Bretton woods essay

Politics, International Relations

During the World War I and World War II the international monetary system is split into several competing currency blocs, the fierce trade war between the global recession and nation. In the post-World War II, at the end of World War II, the U. S. dollar has enjoyed a unique and powerful position in international trade and also because British and American governments for consideration of national interests, ideas and design of post-war international monetary system, proposed separately by the " White Plan" and " the Keynes plan. Huai-held plans" and " Keynes Plan" with is the establishment of international financial institutions, stabilize the exchange rate, the expansion of international trade, and promoting world economic development for the purpose, but the way they operate. Because the United States boarded the supreme world leader of the capitalist world economic crisis and after World War II, the dollar's international status because of its strength of the international gold reserves to get a solid, the two sides reached in April 1944, reflects the White Plan on the establishment of the GB currency experts of the Fund a joint statement. What is “ Bretton woods conference”? The United Nations Monetary and Financial Conference, commonly known as the Bretton Woods conference, Bretton woods system or Bretton woods agreements. It was a gathering of 730 delegates from all 44 Allied nations at the Mount Washington Hotel, situated in Bretton Woods, New Hampshire, to regulate the international monetary and financial order after the conclusion of World War II.

The conference was held from 1-22 July 1944, when the agreements were signed to set up the International Bank forReconstructionand Development (IBRD), the General Agreement on Tariffs and Trade (GATT), and the

International Monetary Fund (IMF). It established the rules for commercial and financial relations among the world's major industrial states in the mid 20th century and also was the first example of a fully negotiated monetary order intended to govern monetary relations among independent nation-states. As a result of the conference, the Bretton Woods system of exchange rate management was set up, which remained in place until itself collapsed in 1971, when President Richard Nixon severed the link between the dollar and gold. What they agreed: * Formation of the IMF and the IBRD (World Bank) Adjustably secured foreign exchange market rate system: * Exchange rate were fixed, with the provision of changing them if necessary * Currencies were required to be convertible for trade related and other current account transactions * All member countries were required to subscribe to the IMF’s capital * if exchange rate might not be favorable to a country’s balance of payments position, the governments had the power to revise them by up to 10%.

Cuba, governed by Ramon Raul San Martin, sent a delegation that represented the interests of small agricultural economies. Delegates from many Latin American nations were deeply involved in the negotiations. The democratic process at Bretton Woods ensured that concerns of all countries were addressed. Though the delegation from the Soviet Union was active at the Conference and signed the draft Articles, the Soviet government later decided not to join the Fund or the Bank. The cooperation of the U. S. and USSR delegations was a positive moment before the onset of theCold War. In 1944, the Indian delegation to Bretton Woods included both British citizens as well as Indian nationals, as India was still part of the British Empire.

Alexander Argyropulos (at right inphoto), a member of the Greek delegation, arrived in New York on June 21. Argyropulos had been a prisoner of war for a year. His arrival in the United States culminated in the reunion with his wife and daughter, who had escaped Greece when Axis forces invaded. Camille Gutt one of the Belgian delegation. Once the Fund was established, Gutt was elected as its first Managing Director, a post he held until 1951. Outcomes: The Conference led to the creation of three organizations in order to lead the world economy in the right direction. The International Monetary Fund (IMF), the General Agreement on Tariff and Trade (GATT) and the World Bank.

The IMF was intended for keeping track of the monetary policy, to balance the exchange rates, reduce restrictions on the foreign exchange rate, and provide loans to invest in the infrastructure of developing countries and countries that had debts. The number of votes a country for the IMF board depends on its contribution factor towards the reserve. The U. S, U. K, Japan, Germany have 40% of the votes. Out of that percentage, the U. S has 17% of the votes, making them the majority power in the IMF. The GATT encouraged “ laissez-faire system”, to make trade without government intervention, to reduce taxes when two countries are trading with each other and make it fair. It is known now as the World Trade Organization.

The World Bank main idea and purpose was to help third world countries and reducepoverty, and to corporations who want to aid the developing countries. The World Bank would offer loans to rebuild roads and utilities. These were the organizations that emerged from the Bretton Woods Agreement. Another outcome for the United States was the Dollar being a “ World Reserve Currency” and that all trade and business will be done in

American dollars. Even trade between two different nations that do not use the American dollar as their currency; will do business with each other using the dollar. For example the price of oil from Saudi Arabia will not be in Saudi Rials, but in American dollars. Then those dollars would be redeemable through gold from the U.

S at a fixed price of 35$ per ounce. All the countries that signed the Bretton Woods Agreement agreed to fix their currency with the same value as the value of gold. The supply ofmoneya country had went hand in hand with its gold reserves. The countries that were not rich in gold, would have to borrow money in order tofinancetheir investments and development. The system performed trade through stable and adjustable exchange rates. However there was an increase in demand for dollars which lead to an increase in trade deficits, and the value of the dollar remained high. The United states couldn't fix the exchange rate between itself and other urrencies. It became known as the " n'th currency problem". All the countries currencies were at par with the US dollar. The United States worth of gold was $26 billion by 1964. The world's worth of gold was $33 billion. Many countries held the U. S dollar as their main reserve asset. Because of that, the French President, De Gaulle said the U. S had a privilege of unlimited financing, because of the majority of countries having dollar assets. The U. S was unable to eliminate its deficits. The ways in which the balance payment deficits could be corrected include deflating the economy by using a monetary policy, which means raising interest rates.

Another policy to use is the Fiscal Policy that includes reducing government spending in order to reduce demand. The U. S could have also devalued its currency, which meant foreign currency prices are higher. This would reduce exports from foreign currencies, and more exports from the U. S. The Bretton Woods system was successful until 1971, August 15th. A few measures were taken to avoid the system going to fail. They included imposing an “ interest equalization tax” to reduce the outflow of investments and private capital. However this lead to more loans from foreign borrowers. A lot of the funds went to financial institutions in places lke Europe and Japan. The United States President Nixon said the amount of gold that was sent out of the U.

S for the 27 years since the agreement was unsustainable. He announced a 90-day freeze on wages and prices, a 10% import surcharge on imports and suspended converting dollars into gold. The value of gold had increased, yet the price of $35 per ounce remained. Even though many countries still owed money to the U. S and were in debt.

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