White and Keynes intended them to.

The World Bank and International Monetary Fund, institutions created to support and administer the Bretton woods system, survive. Hardy institutions, bureaucracies are.

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