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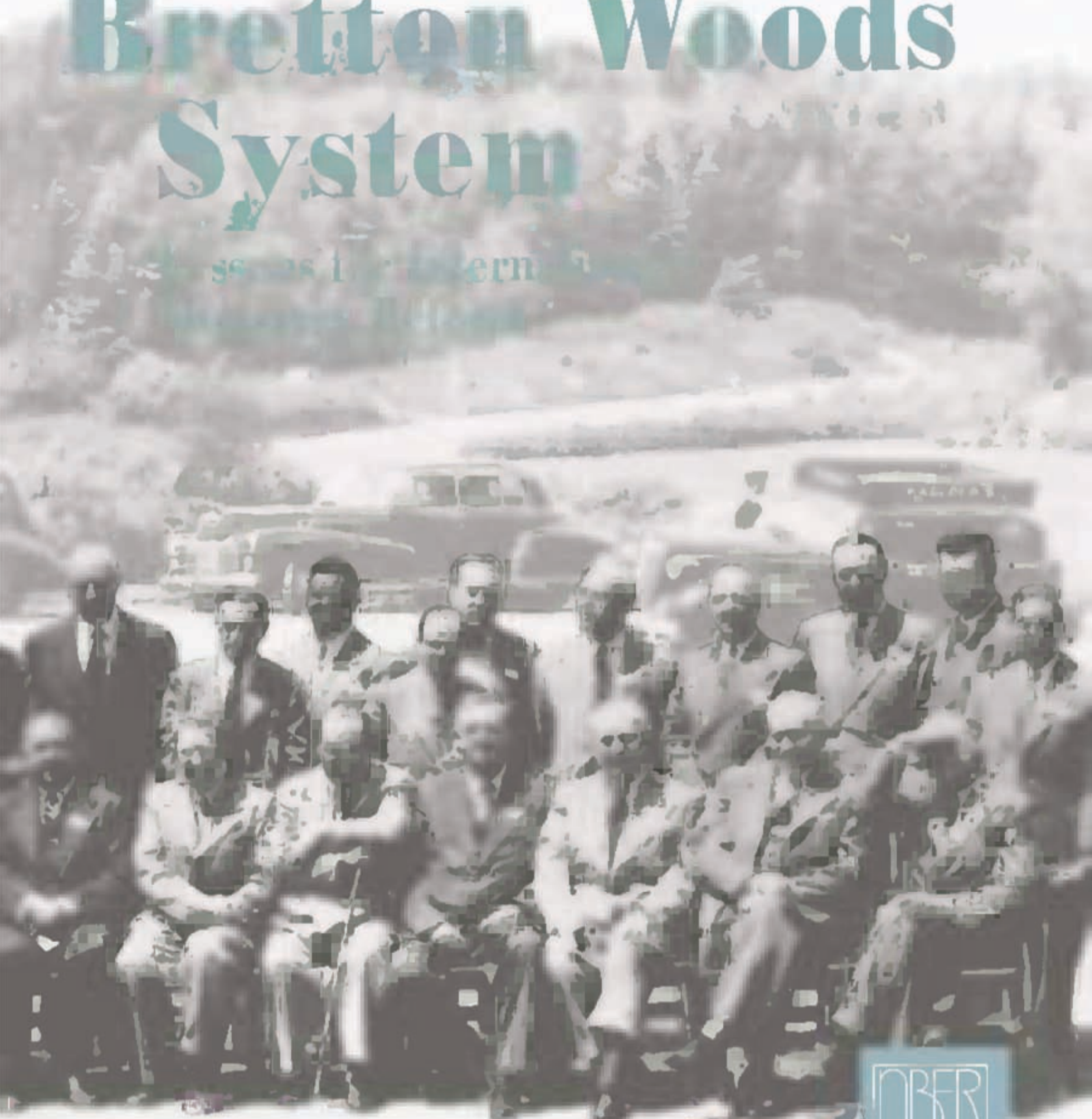
A Retrospective on the Bretton Woods System



Edited by Michael D. Bordo
and Barry Eichengreen

National Bureau of Economic Research

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A Retrospective on the Bretton Woods System

A National Bureau
of Economic Research
Project Report

A Retrospective on the Bretton Woods System

Lessons for International Monetary Reform

Edited by Michael D. Bordo and Barry Eichengreen

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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

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Preface

In 1944, delegates from forty-four countries assembled at the Mt. Washington Hotel in Bretton Woods, New Hampshire, to negotiate a "new world order" governing exchange rates, foreign lending, and international trade. Among their most notable achievements was the Bretton Woods System of pegged but adjustable exchange rates and a new institution, the International Monetary Fund, to oversee the operation of exchange rates. The quarter century that followed, what came to be known as the "Bretton Woods years," appears in retrospect as a golden age of exchange rate stability and rapid economic growth. The exchange rates of the major industrial countries remained fixed for extended periods. Inflation was moderate by subsequent standards. World trade expanded buoyantly. National income in the G7 countries rose more rapidly than in any comparable period before or since. It is tempting to assume, as many have done, that the key to this admirable performance lay in the international monetary agreement concluded in 1944.

The beginning of the end of the Bretton Woods era came on 15 August 1971, when U.S. President Richard Nixon shut the gold window, suspending the official convertibility of the dollar into gold at $35 an ounce and cutting the exchange rate system loose from its moorings. Parities were realigned but stabilized only temporarily. By 1973, the transition to a new regime of floating exchange rates was complete. The real and financial turbulence of the succeeding period far outstripped anything witnessed during the Bretton Woods years.

The twentieth anniversary of the suspension of gold convertibility and of the collapse of the pegged-rate system seemed an appropriate time to revisit the Mt. Washington Hotel in order to reassess the lessons of Bretton Woods. In the autumn of 1991, more than sixty academics and policy makers therefore returned to the scene for the conference whose proceedings are published here. This was not the first conference, of course, reassessing Bretton Woods.

But, for a number of reasons, the organizers felt that it might be possible to view Bretton Woods in a new and revealing light. Theoretical advances in economics—for example, work on time consistency and credibility—had begun to build a framework within which the concept of a "Bretton Woods regime" might be systematically analyzed. Ongoing policy problems had added to the nostalgia with which the pegged exchange rates of Bretton Woods were viewed. The exchange rate gyrations of the 1980s had sharpened dissatisfaction with floating exchange rates and heightened interest in the pegged-rate systems of previous years. The European Monetary System, established in 1979, had lent increasing stability to the exchange rates of the participating countries and provoked discussion of exchange rate stabilization over a wider area. In the fall of 1991, the members of the European Community were moving rapidly to unify their currencies—that is, to fix their exchange rates once and for all through the establishment of a common currency and a European central bank. Clearly, arguments to stabilize exchange rates were back in vogue. Simultaneously, economic and political upheavals in Eastern Europe and in the successor states of the Soviet Union, the stagnation of portfolio capital flows to Latin America, and the troubled progress of the Uruguay Round of GATT negotiations combined to produce calls for a new Bretton Woods Agreement to reconstruct international institutions in ways that would address these pressing problems.

It was with these issues in mind that the NBER conference convened to consider what made possible the successful conclusion of the original Bretton Woods Agreement and to analyze its effects. A noteworthy and enjoyable aspect of the meeting was that it assembled in one place three distinct generations of international monetary economists. Among the participants were a number of academics and officials who had been "present at the creation." Along with a subsequent generation of economists and officials currently at the center of academic and policy debates, they participated in panels and roundtables in which historical issues and policy implications were discussed. Formal papers were presented by a still younger generation of scholars whose professional careers by and large postdate the Bretton Woods era.

The papers, as will be evident from the table of contents to this volume, fall into a number of groups. The first set provides an overview of Bretton Woods from three different vantage points. Chapter 1, by Michael D. Bordo, surveys the literature on Bretton Woods and analyzes its performance in comparative perspective. A companion paper by Alberto Giovannini offers a detailed comparison of the behavior of exchange rates under Bretton Woods and its predecessors. G. John Ikenberry's chapter then provides a political scientist's analysis and explanation for the conclusion of the Bretton Woods Agreement.

The next set of chapters addresses first the successful operation of Bretton Woods and then its collapse. Maurice Obstfeld, Hans Genberg and Alexander K. Swoboda, and Alan C. Stockman analyze three central facets of the system's operation: balance-of-payments adjustment, the international transmission of business cycles, and the provision of international liquidity. Kathryn M. Dominguez assesses the role of the IMF in Bretton Woods's operation, while Sebastian Edwards and Julio A. Santaella view this and related questions from the vantage point of the developing countries. Finally, Peter M. Garber reassesses the long-standing debate over the causes of Bretton Woods's collapse.

Much as historical experience can shed light on subsequent economic developments, subsequent developments provide an additional lens through which history can be viewed. Chapters by Richard C. Marston and by Susan M. Collins and Francesco Giavazzi therefore compare aspects of the Bretton Woods experience with the post-1973 float and the European Monetary System, respectively. The volume also contains a pair of panel discussions that reflect on the historical experience with Bretton Woods and look forward to the future of the international monetary system. The comments in these panels reflect the personal views of the participants, which may contain policy prescriptions. The volume concludes with an epilogue by Barry Eichengreen summarizing the main findings to emerge from the conference and their implications for international monetary reform.

As with all NBER conferences, as organizers of this one we benefited greatly from the intellectual and logistical support provided by the Bureau. Martin Feldstein and Geoffrey Carliner helped with the scholarly menu, while Kirsten Foss Davis and Ilana Hardesty dealt with the gastronomic one and, with characteristic good humor, managed to ferry the conference participants to northern New Hampshire at the height of the leaf-turning season. Jane Konkel in Cambridge and Julie McCarthy in Chicago shepherded the manuscript into print. The Ford Foundation provided financial support for the research program of which this publication is a part. We are grateful to all of them.

Michael D. Bordo and Barry Eichengreen

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