

Challenges facing bretton woods system and the imf



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During the World War II most countries of the world finally eliminated the remains of gold standard, it was not possible to exchange national fund as free anymore. Strict limitations of foreign currency were entered for national settlement of accounts and capital flow. The purchasing power and par of monetary standard broke away from each other because of the effect of inflation. Only in the United States the limitations of foreign currency did not change substantially and most of the world's gold drifted to the United States. Economists realized to establish such a foreign exchange system, which compensates partly the scarcity of gold and provides additional facilities for the operating of the increasing international trade. To be noticed, that the international currencies (first of all the US dollar) became more important than the gold as a world money.

In 1930s the exchange rate is one of the most important appliances in the concurrence of global trade. That's why they took the stability of exchange rates one of the key role in the new system, and the liabilities of the governments, which they assign the items of cash-flow at least between the relatively fix exchange rates free changes. They came to an agreement again that the monetary role of gold tends to be stay in the new system. The Bretton Woods System was established in the conference of Bretton Woods, New Hampshire, United States since 65 years in World War II where 730 delegates from 44 allied countries negotiated and agreed it, which means world economic system. The main point of this system was that the strongest industrial states of the world were controlled the commercial and financial relations. The monetary system of Bretton Woods builds at least three main principles. First is the quotation that all dollars would be

converted into gold at \$ 35 per ounce. Therefore the dollar was the common unit of all exchange rates. Second, stability of exchange rate involves fixed exchange rates and the exchange rates of market, which could permit to move its exchange rate in $\pm 1\%$ of par, but if it exceeds this par then respect to intervene. If the exchange rate is more than 10% the permission of IMF was required and if less than 10% it is under the power of nation. The last one is the convertibility, which liberalize current balance of payment, but can be maintained the restrictions of movements of capital.

It can be told, that the first monetary system, where the national credit money is based on international utilization, which means the Bretton Woods. Within the Bretton Woods established the International Monetary Funds (IMF) in 1946 to regulate the international monetary system, which most governments agreed to fix exchange rates. This organisation was determined by the identification of Keynesian model, that the markets do not work perfectly. IMF was established to compensate the scarcity of liquidity from the imperfect working of markets. At present the memberships of IMF expanded to 186 countries and researches say that “ working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world”.

The aims of IMF's institution are:

The insurance of international trade balance to its growing

Contribution of rate stability

Participate in establishment of multilateral system between members of countries

Contribute the abolishment of exchange restrictions, which it blocks the rising of world trade

Insurance of financial resources for the members of countries and adjust to correct the payment of scale position for commercial and pay restrictions without return

Cooperation with the international monetary problems and ensure the opportunities of consultation forum

Consequently, the IMF not only deals with the problems of individual countries but the whole working of international monetary system too. His work concentrates for those members of politics and strategy perspective across which members of IMF can cooperate because of their stable of fiscal system and economic growth.

The relationship between contractors requires international commercial exchange. Task of the monetary authorities is that they take care of newly emerging balance of payment of the protection of deficits in interstate relation and the defence of exchange rate. If the same seller accepts an exchange rate but it is undesirable for him then the monetary authorities must be repurchase it against of key currency (gold or \$). In essence, key currency and commercial currency differentiated from each other in this system. The \$ able to infuse the total function of the world money: commercial and reserve currency in the same way.

However, the other members of global economy do not be assessed in establish to accept \$ such a means of payment then they can attempt to get rid of dollar. In this Bretton Woods system people can change with goods, which means demand of gold.

A few years later the Bretton Woods system collapsed in more causes. The economic expansion of capitalist countries brought an end of USA's superiority. Western Europe and Japan have developed increasingly and they began to start the positions of \$. After that, stood apart the contradiction between internationalization of global economy and controlling national characteristics of monopolistic state. The main problem is that governments expended the appliances of national credit and budgetary act for their saving of internal economic problems that do not depend on monetary system. So the aims of national regulation got into trouble with the requirements of stability of sphere of currency.

The Bretton Woods system had technical insufficiencies too. They did not build any mechanism into the system, which would intercept the chronic difference of national inflation rate. The system was unable to harmonise the official exchange monetary parity from the variable par of purchasing power, which tended to devaluation and revaluation. There were no optimal international liquidity mechanisms; therefore the system was unable to establish the balance of payments.

From 1967 broke out cyclical crisis and the big national currencies was going to be depreciate. In 1973 the system became deformed and bankrupt. These

six years of cyclical crisis caused non-reversible changes for the gold - \$ standard of characteristic feature.

Afterwards, the members of IMF have been able to choose any other forms of exchange arrangements what they wish except the currency of gold. The aim is to maintain the stable system for buying and selling the variable currencies that the payments of foreign exchange operate easy without delay between countries. From the mid of 1970s, The IMF lends money for members that it presents some difficulty to observe the financial commitments for other members to perform economic and governmental reforms. The organization established a Trust Fund to help borrowing for the world's poorest countries. Starting in 1986 the repayments of loans financed the Structural Adjustment Facility (SAF).