Debates about the Rise and Fall of the Bretton Woods System

edited by
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ICBH Witness Seminar Programme

The Rise and Fall of the Bretton Woods System

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The Rise and Fall of the Bretton Woods System

Held 30 September 1994
St Peter's College, Oxford

Chaired by Lord Skidelsky
Papers by Professor Leslie Presnell and Professor Brian Tew
Seminar edited by Michael D. Kandiah

Institute of Contemporary British History

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The Rise and Fall of the Bretton Woods System

Edited by Michael D. Kandiah

This witness seminar was held in the Junior Common Room, St Peter's College, Oxford, on 30 September 1994. It was chaired by Lord Skidelsky. Papers were given by Professor Leslie Presnell and Professor Brian Tew. The participants included Peter Oppenheimer, Sir Alec Cairncross, Peter Jay, Professor G. D. N. Worswick, John Dunbabbin, Edmund Dell, Lord Jay, Sir Peter Middleton, Professor Kathleen Burk, Professor Peter Sinclair, Sylvie Schweag and Nicholas Dinsdale. For full details see Contributors, p.9.

LORD SKIDELSKY Welcome to this conference on the 1944 Bretton Woods Conference. It is very apt that it should be happening. This is not only the fiftieth anniversary of the Bretton Woods agreement and therefore it is of great historical interest, but secondly it is also a time to reflect on how the Bretton Woods system worked and what lessons one might draw from its successes and failures in thinking about the future of the world's monetary system.

The basis of the discussion will be two papers, by Professor Pressnell and Professor Tew. Professor Pressnell's paper. which he will introduce in a moment, deals with the origins of the system and its working up to 1952, in fact further than that, up to the end of the 1950s/early 1960s. Professor Tew's paper deals with the system as it evolved until it collapsed in 1973.

LESLIE PRESNELL First of all two apologies. A semi-personal one from my word processor which protested pretty violently at the late hours it had to keep in turning this out, and I am afraid that that has meant that you have some infelicities of typewriting. I do apologise, but one of the few disadvantages of early retirement is to lose a secretary, you are becoming your own. The other apology is for any sense of terror which I might have inspired in the chronology by the thought that you are going back to 1694/96. I am told that there is nothing more exciting than the Locke-Lowndes controversy over silver in 1695-6, but I am not going to inflict that on you. All I wanted to do was to remind ourselves that the stability one would like to have in exchange rates, or many people would, a stable standard, had characterised Britain for over two hundred years before 1914, although by contrast the international gold standard, the international system, had barely half a century to its credit when it collapsed effectively in 1914.

A further thing too, which I tried to incorporate in the chronology, is to indicate that the fluctuations in trade policy, which do seem in the inter-war years to have some sort of correlation with fluctuations in the economy as a whole, monetary instability and so on about which we know so much in the inter-war years, don't seem to be tied in so much over history as a whole with monetary factors as in those inter-war years. In other words, you will find that trade liberalisation and monetary liberalisation don't necessarily go together. This is one of the problems I think that we haven't grappled with enough in looking at the post-war years, because the enthusiasm that some people might have had for the International Monetary Fund (IMF*), for Bretton Woods, didn't always extend to enthusiasm for liberalised trade policies. Just why that is, is a question to which we might perhaps give a little thought.

The International Monetary Fund (IMF), is a specialised agency of the United Nations and was established in 1945. It was planned at the Bretton Woods Conference (1944), and its headquarters are in Washington, DC. There is close collaboration between it and the International Bank for Reconstruction and Development (the World Bank). The organisation, using a fund subscribed by the member nations, purchases foreign currencies on application from its members so as to discharge international indebtedness and stabilise exchange rates. The IMF currency reserve units are called Special Drawing Rights (SDRs) (see note below, p.39)

What I have done in my paper is to deal with six subjects: the origins of the Bretton Woods system; secondly how the system was shaped; thirdly the British position in relation to Bretton Woods, particularly in connection with the American loan* and its very onerous terms of 1945-46; then I say a little about trade policy; I deal with the early history of the IMF; and then conclude with looking at how it was that the Western European countries in particular adopted the IMF system in 1958-61 and conclude that the IMF did not have much to do with it, which leaves the big question: what was so attractive about the IMF when it had not been much use in the preceding years? So there are quite a few points there, which perhaps people would like to explore. It is the easiest thing in the world to ask questions, the difficult thing is to give the answers – and I am not going to try to give too many answers.

Following the end of the Second World War, the termination of Lend Lease arrangements between the USA and the UK precipitated a financial crisis in Britain and led to the negotiation of a US$3.75 billion loan from the American government. The terms of the loan were considered harsh, not only because of the rate of interest which the UK would have to pay, but also because the American insistence that Britain agree to the convertibility of non-resident sterling by 1947, the dismantlement of the system of Imperial Preference and other measures.

The first question one comes to of course is why there should have been anything like Bretton Woods. The answers to that are really easier than most others of course: that the inter-war experiences, through which some of us here unfortunately lived, were such that no one wanted to see again all those fluctuations in exchange rates, all those very unpleasant trade restrictions, quotas and so on, which so disfigured trade policy in the inter-war years. As far as the United Kingdom and the United States were concerned, the contrasts are rather interesting in what they hoped to achieve. The United Kingdon hoped to achieve relatively stable but flexible rates, the United States wanted fixed and pretty rigid rates if possible, and even to dictate the rates which were to be observed by members of any new organisation. The United Kingdom wanted abundant liquidity, he United States wanted to restrict liquidity. It was a much more disciplined approach that the United States had. Both countries wanted to have codes of international behaviour, so at least they were agreed on something, they had one common goal. These contrasts inevitably raised questions about the case for fixed rates or for flexible rates, which is something that tests the minds of us all from time to time. There were questions about the need for international reserves and about the supposed virtues of international co-operation.

When you come to the second phase of what I tried to outline in my paper, the proposed solutions, there is sometimes a feeling of unreality about it all. You have all these academics on both sides of the Atlantic working in government service, there were some civil servants involved as well on a regular basis, you have the politicians drawing a new map of the world, and it is all so easy when so many things are suspended for the time being. One does wonder sometimes if there was a little too much imagining about what could be done – was the reality going to be different. Keynes* indicated this by calling his plan for an international clearing union Utopian, and it was in fact known in the Treasury as Utopia. It was a fair enough self-criticism and I think it is one that one has to bear in mind oneself. As far as Keynes's proposals were concerned, he had a proposal for an international clearing union that was primarily for financial problems, and it is rather a pity that the importance of that has been somewhat overlooked. The importance of that was James Meade's* plan for a commercial union. And I think that it is rather a pity that James Meade, apart from being a very self-effacing man in many ways himself, has not had as much credit as he ought to because the attention has so much focused on the Keynes clearing union. That said, the point was that the two of them working between them, Keynes on the monetary side and Meade on the trade side, were hoping to create a new world in which there would at least be codes of behaviour that could be observed.

John Maynard Keynes (Lord Keynes), (1883-1946), economist.

James Meade, (1907-95), economist. Member of Economic Section, 1940-47.

Eventually the compromise was an Anglo-American compromise favouring American views, and if you think that it cynical, it is a perfectly straightforward assessment of the position, because it was very largely an American scheme that emerged at Bretton Woods. But may I urge people to be aware that things were not really hammered out at Bretton Woods, it was all largely hammered out in discussions in the two preceding years which culminated in the joint statement of April 1944, three months before Bretton Woods. After that joint statement there were proposals put forward that were largely incorporated in the final agreement in Bretton Woods. There was a meeting at Atlantic City where lots of rough edges were smoothed off, and then there was Bretton Woods itself in July 1944. One sometimes wonders why it was held at Bretton Woods, apart from the size of the place, because it is one of the more uncomfortable hotels I have stayed in. Even today there is only one man operating one lift to serve a huge great hotel.

How far did Bretton Woods give the United Kingdom what she wanted? Well, what did Britain want? The biggest question in a way is that she didn't really seek some of the things that one might have thought she would have sought. Wasn't it Sidney Webb* who said in 1931 when we had gone off gold and floated the pound 'no one said we could do this'; and, under his breath, 'and get away with it'. Why didn't we go after more flexible rates, which did seem to be something we had wanted in the 1930s? The answer was given Sir

Sidney Webb (Lord Passfield), (1859-1947), Labour politician.

Sir John Anderson (Viscount Waverley), National politician. Chancellor of the Exchequer, 1943-5.

The Dawes Plan ensured payments of reparations by Germany after World War I. It was devised by an international committee headed by Charles Gates Dawes and put into effect in 1924.

John Anderson*, the then Chancellor of the Exchequer, that it would have upset the Americans too much. So what we did get was fixed rates with a certain amount of flexibility, thanks to the assistance of the much abused Bank of England. We did achieve an open-ended transition before submitting to strict rules, but the liquidity was very much less than had been hoped. By a good deal of ear-stroking and backroom-talking, we avoided the involvement of the international body in the biggest post-war headache, that lasted for perhaps 20 odd years, the huge sterling debts that were owed particularly to India and Egypt. But all we did was to lumber the British economy with those debts for 20 odd years. And if anybody wonders what the comparison between ourselves and the German inter-war reparations is, to which I alluded in my paper, may I just explain briefly what I had in mind. If you look at the Dawes Plan for the payment of German reparations in 1924* and after, and then you look at the average amount of sterling debt repaid by Britain in the 1950s – i.e., you sent exports out and all you did was to cancel a book entry, so you got no imports back, then the percentage of such payments to GDP is virtually exactly the same in the German and the British cases. So that is something to think of. It was a Pyrrhic victory of Keynes on behalf of the Chancellor of the Exchequer at Bretton Woods, to keep the foreigners as it were away from sterling.

The specific question of Bretton Woods, that was dodged so to speak, was how did you get to Bretton Woods as it were, how did you reach a position when you could have a new international system. Some people thought that you could either get to it, or you could have instead of Bretton Woods the key currency approach. That simply meant something like the inter-war system of the gold exchange standard, or as we had later on, the dollar standard. That was pushed on one side, largely because it was felt that the experiences of the inter-war years had been unsatisfactory, and also because, let's face it, the Americans did not really like sterling and therefore anything that would strengthen sterling would not have been very welcome.

We next turn to the question of how the IMF came into operation. At first it did seem that the IMF would not come into operation very quickly, because in 1944 when the agreements, which were by no means binding agreements by the way, they were simply *ad referendum* as Keynes was always emphasising and they could be dismissed by the governments concerned, were made it was thought that the war against Germany might end soon, but that the war against Japan might not end for a further two years. The question was therefore to some extent in the future. But by the time that in July 1945 the American Senate had approved the Bretton Woods proposals, the European war was over and suddenly, within weeks, the Japanese, and therefore the whole, war was over. There was therefore a problem: how did you bring about the IMF. And there was a problem here because the American Congress naturally enough had got a bit edgy about being asked for money for other people all the time, and it was now going to be asked for money, having been told that it would not be asked for any more money for foreigners, to help the British economy recover. In a trice as it were the problems were solved. You would give money to the British economy partly because Whitehall would implement Bretton Woods as soon as possible and therefore you were able to get all of these things through, not without difficulty of course, but you were able to get them through. Well that meant then that the IMF, when the British loan of 1945 had been negotiated, would come into operation as it proved in the middle of 1947. When I say it would come into operation I simply mean not that it would be started then, because it was going to start effectively by being agreed to and so on at Savannah in 1946 before then. What I mean is that it would be implemented by the second largest trading power in the world, or perhaps the greatest, I may have my statistics wrong, but we certainly were a much greater trading power then than we have become since.

You had then got Bretton Woods under your belt so to speak, the monetary side seemed to be tied up. The trading side must now be considered, because the two obviously go together, and here I think we might consider briefly what the trading side, what the trading position, was. As with the international monetary policy problems of the inter-war years, I think most of us are broadly familiar with the disorders of international trade, with the discriminations and with the tariff restrictions and the quotas and so on that disfigured the inter-war years. The British and the American objectives were broadly parallel in a desire to reduce tariffs, but there were one or two snags in that there were pressure groups in both countries, and there was a particular pressure group in Britain that favoured imperial preference. Leaving out of account all the details about imperial preference, the main thing is that it did mean that when you had goods come from the United States and when you had them come from Canada, the Canadian goods could get in more easily than the American goods, and the Americans were very conscious of this, especially if you were Mr Morgenthau* the Secretary of the Treasury and you grew apples near the Canadian border. So the differences could be quite significant at the important political level. But nevertheless there were very good discussions of a very high order between America and Britain in 1943 on the basis of James Meade's commercial union proposal. Unfortunately these did not get very much beyond that conference of September-October 1943, because hardly had the people got home when the pressure groups got busy. The pressure groups got busy for instance in the Ministry of Agriculture over here, which had a fanatical Permanent Secretary, Sir Donald Ferguson – Keynes has some of his choicest epithets reserved for him – who said that if you implemented the Anglo-American proposals for free trade you would have mass resignations from all the county war agricultural executive committees and the whole agricultural machinery would collapse. That was a graphic way in which the pressure groups were

Henry Morganthau, Jr, (1891-1967), American politican. Secretary to the Treasury, 1934-45. In 1913 he purchased a large farm in Dutchess County, New York and specialised in dairy and apple growing.

described from one angle.

At the end of the war you had to do something about these things, you had agreed that you would have trade changes of some kind, and we were compelled to contemplate these by the terms under which we had received lend-lease from 1941/2 onwards. The relevant article, Article 7 of the Mutual Aid agreement, was said to have been burnt in every Treasury heart. In fact for thirty years perhaps after 1941/2 the terms of that agreement tended to dominate British policy. Ultimately all that one got in the short run was the GATT agreement of 1947, bilateral agreements between a number of countries, but no international body.

That brings us to almost the closing stages. What happened to the implementation of IMF and GATT*? If we look at the implementation of IMF it all started quite well at first. There were even sweetness and smiles when Britain failed to hold the IMF commitment in 1947 in the short-lived experiment with full current account convertibility. Britain was even able to borrow money from the IMF almost to the extent of the balance of the frozen American loan. But the real problem was that the Americans by then were realising that there was a danger of an open-ended commitment with the IMF, in the sense of American money being used by an international body. So you find, not surprisingly as the Americans were by then dealing out a great deal in Marshall Aid*, that the conditions that were being shaped for assistance from the International Monetary Fund were being made in a much tougher form than had ever been thought when the agreements were proposed before Bretton Woods and when they were being considered afterwards. The result was that from roughly 1947/8 onwards the IMF began to be looking a very remote sort of body. For one thing, when Marshall Aid came in 1947/8 it was resolved, not surprisingly, that the role of the IMF for the time being was largely in suspense. Members of the IMF who were receiving Marshall Aid should not normally go to the IMF for funds. But there was a further thing – if they were going to go for funds afterwards, they would find that the conditions were much tighter than had ever been thought by most people outside the United States Treasury and State Department.

We then come to the question, what happened to make it possible for the Western European countries to adopt informally IMF-style convertibility in 1958 and formally at the beginning of 1961, when they adhered to Article 8 of the IMF which specified the conditions for convertibility. The answer is that really, as with Marshall Aid replacing the IMF as a source of funds, the machinery was a little different from the IMF's own. It was really through the OEEC and EPU that the liberalisation that was necessary to reach convertibility or the ability to adopt convertibility was developed. I have listed in one of the tables the various degrees of liberalisation in trade that took place and they took place under the auspices of the OEEC and EPU. Under the EPU of course it was possible to balance payments and to have mutual credit, with American backing of a fund

The General Agreement on Tariffs and Trade (GATT) was drawn up by 23 countries in 1948. The Agreement was originally part of a draft charter for an International Trade Organisation, the third leg of the Bretton-Woods post-war order, along with the IMF and the World Bank. The 'Havana Charter' of the ITO contained not only the GATT, which governed trade, but also wide-ranging rules relating to employment, commodity agreements, restrictive business practices, international investment, and services. While the GATT itself, a large list of negotiated trade concessions and rules of conduct, entered into force in January 1948 (as GATT 1947), the rest of the Havana Charter was never ratified, primarily because of opposition in the U.S. Congress.

Marshall Aid or the Marshall Plan, the European Recovery Programme. A project instituted at the Paris Economic Conference (July 1947) to foster economic recovery in certain European countries after World War II. The Marshall Plan took form when US Secretary of State George C. Marshall urged (5 June 1947) that European countries decide on their economic needs so that material and financial aid from the United States could be integrated on a broad scale.

of a few hundred million dollars in order to make it work. Therefore one comes up to 1958/61 and concludes that up to then the IMF really had not done very much as far as the aspirations of the British and American planners were concerned when they had been debating for two years or so before Bretton Woods about the form of a new institution.

BRIAN TEW

I date the end of Bretton Woods, looking at it from a narrowly legalistic point of view, at April 1978, because that was the date when the second amendment to the original Bretton Woods charter came into effect, permitting a transition from fixed but adjustable exchange rates to floating rates. Now this merely validated the *de facto* situation which had come to pass many years previously, indeed it had come to pass for all the relevant countries by March 1973. So from my point of view, I am interpreting the end of Bretton Woods to mean the end of the system of fixed but adjustable exchange rates and the transition to floating rates.

The EEC members of the IMF, who thereby defected from the Bretton Woods system, got together at roughly the same time and bound themselves in another agreement to have fixed but adjustable exchange rates, the so-called European snake*, which was rechristened in 1979 as the ERM.* And of course the ERM is still with us, in a sense, though it has been pretty sick since September 1992. Both these systems of fixed plus adjustable exchange rates are, again from a narrowly legalistic point of view, based on written constitutions. There is Article 4 in the Bretton Woods agreement, and there is this very long document the ERM agreement. But in practice what had happened on the ground bears virtually no relationship with what was put into these documents. What has happened on the ground is a straightforward pegging arrangement on the lines of the old sterling area. In the case of the Bretton Woods agreement the anchor currency on which the other currencies were pegged was the dollar, and under the ERM is has been the deutschmark. So both of these arrangements are in my view much the same in their technical aspects as the old sterling area.

Currencies were allowed to fluctuate – to 'snake' – within fixed boundaries – the 'tunnel'.

European Exchange Rate Mechanism (ERM).

Now the fate of these three arrangements may give rise to the question: is pegging a faulted kind of arrangement? Does it have some intrinsic inconsistency which means that it is doomed to failure from the start? I don't tackle that question head-on in my paper, but by implication the answer is there. It isn't a fundamental inevitable fate, but in practice the Bretton Woods system was at risk all the time. It was at risk for the following reason, that the instruments of policy available to countries to make their pegging effective were in all cases either weak and therefore only partially efficacious, or they had side effects which in certain circumstances were unacceptable to some or all of the countries concerned. These weaknesses are there all the time. So what my paper does is to go into some detail about the instruments of policy which were available for use. These were: exchange controls, official intervention in the foreign exchange markets, fiscal and interest rate policy and adjustment of parities. I will say little bit about each.

I say virtually nothing about exchange controls, because Alec [Cairncross] is the authority on this and I hope he will say something about it. My own, untutored, view is that these exchange controls were pretty ineffective apart from controls on portfolio investment, which to a certain extent did work. It seems to me that exchange controls were not a major instrument for making pegging effective.

My next instrument is intervention in the foreign exchange market. This had two defects. One was that intervention required the central bank doing the intervention to accept an open position in at least one foreign currency, depending on whether it was supporting or capping its currency. If it was capping its currency, as so often the Germans had to do, it would accumulate foreign currency, if it was supporting its currency it was accumulating foreign currency liabilities. In either case you were at risk, because if there were subsequently a change in parity in the wrong direction you would lose out. So this problem of risk set a limit to the amount of intervention that central banks and governments were prepared to tolerate. Another disadvantage of intervention is that at that time central banks were relatively unskilled in what we now call sterilisation, that is a tactic by which a central bank deals in two markets, buying in one and selling in another. For example, in order to cap the exchange rate the Bundesbank* would have to buy dollars, and this aggravates the size of the commercial banks' balance sheets. If the Bundesbank is buying dollars in the market you take the aggregate balance sheets of all the commercial banks and you will find on the asset side their clearing balances at the Bundesbank rise, and on the liabilities side their bank deposits, held by their customers, also rise. Most people, or at least the central bankers concerned, would regard this as their monetary policy having a more reflationary stance. In the contrary case, a country that was supporting its exchange rate would suffer a deflationary stance in its monetary policy. So if you wanted to use intervention in the foreign exchange market to manage your exchange rate, you certainly at that time couldn't avoid altering the stance of your monetary policy and that might be something you wouldn't want to do. That was the weakness of the policy instrument which I call intervention.

The West German Central Bank.

The third instrument I have called fiscal and interest rate policy. Here you have just the same dilemma, that if you have a more expansive fiscal policy or interest rate policy, this helps you to cap your exchange rate at the cost of having a reflationary stance to your policies. And *vice versa* if you want to support your currency in the market. So here again is the same dilemma. You can't manage your exchange rate by these techniques without also affecting the stance, i.e. reflationary or deflationary, of your monetary and fiscal policies.

Finally, I come to adjustments of parity. These of course were tolerated by the Bretton Woods text, you were allowed to change your exchange rate. As far as I know there was never any opposition if any country wanted to change its parity, but very few countries did. The difficulty was to get them interested in this possibility at all. The mere possibility that exchange rates might be changed was regarded as an incitement to speculation, so that it was thought to be most important not to change parities lest speculators should think that having changed them once you might change them again. That was one reason for reluctance. If you actually made a change in parity, then there were various problems. Changes of parity led to all sorts of political and procedural difficulties. In addition there was the economic problem that changing parity had initially a perverse effect – the so-called J-curve effect – so that if you took the medicine of a parity change, the medicine made the patient worse for a couple of years before he showed any improvement. And of course in politics you try to get quick results and waiting for two years for results to come through is not a very attractive proposition.

So for all these reasons the instruments of policy available to countries who wanted to manage their exchange rates in order to peg on the dollar caused a reluctance to continue this policy, a feeling that in so doing they were paying an opportunity cost of policies not adopted which otherwise would be very attractive. Always there was the possibility that circumstances might arise in which countries would not think the price worth paying. In the event these circumstances actually occurred in the early 1970s, and that was the end of Bretton Woods.

PETER OPPENHEIMER

I am very conscious, as I look at our audience today, first of all, that we have a very mixed, inter-disciplinary group, and secondly that there is something of a divide between those colleagues, scholars, who could replace all of us at the table here very easily, and probably do a better job, and on the other hand younger generations, who no doubt in a few years' time will know far more than we do, but at the moment come to this subject with less burden of accumulated factual detail and perhaps therefore less insight into the problem. It is rather a challenge I think to get a real interchange and discussion going in an audience composed in large part of those two groups. But I am going to try.

I think if you look at the origins of Bretton Woods, those wartime negotiations between mainly the United States and Britain, they come at the mid-point of a vast cycle of ideological and economic opinion which has dominated our century. A cycle which began with a sort of golden age of belief in liberalism, a belief which was maintained by Britain and other countries through most of World War I. Britain's wartime economy and wartime economic policy continued to operate, almost to the latter stages of the war, as if the instruments appropriate to the golden age of liberalism were still appropriate to the age of semi-total war. It then went through an erratic but very profound reaction against that. Leaving aside such small matters as the rise of bolshevism-communism and the ideological confrontations of World War II, but just taking the question of economic management, Britain's economic management in World War II was a far more controlled, pragmatically developed, unideologically influenced set of arrangements than in World War I. It involved indeed many elements of the planned economy, which in the Cold War era we then associated with communism. In the middle of this came these great negotiations, which were concerned with an attempt to move the world back to a liberal, democratic, orderly capitalist system from a kind of hole into which we had got, where it looked as though we were facing something very different. Incidentally, when I talk about the mid-point of the cycle of course I take regard of that where we have got to now is something that is much closer to the pre-1914 faith in markets to do it all, with the crucial difference that we have not got rid of big government. The share of government spending in GNP and the role of government in economic regulation remains vast and in no way comparable to that of pre-1914, and that is the biggest difference between pre-1914 and today. Not openness, not interdependence, not the power of markets, but the size of government. However, the Bretton Woods negotiations were at the mid-point of this, where, very crudely, the Americans were in the position of a country which had been less traumatised by the experiences of the previous two generations than Britain. And therefore, to give them a sort of stylised description, they were in the business of trying to accelerate the move back to free market economics from a position of strength, comparable to the position of strength that Britain had had for much of the nineteenth century. Britain on the other hand was in the extraordinary position of being as it were the great hero of the hour in World War II, post-1940, the age not only of Keynes but of Churchill, playing a tremendous leadership role in the West second only to that of the United States, but really a role which was already exaggerated relative to her underlying strength. Therefore Britain came to the Bretton Woods negotiations very much conscious of her weak post-war economic prospects. Therefore, she tried to argue from a position of great authority, compounded of course by the intellectual and personality authority of Keynes, for all sorts of crutches, props, aids and so on that it would need after the war, it the great wartime leader, and the Americans somehow had better get used to this. Trade discrimination, imperial preference, vast access to credit because of problems with the wartime debts, and so on. Generally a very cautious, pragmatic, almost reluctant approach to the idea of liberalisation, which was the ultimate goal of everybody.

Let me just put in perspective the outcome of the negotiations and post-war events in the light of that clash of attitudes. Who was right? Very crudely, the UK was right about the transitional period. The Americans did exaggerate the ease with which, even in the new pragmatic era with international quasi-legal organisations like the fund that buffers it, it was possible – worldwide – to get back to a free trading order. The United States implicitly admitted that she had been wrong when she set up Marshall Aid. Not only Marshall Aid, but she actually authorised the very trade discrimination against the United States on a transitional basis which she had been concerned to force Britain into abandoning in the wartime negotiations. A key point, understated I think in Professor Pressnell's paper on the OEEC and EPU arrangements, was that the Americans actually invited and authorised discrimination against US exports for the transitional period until Europe was brought back to a position where it could compete on equal terms. There are many other aspects of US policy which illustrate this, but it was an implicit confession that they had got it wrong first time round and that the transitional problem was much bigger and more prolonged than they had envisaged. On the other hand, it was not quite as prolonged and difficult as Britain had envisaged and on the longer term structural things, the undesirability of trade discrimination and all that, the United States was undoubtedly more right than wrong and more right than Britain. Indeed it would have been good for Britain, for her post-war trading performance, the market orientation of her exporters, the attitude of her policy makers, if we had been obliged to get rid of imperial preference lock stock and barrel much sooner. That may be a slightly controversial statement, but that is what we are here to make. And I think the United States' line was certainly structurally right on the longer term.

There are just two other things I want to say. The first is that one of the attractive things about the Bretton Woods Agreement and the institutions that it set up, is that hardly any detail was put into those agreements as to just how the Fund itself should operate and what it should do. All these things that we have since become familiar with like conditionality. None of this is in the Bretton Woods Articles. All was developed by practice of the International Monetary Fund, starting in the early 1950s – I think from 1953 onwards. And its rules, when a country can draw, how it assesses the criteria for an exchange rate change and so on, all that was developed once it was allowed to get its hands on some actual business in the course of the years. That is the great strength of the Fund. Many of the post-war negotiations on international matters have tried to go into far too much detail and lay down how things should work. That is true I think in part of the EC, certainly true of the abortive negotiations on monetary reform in the early 1970s after the collapse of Bretton Woods, which by the way personally I would date from August 1971 when the dollar went off gold, rather than March 1973. So there was a very healthy pragmatism shared by both sides about the way they set up these institutions.

Finally I want to make a quick reference to the 1947 convertibility episode. This was a famous disaster. We frittered away the US post-war loans on paying off some of the sterling balances*; we had a balance of payments crisis; the whole thing was aborted. Very often that, and the subsequent painfully slow recovery and reconditioning of the British economy over the next decades, is often contrasted

Sterling balances were external debts accumulated by Britain principally during the Second World War. This debt was approximately seven times the size of the reserves held at the end of the war. Creditor nations included most Sterling Area countries, such as Australia and India.

so very unfavourably with the instant dynamism displayed by the West German economy after their own crisis of 1948 and the establishment of the deutschmark as their currency. It is an interesting question, to ask how valid that comparison is and what it teaches us. I would simply point out first of all that Germany's dynamism was not apparent from the word go: it took a year or two; they had their own difficulties in maintaining the liberal position they had adopted almost from the start; but they did do it, despite some difficulties. And secondly that there were of course other crises, meaning wide-ranging actions taken against the spirit of Bretton Woods, or in some ways in favour of it, in response to unforeseen traumas of the transition. I am thinking of the things that were mentioned in Leslie Pressnell's paper but he didn't stress them in that sort of way: the Canadian dollar float and the French adventure with multiple exchange rates, also in the late 1940s. It was not only Britain that had a convertibility crisis, lots of countries had a great critical period. From this emerged a certain pattern of economic performance, in which Britain occupied a role that did not leave either her citizens or her government particularly satisfied. But whether the origins of the explanation for Britain's low position in the performance league lie in those early post-war years, or whether we could have improved our position in the ladder at almost any time by better policies or better attitudes, towards the exchange rate, towards trade unions, towards government expenditure, towards taxation, those are wide-ranging and ongoing questions.

SIR ALEC CAIRNCROSS

Keynes thought that he was taking a first step towards monetary orthodoxy. He really thought that the propositions he was advancing would bring into existence institutions that would be indispensable to the future smooth working of the world economy. And I think that he can take credit for some of that, because the two institutions that were born at Bretton Woods, and this was its chief importance, it gave rise to the International Monetary Fund and to the World Bank, these two institutions may not have done very much over the years, not nearly as much as was assumed at the beginning and certainly not as much as we had assumed, but they have bred an internationalism that would not otherwise have been created. There are hundreds of officials all over the world who have served in Washington in one or other of these institutions at one time or another, and have acquired at least some understanding of what international economic policy is about. And I think not only there, but in other ways, if you take the OEEC*, OECD*, EPU*, many institutions that came into existence after 1945, have made for international contact and international thinking in a way which did not exist before 1939. My understanding is that if you take the average Treasury official say, in Britain or America, in the period before 1939, he rarely went abroad, he rarely made contact with his opposite numbers in other governments. After the war, it was sur-

OEEC, Organisation for European Economic Co-operation.

OECD, Organisation for Economic Co-operation and Development.

EPU, European Payments Union.

IBRD, International Bank for Reconstruction and Development, also known as the World Bank. It is a specialised agency of the United Nations, with headquarters at Washington, DC. Plans were laid at the Bretton Woods Conference (1944) for the formation of a world bank; it was formally organised in 1945, when 28 countries ratified the agreement. The bank not only makes loans to member nations, but, under government guarantee, to private investors, for the purpose of facilitating productive investment, encouraging foreign trade, and discharging burdens of international debt. All members of the bank must also belong to the International Monetary Fund. The bank is self-sustaining and has maintained a profit on its lending activities.

prisingly common. I think that that contact, that knowledge of what other people were trying to do, what their cast of mind was, what their thinking was, was as important as almost anything else that the IMF and the IBRD* did.

There was however a misconception, which I think is fundamental, in the instructions given to the two institutions, and that misconception was that you might start off or you might end up in a position in which one country was so dominant that it was no use all the other countries trying to get back into balance unless that country helped to restore international balance. If you had Japan running a tremendous surplus, or the United States, or Germany, how did the other countries make adjustments in those conditions? This is a different problem from the problem of a number of countries all roughly equal in place trying to get back into balance when they find that they are out of balance for the time being. In the case of the United States the reaction of America was rather different from that of Germany and Japan. They both reacted in their own ways, but the United States reacted by saying that they would take action to try to restore balance. They would accept, for instance, discrimination against their exports if that helped to achieve a new balance. They would provide capital on a very large scale, designed to do what might have been done by an international institution, but only if that international institution had disposed of resources comparable with those of America, which it never did. If you look at the resources at the disposal of the IMF, in 1946 or 1947 the process added up to eight billion dollars. Today they add up to about one hundred and eighty billion dollars. That is a very different total and it gives the IMF a great deal more power than it had in the early days.

But I think one of the chief changes that has occurred over the period is that where the IMF was thought of as an agency that would interpose between industrial countries and try and help them to restore a fixed exchange rate, preserve a fixed exchange rate and get back into balance, broadly speaking the actions of the IMF nowadays are very little to do with the international economy of the industrial countries. The industrial countries very rarely go to borrow from the IMF, in fact I don't think they have tried to borrow from the IMF since 1977 or earlier, since the 1970s. So the IMF has changed its character completely and now deals far more extensively with developing countries and not with the developed countries that it was set up primarily for.

There are many other things one could say that have changed, there have been many changes. One particular change that was touched on by Brian Tew was capital movements. If you have a trillion dollars changing hands between one country and another every day, you are in a different world from one in which capital hardly moves at all because there isn't any capital to spare, therefore your rates of exchange are very much more at the mercy of some sudden change in the psychology of the market than was thought at the time of Bretton Woods. It was assumed in 1944 that capital movements could be rigorously controlled by national authorities, and all our experience in the meantime has been that it is very difficult, particularly the short-term capital movements are almost impossible to control and can do many things which were not imagined at that time. Leaks and lags, for instance, which was one of the very first things to pop up in 1947, are not mentioned anywhere in the literature that I can recall surrounding Bretton Woods. And that is only one form of capital movement, there are many, many others that are important. So much so, that if one looks at the exchange rates now and asks 'who is going to make sure that exchange rates behave, who really is in a position to ensure that the exchange rates will reflect the underlying realities of competitive positions', it is not easy to see who would do it, and it is very difficult to see how the IMF could possibly do it even with more extended resources than they possess. We are in a much more unstable world than we were even in 1944 or the immediate post-war years, and that degree of instability means that other methods have to be used.

If you ask 'what has happened to the two major institutions', the answer is that for a large part of the time, certainly for the first ten years after the war, the IMF really didn't come into things at all. Actually, it was excluded, deliberately excluded, by the industrial countries, who got together and set up the European Clearance Union by way of substitute.

You find in other words that there are two sets of institutions. There is the IMF and the World Bank, and there are other ways in which exchange rate changes can be manipulated, can be controlled, can be surveyed and dealt with, and these have always been there, they have been there right from the beginning when Marshall Plan was far more important than anything done by the IMF in the post-war period. The degree of imbalance, the kind of imbalance, changes through time, and therefore the kind of institution that can deal with that international imbalance also changes through time. It may be necessary therefore, while you keep the existing institutions, to supplement them with new devices, new ways of tackling the problem.

The ERM is again an example of the same kind of thing, trying to secure some stability in exchange rates when it looks almost an impossibility, given the way in which international exchanges now reach colossal scale. I think it is open to question whether we will ever again be able to see fixed exchange rates. We may get currencies locking their rates together so that they can never change, but I don't think that we will find it easy to go back to a system of fixed exchange rates unless there is an enormous total of resources put at the disposal of the central bank in charge of the arrangements.

SKIDELSKY

I think we ought to start with the first paper and move forward to the second paper in the second part of the afternoon, though of course there will be overlap and common themes in both. Three points occur to me about the first paper, three issues in a way, which might be worth discussing if anyone is inclined to do so. The first is the British and American aims at Bretton Woods, in setting up Bretton Woods, and whether they wanted the same things, and in what sense they wanted different things. One of the interesting things about the 1930s is that both countries experienced very heavy unemployment, yet the Americans were coming out of the 1930ss in a much more liberal frame of mind than the British. And whereas the British were chiefly, it seems to me, worried about unemployment and the possibility of its recurrence, the Americans were much more interested in free trade and the conditions for it to be possible.

The second question is what sort of system was it that was set up and particularly how did it differ from the gold standard, in what way was it an improvement, and what lessons can one learn from the design of such a system. One obvious thing that struck me is that by the early 1940s everyone concerned was far more aware of the need to have a liberal system buttressed by public goods, institutions, rules, and specific funding of a kind that was entirely absent from the old gold standard.

Finally, if the IMF was not a central institution in the early post-war period, as Leslie Pressnell has very convincingly shown, why did liberalisation go on nevertheless? To what extent were the events of the liberalising tendencies connected with the onset of the Cold War and a conception of America's role which was very different really from that envisaged when Bretton Woods agreement took place. So those are three issues which we might talk about, but they are not exclusive.

PETER JAY

I am a journalist, and therefore I have absolutely nothing to tell people in this room about economics or anything else. But it does occur to me, in view of the point Peter Oppenheimer made that there are young people here as well as dodderers like myself, that it would be a mistake if we allowed people to go away from a seminar of this kind thinking that well really maybe the whole Bretton Woods escapade was a bit of a mistake, or at the very best it was a bit of a dead letter, that it was not very important. There were a lot of misconceptions in the minds of the people who put it together. They didn't really clearly know what their own interests were, let alone what the interests of the world at large were. They seem to have had a lot of unrealistic beliefs about the sustainability of pegged or fixed exchange rates. There were problems which Brian Tew described, and it was all really a bit of an error, undertaken by people who didn't quite know what they were doing. It seems to me that many of those points can probably be made about very large numbers of the specific things that were said and done at Bretton Woods and subsequently, but that it would be a historic error to lose sight of a different dimension of what was going on. And the different dimension of what was going on in my perception goes back to the point that has been touched on, but

The Atlantic Charter, 1941, was a joint programme of peace aims, enunciated by Churchill and Roosevelt on 14 Aug. 1941.

Sir Winston Churchill (1874-1965), Conservative politician. Prime Minister, 1940-5, 1951-5.

Franklin Delano Roosevelt (1882-1945), American politician. President, 1931-45.

specifically to the events of the Atlantic Charter in 1941*. In the Atlantic Charter of 1941, very approximately, Winston Churchill* and Franklin Roosevelt* laid out a vision of what a peaceful world after they had won the war, the war that one of them was not even in and the other seemed to be well on the way to losing, the world they would build after they won that war. It always seems to me extremely remarkable that they had time to think about such things at all, but they did have a vision. It seems to me that the essence of that vision, which picks up Alec [Cairncross]'s point that Keynes thought that he was in some sense laying a building block towards a world government, was that the world that had gone before in the 1920s and 1930s had been an anarchic world, an anarchic world in which that anarchy, economic anarchy and political anarchy, had led to catastrophic consequences, consequences as catastrophic as human imagination could readily entertain. That it was extremely important that if there were to be a better and different world, that it should avoid this characteristic of total economic and political and in the end military anarchy, which were believed I think by most of them to be linked with each other. Well, the opposite of anarchy is some kind of system of rules, it may require institutions, of agreements, of codes of practice and some form of method of arbitrating disputes and some form of the policing of whatever rules you set up. It has always seemed to me that the attempt by Keynes, James Meade, the Americans, the British, and everybody else, to create for the world of payments and currencies and for the world of trade some system of rules that would replace the anarchy which was believed to have been characteristic of the previous period and have contributed to world war, that the attempt to do this was exceedingly important in and of itself irrespective of what particular rules and what particular institutions you decided to adopt. Though clearly in order to establish a system of rules you have to adopt some specific rules, otherwise the thing is merely empty. Personally I hold the view and always have held the view that any attempt to fix the exchange rate between any currency and any other currency in any place at any time for any period however long or short is both politically and economically almost certain to turn out to have been an appalling mistake. That is a matter people can debate about, and whether or not making fixed but adjustable exchange rates the centrepiece of the IMF as part of the Bretton Woods institutions was or was not the right or the best or a sensible course, I think one could debate. But I think it would be tragic if one lost sight of the fact that something else was going on as well: an attempt to create a kind of if you like liberal architecture, but anyway some architecture for a world economic order and associated with that the UN, an institution of some sort of political order, was made. And I think it is worth saying that we are now celebrating the fiftieth anniversary of that event. These institutions are institutionally still in being, they may not be doing what they were originally intended to be doing, they may not be doing what during much of the time they were doing, although one could make the point that their ability to adapt to changing ideologies as well as to changing circumstances may be seen as a strength as well as a weakness. I don't think anybody believes that the IMF or the World Bank are doing great harm in the world, and I suspect that a lot people believe that as embodiments of some degree of co-operation and order they by and large most of the time are doing some good and certainly as compared with a totally autarchic world, an anarchic world in which national governments were pursuing entirely self-directed economic policies of the kind that they pursued in the 1920s and 1930s or indeed of any other kind, as compared with such a world I think we believe it to be superior. I think therefore it is important to keep in mind that whatever the errors and follies and blindnesses and weaknesses of what those people did on that occasion, they were engaged in doing something which appears to us now to have been a right enterprise in principle to undertake.

SKIDELSKY

I just want to take you up on one thing, which seems to be very important, at least it runs through everything you said. It was really an American vision that you are describing and the British, I think, initially were constrained to fit in with this. Remember when Keynes was first presented with Article 7 in its original form, he referred to Mr Hull's* lunatic proposals. It seems to me that whether the British were as interested in this conception as you have implied is one of the doubtful points. They accepted it because they had no option in a way, but was that their vision of the post-war world or was their vision not much more the semi- or quasi-autarchic continuation of those arrangements which they saw as safe for their own protection. I am thinking of many people on the right and many people in politics, not in particular about the economists, but even the economists perhaps thought of a much more protectionist future initially than eventually evolved.

Cordell Hull (1871-1955), American politician. Secretary of State, 1931-44.

PETER JAY

There is no question or argument that I know that most of the specifics of the IMF, most of the specifics of what in the end became the GATT and not any more, was of course an American notion. They were overwhelmingly the most powerful country in the world economically and politically at that time and they so decided. That is not in serious dispute. What I think is also true and not in conflict with that is that British government, Winston Churchill in 1941 in the Atlantic Charter, very, very strongly believed in the idea of creating a conception of a post-war order which would have the features laid out in the Atlantic Charter, which included non-economic anarchy. It didn't include the IMF and the World Bank specifically, but it included the idea of an order, and an open order, and a liberal order, and I think that the British were at least as proactive as the Americans in procuring the Atlantic Charter. Winston Churchill was trying to draw Franklin Roosevelt into the war after all at this point.

PRESSNELL The main object of the Atlantic Charter Meeting as it has been called was nothing to do with the Atlantic Charter, it was to do with dealing with Japan and with getting certainly American help and so on, and it was whilst Alexander Cadogan* was having breakfast in the admiral's rooms, he was eating his eggs and bacon he says in his diary,* when Churchill yelled out from the deck 'Where is Cadogan' and he wanted him to draw up something to give to Roosevelt that morning, and it was handed to Roosevelt by morning service.

Sir Alexander Cadogan, civil servant. Permanent Under-Secretary of State for Foreign Affairs, 1938–46.

The Diaries of Sir Alexander Cadogan, OM, 1938-1945, edited by David Dilks (London: Cassell, 1971).

PETER JAY Do you suggest that it came from the British side?

PRESSNELL Yes, but the point was that they hadn't gone out to do that at all. It was just that morning that it was dreamed up by Cadogan. Obviously they had had ideas in the Foreign Office about it, but they didn't come out for that purpose. So we can exaggerate it.

DAVID WORSWICK Could I just make one brief observation, chairman, on the point that you yourself made, about what appeared to be a difference in attitude towards trade, the Americans were in favour of free trade after all and the British were in favour of something else. I think probably this is a question of theory and practice. Unlike in the Napoleonic Wars there wasn't a great deal of trade between the United Kingdom and the rest of Europe. When the war ended, the problem was how you started beginning to trade with countries, not only the States and the Commonwealth and 'overseas', which was still possible, but with the whole continent of Europe. The reserves were low, and nobody was anxious to play a free trade game because as soon as you had used up your reserves you couldn't import anymore. So there was an enormous creation of bilateral trade agreements between this country and France, and Italy, and so forth, after the war, which always had limits, so you could get some trade going but as soon as you reached the limit nobody wanted to import anymore from there because you would use up your reserves. So European trade was built on restrictive practices of every conceivable kind, not there because we believed in restrictive practices, but because that was the way you got something going. Why the European centre became so important in the OECD, especially within Europe and the European payment structure, was a general desire, once you got things moved on this network of bilateral agreements, it was seen that they were, having started as expansionary up to their limits, becoming restrictive. Wouldn't it be nice if we could have some kind of multilateral settlements. And so it went on and I don't think that had much to do with the ideology of free trade against planning, or anything like that, it was the practical requirements. Now the Americans themselves were never in that situation. It was a situation which that Englishmen used to feel, you could go into some foreign country and you could take out a pound note and it was no good, but if you had a dollar bill it got you what you wanted, the dollar was a universal currency. Sterling in the first five, ten or more years after the war was not a universal currency. What was going on in Utopia, and the discussions about how once we got the world into some kind of initial equilibrium, what was being done on the ground, certainly on the British side, was simply trying to get some trade and production and so on going. I don't think it was ideological. There may have been a greater willingness to play these games on the British side, but I think that was the pressure: that's Utopia you are talking about, having world free trade, at the moment the problem is how to get more trade with France or with Germany, or between France and Germany.

CAIRNCROSS Surely there was a very big difference between the immediate situation of the first few years after the war, and the longer-term arrangements that you wanted to make if you believed in multilateral trade. As it happened, in the period immediately after the war, virtually every country in the world was in deficit to the United States, and you had an imbalance of a kind which any agreements such as reached at Bretton Woods didn't assist with. You had to find some alternative way of dealing with the situation if you had a something deficit and couldn't earn any dollars from anybody else, because they too were in the same situation. So you had to have bilateral agreements if you were going to make any progress. And what in the end was discovered was that you could get 50 per cent of the way, if you went into the EPU you had a kind of 50 per cent rule of convertibility, halfway there, and you could use that. But these were things invented long after Bretton Woods, they were not part of Bretton Woods in any sense. There may have been a general move towards international trade and a general endorsement of the idea of international trade, but the devices which were introduced along the way were devices that had not been thought of in 1944.

WORSWICK If I may interrupt Alec for a moment. Bretton Woods didn't come into the picture at all. It was simply an observation made by the chairman as I understood it, that there appeared to be a difference in general attitude towards free trade from the Americans and something else from the British. I tried to suggest that one of the reasons, and I think the point that Peter Oppenheimer made earlier on, as far as the Americans were concerned it was simply a question of learning the practicalities of the length of what turned out to be a rather lengthy transition period. They started off full of 'let's get this damn thing going and we will have non-discrimination and all the rest of it', then we had the British incident of 1947*, whereupon the Americans when it came to OEEC in Paris and the setting up of the European Payments Union turned right round, and said to the Europeans, 'Before you want to buy from us, see whether you can buy from each other'. In order words, we were being instructed by the Americans to discriminate against the dollar, something which was very wicked by general long-run principles. Discrimination was one of the things which you should abhor, like multiple currency practices and all sorts of things.

Under the 1946 American Loan Agreement (see note p.14), the UK had to make sterling fully convertible (i.e. exchangeable on demand) by 1947. However, when the UK government attempted to do this the country was plunged into a massive balance of payments deficit and almost ran out of the reserves of US dollars. This led to the withdrawal of dollar convertibility and was one of the key factors behind sterling's devaluation in 1949.

CAIRNCROSS We were told by the Americans to do two different things: one is to cease discrimination at once; and one to practise discrimination, really I think in part to get Europe back into balance. But I think there is a contrast between the immediate picture and the long-term picture. The Americans took the view, perhaps rightly, that unless they could get agreements immediately after the war, even though they were impractical but get the agreements shaped, they would never take shape. If you waited until everything was in balance, until 1958 or thereabouts, and then tried to reach agreement along the lines of Bretton Woods, you wouldn't have managed it.

SKIDELSKY They were early shock therapists in a way. There is a question over here.

JOHN DUNBABBIN I think that one ought to stress political restraints on the American Government. The most important vehicle of restraint, as has been said, being that Congress did not enjoy lending money to be spent abroad, and liquidity meant in effect other countries having claims on the United States. There were clearly going to be limits to this, whatever the Keynesian idea. This enters into the bargaining that goes into making Bretton Woods. But by the same token, the United States, though it does come for political reasons to give money in Marshall Aid when it had previously been reluctant to lend it, does not as we have been told want to give too much and therefore it insists that Europe buy from itself and only comes to the United States for what it can't get from itself. And back of all this is in part the very understandable American wish not to spend too much money against the background of the dollar gap. By the same token everybody wants to be paid in dollars. This is one of the factors in moving the European Payments Union towards liberalisation, that countries in credit in the EPU pressed for settlement in steadily harder currencies and this is one of the ways by which you approach 1958. Another way is that quite suddenly the dollar gap vanished, to the great disappointment of various academics who had written books about it. And a third dimension is French President Charles de Gaulle's wish to have a real currency and in 1958 he is forcing the pace towards convertibility.

One final point, which leads nowhere but might perhaps be mentioned, is that the Soviet Union was a participant at Bretton Woods and Harry Dexter White,* who was a major participant at Bretton Woods, was remarkably keen on future good United States-Soviet relations. Some people would put it more strongly than that, and there are as we have been reminded some changes made in the negotiations in the final outcome of Bretton Woods to suit the Soviet Union. It didn't join in 1945, and so this leads nowhere, but it is an interesting sidelight and there has been a publication of the pros and cons submitted obviously at a fairly low level in Moscow in December 1945 as to whether it would be a good thing to join or not.

Harry Dexter White (1893-1948), American economist. Chief International Economist, US Treasury, 1942-5.

SKIKELSKY Thank you very much.

EDMUND DELL Chairman, I am here under false pretences. I wasn't there. I don't know: I have only read. But I am very glad that at one moment during your own introduction of our discussion you mentioned the Cold War. Surely the difference between the extremely tough terms of the Anglo-American financial agreement and Marshall Aid was the Cold War. Peter Jay talks about visions and visions are great things, particularly if they are right, if they are wrong they can be extremely dangerous. But the American vision of a free trade world did not include doing anything about the protection of American agriculture, didn't include anything which prevented, as Hugh Dalton* repeatedly pointed out, an increase in the prices of American exports to the UK in the couple of years after the war by 40 per cent, exploiting a monopoly position. Peter Oppenheimer has said that the US was wrong to start with but right in the longer term. The cabal of that time was that it didn't matter whether the United States was right or wrong, they just had the power. If you wanted to borrow from the United States you had to agree to terms that were impossible, as it turned out, to influence. But when they saw the Cold War developing, the attitude became modified. The Anglo-American financial agreement only just got through Congress and at the end the main reason it got through Congress was because the administration was able to say to Congress, 'Look what is happening in our relations with the Soviet Union. Do not turn this down, because if you turn it down you will turn down also and create great difficulties for our strongest ally in Europe'. This is the reality of the vision. Now imperial preference may have been a mistake, but the Americans decided to use the toughest possible means to get the United Kingdom to abandon imperial preference. There is a debate who was right about that, nevertheless there is no debate at all about the strong-arm methods which the United States, with its vision, thought it right to use when it had the power, to force the United Kingdom into line.

Hugh Dalton (1887-1962), Labour politician. Chancellor of the Exchequer, 1945-47.

One of the things that I, reading about this period, just cannot understand, I cannot conceive, was the remarkable tribute I think to John Maynard Keynes. That man must have had the most amazing personality, the most extraordinary persuasiveness, in order to persuade the Government United Kingdom to accept this agreement, to accept fixed exchange rates. I am absolutely persuaded that if Keynes hadn't negotiated this thing himself, he would have treated it with the contumely that he reserved for the return to the gold standard in 1925 and for the Treaty of Versailles. I just do not understand how this man, it has got to be one of the great mysteries of this period, how he could persuade the British government, of which Douglas Jay was a distinguished member, to accept this thing. I am also rather surprised that they were prepared to accept a loan agreement with the Americans which no British minister had any part in negotiating. A most extraordinary thing.

Now this vision I think has, and I think it was visible at the time and has become even more visible subsequently, elements of the most extraordinary political longitude. That there are problems of a political kind as well as an economic kind in maintaining fixed exchange rates is after all nothing new. There are problems in persuading a strong currency country to behave in an internationally responsible way and to help out countries with weak currencies and weak economies. But again you didn't really need the experience of the last 50 years to understand that either. The political naivety of this thing was extraordinary. I think that is what we should be celebrating today, not so much the Bretton Woods institutions, but the fact that in the years after the war, for reasons that were good for the American economy, they funded a prosperous world. It is a pity it hasn't continued.

One other little point, which again I have come across in various writings, is the fact that neither Keynes nor the Americans seemed to realise that after the war there would be a dollar gap. There was somebody in the United Kingdom Treasury who did believe that there would be a dollar gap after the war. Keynes said there will be no dollar gap after the war, and the Americans said there will be no dollar gap after the war. Again this vision seems to have been contaminated with the most extraordinary naivety.

SKIDELSKY

Lord Jay, can you say why the Labour government accepted the deal?

LORD JAY

As a point of historical accuracy, meetings were held, consisting of all four senior members of that government, at Number Ten from 9 o'clock till 12 every weekday evening from I think the last day of September till the first week of December. Almost everyone started with the belief that the terms suggested were absolutely unacceptable. Mr Bevin* always arrived at the start of a meeting by saying 'Any danger of a settlement tonight?' and that spirit went on. If we had not in fact settled the loan, then amongst other things all the food rations would have had to be reduced to at least 30 per cent below what they had been at during the war itself. So I think in those circumstances it was right to accept the agreements. But if we are talking about Bretton Woods as a whole, which is a quite different issue, I don't think over the whole story it should be written off as a failure. I rather thought so myself in 1945 and 1946, simply for the simple reason that there were a lot of people who thought that exchange rate control was there, and there were a whole lot of people who thought they were usually good and desirable. That wasn't the choice and there had to be some compromise, and a compromise in which you preserved some sort of solidity as long as you could, but there was a mechanism by which you could get it changed if you felt bound to, seemed a sensible compromise. For that reason I think in those circumstances it probably was tried. But one factor I think has been really left out of account in the minds of

Ernest Bevin (1881-1951), Labour politician. Foreign Secretary, 1945-51.

most of us, some here may indeed have taken it into account, we have somehow assumed that a major currency could alter its rate more or less when the government wished to do so. It would all be arranged privately in one of those smoky rooms, in Washington probably, and put into effect and there would be no great crisis. But of course it didn't work that way, because if a situation arose when a lot of people thought there was going to be a change, you set in force all the realities of a political crisis. The press came into it, it became a political crisis and on the whole the national media, which we know very well, turned it into a national crisis. That happened in 1949, there was of course immense speculation, it was good for us but it wasn't good for everybody. Incidentally it is worth remembering that the Germans devalued with us in 1949 their currency which was already undervalued before that and became very undervalued after the 1949 devaluation. But the trouble about it was that you couldn't in fact in practice alter the exchange rate of a major currency without causing an international political crisis.

DELL Can I defend in one sentence my statement that ministers were not involved? I am aware that the committee was meeting at Number 10 Downing Street, but they didn't know what was going on. They didn't know for example when they met on the first occasion at the end of September that the Americans had already told Keynes what the terms were. Keynes apparently didn't tell ministers, otherwise they would never have believed it when he said he would get a six billion grant.

OPPENHEIM I would like to pick up one particular thing in what Edmund Dell said. He proclaims, 'There is absolutely no debate about it!', and then proceeds to make a speech about which there was indeed absolutely no debate, which is why nobody bothered to mention it: the Cold War was a major influence on American actions. That does not alter the fact that American actions demonstrated that they had previously been mistaken about the length of the transition required.

Your point seems to be that had there not been a Communist threat they might have been prepared to let the rest of the world stew in its own juice, rather than coming their assistance. But the real point I want to make concerns what you said about Keynes that he was persuading Britain – God knows how – to accept fixed exchange rates. That is a great misconception. The fact is it was not clear, in the early aftermath of Bretton Woods, how fixed exchange rates under the new system were to be. Keynes in his speech to the House of Lords made much of the fact that Britain's freedom to alter her exchange rate remained, and that this was an attribute of sovereignty and that we were not committing ourselves to a latter day gold standard. Furthermore, those who are sceptical about it should remember, and one is entitled to be sceptical because we were hardly two years into the system when the reluctance to devalue had already surfaced, that actually it was the Americans who pushed us into devaluing in 1949, and quite right too. Just as the German Bundesbank and Mr Soros* pushed us into devaluing in 1992; and quite right too. The interesting question here is: what is it about the realities of a political system, a democratic system, in the context of a system of pegged but adjustable rates, whether the adjustments are supposed to be large, as they could be under Bretton Woods although there were limits there which have been forgotten, there were originally limits, or small and crawl-like as under the EMS. What is it about such a system that causes politicians somehow to work themselves into a state where the freedom to move is forgotten about, rejected, spurned. The reason for the difficulties of the EMS is because, after that system had worked well in the early 1980s with small and rather frequent exchange rate changes, people decided, 'Right, we don't need any more exchange rate changes', and it gets rigidified. And the early history, indeed the whole history of Bretton Woods was bedevilled by the inability to keep a well-proportioned attitude to the circumstances in which exchange rate should be altered. But it is wrong to say that Keynes in 1946 sold the idea of fixed exchange rates to the British.

*George Soros, international financial mogul, widely credited for causing pressure on sterling resulting on the UK's withdrawal from the ERM.

SKIDELSKY There is a difference, isn't there, between Keynes's statement that the British retained sovereignty over the exchange rate, which technically I think was correct, and the American conception of Bretton Woods as a modified gold standard system. I think then of course the Americans would be quite happy to press for devaluations if they though exchange rates were unrealistically pegged, because that …

OPPENHEIM What do you mean by modified gold standard? What sort of system was it?

CAIRNCROSS There was large liquidity provided by the IMF, there was liquidity provided in other ways, I don't think one can really wipe out these things and say they didn't exist.

LORD JAY As a matter of historical fact, what persuaded the government and Parliament to accept the agreement was not pressure from the United States, but the conditions, particularly of food, that one would have had to inflict at the end of the war when the public naturally thought that all that was over. That is what decided the government, whether it was right or wrong.

SKIDELSKY We have now come to the last session, which will go on for an hour, and I hope will open it up still further into the evolution of the system. I know David Worswick wanted to say something at the beginning.

WORSWICK I read the papers of Professors Pressnell and Tew, excellent both, and asked myself what had I to say. The only reason for my being here is age, I was not ever a participant in any of these things, I watched them at a distance. I asked myself, I wonder how trade functioned in the various periods, including the critical period of the operation of Bretton Woods roughly as it was conceived, by which I mean convertibility on current account and the fixed but adjustable rates. According to Brian [Tew], I don't dispute this, you can take the start of this period as 1958 or 1961, and the end of this period as 1971 or 1973. And I asked myself, I wonder how trade performed in this period, as against other periods in history? Trade is important because at the time the philosophy of those things was to facilitate trade. Some believed that trade was good in itself, the more trade the more activity. I don't believe that myself, but still, trade is a good and the more trade, international trade and so on, a good thing. I think the connection with welfare is rather remote, but let's accept that as a criterion, and I asked myself: I wonder how it went on in this period as against other periods. I have worked these numbers out myself using the *United Nations Statistical Yearbook*.* The reason I put 'not to be quoted' at the top is quite simple. Take successive, or slightly distant, copies of the *UN Statistical Yearbook* and compare the change from year one to year six in one copy and in the other, and they are not identical. So if you are making a ten or twelve year chain you can make as many little chains as you wish by taking different numbers and you have to fiddle around. If I was a real scholar I would have found a proper source and got somebody else, like Angus Maddison*, but actually he doesn't give the figures so I had to do it myself. Secondly, I do all the calculations myself, and I find that every time I now do mental arithmetic I have to do it again, and after I have done it a number of times I am converging on a certain number and I stop.

Calculations not provided and unverified.

Angus Maddison, author of, for example, *Monitoring the World Economy* (OECD, 1995), *Explaining the Economic Performance of Nations* (Hants: Edward Elgar Press, 1995),

For the post-war period you can get *World Export*, the volume of a quantum index of world exports, world excludes various countries, I won't bore you with that, for all goods and for manufactures. For all goods you get for 1948-58 numbers like 6.2, and for 1958-71 8.1, 1971-79 5.5 and the last period 4.1. These are annual average rates and in a moment you can ask me questions of detail if they are worth following up. I cannot find a long-time series for world trade in exports of all goods prior to 1939, or prior to 1913. But Maizels,* in his great work on industrial growth and world trade which was published 20 or 30 years ago, has the statement that the average annual rate of growth of world exports of manufactures was fairly steady, in the order of 3.5 per cent per annum from 1870 to 1913. In the inter-war years trade resumes and continues to grow at that sort of rate, until 1929 when there is a crash and the beginning of the depression. In the course of the depression the volume of world trade is estimated to have fallen by two fifths. That volume had not been retrieved by 1938 or 1939 when the war broke out. So in the inter-war years there was some slight growth of world trade, but at no great speed. So what I shall just say is that pre-Second

Alfred Maizels, *Industrial Growth and World Trade. An empirical study of trends in production, consumption and trade in manufactures from 1899-1959, with a discussion of probable future trends* (Cambridge: CUP, 1963).

World War I shall stick to my 3.5 number for the growth of manufactures. The other point to make is that I divided the period 1948-91, or 1990 in the case of manufactures, into four, and I have made an arbitrary cut of 1968-71 for the 'Bretton Woods period' on line 1, and I tried an alternative one from 1961-73. Anyone using these numbers when they go up and down, fluctuations, knows that you can get quite significantly different results by breaking at a different point.

Looking at the top line, which I think is my preferred line, trade in manufactures between 1948 and 1958 is growing at 7.7 per cent, more than double the long-term trend. The first part of that is largely Britain and the United States, at one point immediately after the war Britain and the United States were producing 50 per cent of world exports of manufactures, the Japanese and the Germans producing zilch percent, and then they started. The second part I should have thought in the 1950s is when the Germans and the Japanese are coming into business and the British and the Americans start losing their share of trade. The American share of trade mirrors the British share of trade for quite a long time. Anyway, that was quite a good performance really as compared with the post-First World War, where trade grew at the pre-war rate for ten years and then disappeared. Whereas after the Second World War manufactures trade grew twice as fast.

Then we come to one of my 'Bretton Woods periods', not a period where the original conception was actually fulfilled, but the nearest to convertibility and playing the rules of the thing with altering the adjustable rates. None of the rules were kept perfectly, but it is the nearest thing to Bretton Woods until the whole thing goes up in smoke in 1971 or 1973. In that period, the growth of manufactures is 9.9 per cent, and then it falls in the optimistic one for the seventies to 6.9 per cent and then finally in the 1980s it is 5.6 per cent up to 1990. In other words, and I didn't know this, on my evidence the period of Bretton Woods coincided with the fastest growth in the volume of trade in all goods and the fastest growth in manufactures trade for the world in all economic history. This is of some interest to me, because before Bretton Woods came, when they were discussing these proposals and so on, I was in the line of people knocking this as not a very good system, it wouldn't work, it had all sorts of weaknesses. In the period since, listening to Peter Jay a little earlier on, it couldn't work, fixed and adjustable can't work. All I can say is, and it may well be coincidence, that it happens. It is worth bearing in mind, because it is so easy to say this was a lousy system, it didn't work, and because also let me say that more than half of my profession as an economist during the Bretton Woods period said 'if only you'd scrap all this rubbish of trying to fix rates and just float, and then we would have joy'. I don't care much about the monetary numbers, I am very much more impressed by the real numbers. But the idea would be that all restrictions which were imposed by this Bretton Woods straightjacket would be gone and we'd all float and the world would be better still, and you can all pursue your optimum policies with floating. Now with a floating period, once it is apparent on my numbers, the rates of growth begin to fall in the 1970s and by the one of 1973-83 the rate of growth is down for all goods to 2.8 per cent and manufactures to 3.9 per cent. Now that is because world trade for the first time, in the post-war period, actually stopped for a period of four years from growing at all.

So that is really all I wanted to say. It did put in my mind the question, somebody said the breakdown of Bretton Woods was inevitable, well maybe, but was it inevitable? What would have happened to happen to keep it going a bit longer, was it conceivable that this thing, the fixed and adjustable rate, could have been fixed in some way to keep it going, had you been keen enough to do that. I just mention the things that I looked at. One was the scale of the thing was too small, that's all right, they were beginning to make paper golds with the SDRs* in the late 1960s. I think if it hadn't been for the obligingness of the Americans to provide dollars for everybody, then we would have had SDRs earlier and that I believe is one thing that would have been corrigible in the sense that while the thing was on it wasn't necessary. The methods of adjustment however, in the Bretton Woods period itself and for most of the post-war period, the original Keynes plan tried to put the burden of adjustment on both the deficit and the surplus countries symmetrically. One can argue whether his sanctions for doing this were sufficiently strong, but he took the view that in the context of world trade and relations it was as wicked to be in surplus as to be in deficit, unless you were organising the lending of your surplus for development and that sort of thing. But we didn't do that, and I do think that in the absence of some mechanism of this kind, while with adjustment we might have got through the sixties, I am fairly clear that we wouldn't with this system have got through the 1970s.

Special Drawing Rights (SDRs), are a type of international monetary reserve currency which was established (1968) by the IMF. Created in response to worries concerning the limitations of gold and dollars as the sole means of settling international accounts, SDRs are designed to augment international liquidity by supplementing the standard reserve currencies. SDRs are assigned to the accounts of IMF members in proportion to their contributions to the fund. Each participating country agrees to accept them as exchangeable for reserve currencies in the settlement of international accounts. Deficit countries can use them to purchase stronger currencies, which then can be used to pay off balance-of-payments debts. As nations adopted the current system of floating exchange rates (1973), the value of SDRs began to be set relative to a 'basket' of major currencies. All IMF accounting is done in SDRs, and commercial banks accept SDR-denominated accounts. The IMF has the exclusive right of allocating SDRs; the last such allocation was made in 1981.

SKIDELSKY

Thank you very much. That is very interesting and you raise very important questions about why the adjustable peg was correlated with such a very rapid expansion of world trade, unprecedented, why the 'impossible' system worked, and then why eventually it broke down. I want to add one or two questions of my own before asking Sir Peter Middleton to come in, which occurred to me when reading Brian Tew's paper. Why did a stable but adjustable exchange rate system tend to become a fixed exchange rate system? Brian said that the political costs of action were greater than the costs of inaction. But then I wonder whether the costs of being forced off are always lesser than those of devaluing voluntarily? So why did the system harden over time? That does seem to be one very important question. Why did the Smithsonian parities fail to hold? And related to that, was that because they abandoned any gold convertibility requirement? How important was gold convertibility of the dollar in sustaining the Bretton Woods system? Another question which may have simply occurred to me out of idle curiosity is why, when the stock of gold started to be redistributed towards Europe in the 1960s, why didn't any of the other countries join the gold standard? Germany, or France. I am sure there are answers to that. My last question is, was it domestic policy that destroyed the system of fixed but adjustable pegs or was it an inherent flaw in the system of a key currency system, the Triffin paradox,* or was it just that American domestic policy in the end proved to be inconsistent with sustaining this currency system? Those are some of the questions that occurred to me.

MIDDLETON

May I say something about the very first of your questions, which is why fixed but adjustable systems always tend to become fixed. I think if you go into that it is actually very simple why that happens. It is very difficult when you set up one of these arrangements to know how fixed the system is going to be and how flexible it is going to be. When the Committee of Twenty spent a year discussing this before the oil price blew them off, the discussion was absolutely astonishingly banal. It was to try and find words. There was a huge argument about whether you should use the word stable instead of fixed, because people didn't want to give the thought that things were either going to be fixed or adjustable. They didn't want it too adjustable, they didn't want it too fixed, they didn't want to say what it was actually, so not surprisingly they didn't reach a conclusion. Now if you are trying to operate one of these systems, there is the government, you are always driven to the same reaction. If your exchange rate starts weakening I have never come across a government anywhere whose's immediate reaction is to just let it go. First of all they tend to look for temporary factors, if there aren't any temporary factors they might try to hold it for a bit and the process of holding it for a bit involves making statements about it. So even if you have every intention of letting the exchange rate go, even if you are going to let it go at the end of the week, for the five days preceding that you say you are not going to do it. What then happens is that that becomes a political fact and the government finds itself driven to the kind of policies that it does not even want, because it has become a huge political event. And this happens in every single instance, it always happens. So there is enormous reluctance to let your exchange rate actually go, even if you are in an adjustable system and no government likes fully adjustable systems, what they like is fixed systems with the results floating against it.

I think that explains a lot. I think the real problem with the way Bretton Woods actually worked in practice was that it didn't have enough flexibility in it to deal with the conditions under which you need to be flexible, which is ones that began to happen over David Worswick's period, when you had convertibility, when exchange controls began to go, and more important than anything else, as technology began to bear on these international financial markets. What technology does is two things. It vastly cuts the speed and

* The Triffin paradox or dilemma refers to Yale University economist Robert Triffin's identification of one of the principal flaws of the international financial system which had developed since the Second World War and was particularly troubling in the late 1950s and the 1960s. The world was then entirely dependent on the USA running continuing balance of payments deficits to have access to dollars and to facilitate trade. If this were stopped or reversed, international financial instability would result. If it continued, confidence in the dollar would be eroded, which would also lead to international financial instability. See Robert Triffin, *Gold and Dollar Crisis: The Future of Convertibility* (New Haven, Conn.: Yale University Press, 1961).

cost of dealing in financial instruments, so the cost has come down by something like 90 per cent in this period. And secondly it means that you can use technology to do the work for you, so that a whole industry is there. I think the Bretton Woods arrangements as they started off had a chance in the circumstances of the time, when it was possible to conceive of countries with a large amount of economic sovereignty, but I am quite sure it isn't possible now, because the world is totally different. It is no surprise to me at all that the IMF and the World Bank have changed their role, because it seems to me there aren't enough resources in the world for them to do in the modern world the sort of things they were set up to do in the post-war period.

KATHLEEN BURK Listening to the discussion that has been going on thus far, one or two things occurred to me. First of all is that we know a great deal of what happened in the context of the Anglo-American relationship and much of what has been said fits very well into that context. But I think that indeed the economics frequently, particularly at times of crisis, took a backseat to politics, and I think that the Bretton Woods arrangements have to be fitted in to the fact that for example in 1967 it is a question of East of Suez as well as the pound, and in 1974 it is a question of oil and so forth as well as the pound or the dollar. And I would like to know a lot more about how the system worked in relation to other countries, Japan for example. One can imagine about Germany, but France must have had its own special considerations particularly with regard to gold. It would be interesting to me for the people who sit round the table here, many of whom were involved in it in some respect, to say a bit more about the more international context and how the system worked.

SKIDELSKY I hope they will take up that offer. Peter, yours.

OPPENHEIM I will pass it. I would like to begin by alluding to John Dunbabbin's perfectly reasonable dig at economists who saw a recurrence or perpetuation of the dollar gap. The principal culprit he has in mind of course is somebody who is regrettably absent from this meeting and that is Donald MacDougall, who wrote a very large book at the end of the 1950s, I think it was actually published in 1960*, proclaiming the perpetuation of the dollar gap just as it was disappearing forever. Now that is very instructive. It is actually a very interesting and scholarly book, notwithstanding the fact that he got the main message wrong. But the most interesting thing about it is to ask why he got it wrong, and there is actually a very simple answer to that. It was because he had the wrong model in mind. He treated the whole thing as an exercise in real trade patterns and national competitiveness and other basically real factors though with a monetary tinge, when in fact what was about to happen to the dollar needed to be seen as part of a simple model of

Sir Donald MacDougall, *The Dollar Problem: A Reappraisal* (Princeton, NJ: Princeton University Press, 1960).

Robert Triffin (1911-93), economist. See note p.40 above.

the world monetary mechanism and not as part of the real sector. Simultaneously, indeed slightly before Donald's book there was published a less scholarly, more journalistic, but plumb right work, which did get it right and did use the right model, and that of course was Triffin.* I am reminded of that because you uttered the name Triffin I think for the first time this afternoon. I don't need to sit here and defend or indeed attack the economics profession, but it should be said that Robert Triffin's analysis of the dollar got it plumb right, because he had the correct model. He didn't get every aspect right but basically his insight was correct, that given an inadequate supply of the gold which was the foundation of the system, the dollar was playing the role of substitute or make-weight provider of liquidity. And that this spelled a dilemma for the dollar ahead which I won't expound at length, but basically the point was that if this went on happening in a *sois disant* uncontrolled manner the dollar would end up weakening itself and therefore undermine the very foundation on which this particular liquidity-providing function rested. Now somebody round the table referred to the United States 'kindly providing' all this liquidity. That form of words is okay for the Marshall Aid period and for the early years of EPU. It won't do for the later years of Bretton Woods, because the US was 'kindly providing' nothing. The US couldn't stop it happening given that it insisted on having a fixed exchange rate which it claimed it couldn't alter. Brian had a very nice passage in his paper from the US Council of Economic Advisers' report, saying it was 'widely believed' that the dollar as the central currency of the system couldn't devalue. Widely, but indeed erroneously. There was no reason why, if the US authorities had wanted to devalue, they couldn't have done so. They didn't want to devalue because to devalue effectively, particularly in the later stages of the Bretton Woods system, would have meant what Keynes described as the 'Cherokee procedure' of the uniform increase in all par values, that is to say a substantial devaluation of the dollar and all other currencies *vis-à-vis* gold. And this was not something which the international community of governments was prepared to contemplate.

That leads me immediately to the short answer to your question, why didn't the Smithsonian parities hold. The simple answer is because the parities that were fixed at the Smithsonian were simply not geared to solving the problem that the system faced. The parity changes that were required were not a little bit dickering with a very carefully graduated, 3 per cent up for one and 1 per cent down for the others if we were dealing with a kind of EMS. If, repeat if, you were seriously bent on preserving the Bretton Woods adjustable peg system, what you needed was a relative upward adjustment of some size of the Deutschmark, but above all else a downward adjustment of large size of everybody else against gold. That would have given the system a chance of a further lease of life, I don't say it would have guaranteed it, it would have given it a chance, but the fact is that was never remotely considered.

PETER SINCLAIR I think it is important to follow up some very important comments and figures that David Worswick has produced. He has shown us that the volume of world trade grew much faster in the two and a half to three decades after the Bretton Woods conference than subsequently, or indeed than before. And the ledger of possible successes to be attributed to Bretton Woods doesn't stop there, with world trade. The period from 1945 into the early and mid 1970s is a period of by international standards exceptionally low unemployment throughout the European area, of unparalleled economic expansion, real growth. On the negative side of the ledger it is a period, unique since the seventeenth century, of sustained peacetime inflation. The interesting questions to my mind seem to be: to what extent can we contribute this to the architecture of Bretton Woods, to what extent was it consequence of other things.

One or two very quick points I like to make about this. I think that the world trade growth, possibly the other real variables I discussed, are more a credit to the GATT than to Bretton Woods. The right view is that Bretton Woods provided the macro-economic environment where the authorities of many countries felt secure in reducing tariffs. It was an essential accompaniment perhaps to the programme of trade liberalisation, but the programme of trade liberalisation itself was surely the engine of much of this real expansion in trade and output.

On the inflation side, I think it is important to pick up a question you asked, Robert [Skidelsky], earlier about exactly how the Bretton Woods system is designed. I think it was a typical elegant, deliberate fudge. An exchange rate is not ultimately a nominal anchor, it isn't ultimately a way of pinning down price level. All it does, to the extent that the exchange rate remains fixed, is to control to some degree one country's prices in terms of another country's prices. And the central country is obviously the United States. The premise presumably for Bretton Woods is that monetary policy, financial policy, is determined primarily by the United States, and other countries have to accommodate themselves to that. So that raises the key issue of the United States in the later period of the break-up and undoubtedly I think the misfortune of the Vietnam War coming at the same time as the great society of Johnson and Kennedy, just following it quickly, really meant that there was a huge diversion of interest. I think what ultimately cracked Bretton Woods was not divergence of views between the Britons and the French on the one side and the Americans on the other, but really the difference in experience between the Americans on the one side and the Germans and the Japanese on the other. The Germans and Japanese were not prepared to put up with the rate of inflation which was consistent, I think, with maintaining the link at a fixed rate to the United States.

A further point that we should make very briefly, is to contrast very briefly the experience after the First World War and after the Napoleon War. In both cases there was a boom that went out of control for a short period, and then a terrible, long period of depression. And people, Douglas Jay was talking about this earlier, at the time in the later 1940s were fully expecting and fearing a repetition of this. Perhaps the Bretton Woods system was instrumental in ensuring that it didn't happen.

SKIDELSKY Could I just nail down this point, and I don't know whether I have got it right. Are you saying that really the operation of the system depended in the United States' macro-economic policies essentially, and therefore its breakdown is due to that factor, the fact that it became an engine of inflation in some way, but not due to the problem you mentioned Peter Oppenheimer. You referred to Triffin and said this was a flaw in the system. The American dollar was bound to weaken and that is fatal for a system in which dollars are reserves. But it only weakened because of the conduct of its macro-economic policies, is that right?

OPPENHEIM No. It weakened because the inflow of gold by itself was not sufficient to provide the annual increment in reserves which countries collectively wished to have, and therefore there had to be another source of reserves, reserve growth, and that was the dollar. Now that would have been true under any macro-economic policy of the United States.

CAIRNCROSS The reserves were far in excess of what they needed.

OPPENHEIM They were. The United States in fact overdid it and oversupplied, that's perfectly true.

CAIRNCROSS You can't have it both ways.

OPPENHEIM Oh yes you can. You can say that had the United States not oversupplied, the weakening of the dollar would have been a slower process, it would have happened more slowly. The Triffin dilemma was not dependent on the particular rate, it didn't make a time prediction as to how fast this would go.

CAIRNCROSS But you are overlooking the reaction of Japan and Germany. They did not react as the United States had reacted at the end of the war. Had they reacted in that way, the situation would never have arisen.

MIDDLETON I think that is true.

SKIDELSKY Douglas, you wanted to say something. Is it related to these points we have just been talking about because this is quite an interesting discussion I think.

LORD JAY I think what David said, and the figures he has got down here even though they are a bit dubious, they do support the view that I was putting forward, and that is that Bretton Woods, over the whole story, was not a total failure but was a brave attempt that failed in the end for two reasons. The first reason was what I did mention before, that when any major currency was involved it involved a political crisis, the sort of speculation we saw in 1992 over the pound and the EMS. These were important occasions. In 1971 – I think it was in 1971 – Nixon* said that the agreement reached there was the most important event in the history of the world. I would not go so far as that.

Richard Nixon (1913-1994), American politician. President 1969-74.

PETER JAY The most important monetary agreement, not the most important agreement. The most important financial agreement.

LORD JAY Anyway, that is what he thought. But there was a second difficulty which arose, after 1971 probably, and that was that the fund contracters, I don't quite know how, took the view that it could have lent money on conditions laid down, now this applied for instance to the African countries and to many countries who couldn't accept or had to accept, merely by financial force. This unfortunately made the IMF extremely unpopular throughout large parts of the world. Particularly Africa, where the IMF is now regarded as a menace, a menace to a country if it gets mixed up with it. On the merits of that, I should have thought the IMF is entitled if it is lending money, like any lender, to set down some conditions which will ensure that the money will be paid, or most of it. I don't think it is justified in taking over the whole financial policy of the country, really running its budget in detail and going into all sorts of really internal matters, which it has in recent years done and that has made it unnecessarily very unpopular over a large area of the world. Which leads me to ask the question, if it is in order at this particular gathering, what with all these lessons at hand should we do in the future about international monetary affairs?

SKIDELSKY That's a very good question.

LORD JAY I am suggesting that it might be something along these lines: that there should be an agreement, better not call it a treaty this time, that governments and central banks involved would give general advice to people not to run to the IMF too soon, not until the situation is really extreme. If it is extreme, make reasonable conditions for ensuring that the loan has some chance of being repaid, but do not interfere in the internal affairs of the country unless the country positively invites you to do so. And thereby to make the IMF regarded in the world as a help and if you like rescue organisation, and not one which has taken over the economic government of half the countries of the world. That would have to be worked out in detail, God knows, but I suggest something on those lines might avoid the mistakes we had in what was a brave attempt.

SKIDELSKY Leslie makes the point in his paper that conditionality starts very early, doesn't it.

PETER JAY I want if I may allude briefly to a historic event to help me in flatly contradicting Peter Oppenheimer's simple proposition about the role of the United States in the middle period, not in the Marshall Aid period but in the period of the overvalued dollar, the American current account deficit, roughly speaking the mid-1950s to the mid-1970s. I want to contradict him and say that the US did indeed 'generously provide' or 'kindly provide' or whatever the adverb used was, liquidity and thereby accommodated the appetite of other countries, notably Germany and Japan, to run their financial surpluses which enabled them to achieve very substantial economic success, on the basis of which they also had a high degree of political stability which they might not otherwise have enjoyed. The crucial question in Peter's proposition is that the Americans could have devalued if they wanted to, but they didn't and therefore they must bear the responsibility for what they did. The question is – could they have devalued? They could have announced a change in the gold parity, but the question would have been what would everybody else then have done. Now we had an absolute laboratory test of this proposition. It happened on 1 November 1971 in Rome. I was there as a journalist reporting it. This was the third of the four meetings that took place leading up to the Smithsonian agreement on 17 December that year. In the first two meetings the meetings were entirely preoccupied with the, in my opinion fatuous, nominal argument as to whether the change in relative exchange rates which was believed to be possible, not the deeper one that you rightly think was needed, should be expressed in a form which left the dollar/gold parity unchanged, though meaningless as no transactions took place at that price, or whether it should be expressed in a way which changed that parity. The French characteristically believed that it was a matter of vast global importance that the United States should be formally humiliated to the extent of accepting a reduction in the gold parity, though it made no difference whatever, everyone knew it made no difference whatever, to any real parity and therefore to any real economic event of any kind. At the third meeting Governor Connolly, then the Secretary of the Treasury, came to the meeting and said, 'I have now spoken to the President of the United States this morning on the telephone. He has agreed to my proposition that we should devalue the dollar against gold by 15 per cent. May I take it that none of you gentlemen will be changing your gold parities'. And there was a silence that lasted for 40 minutes. Nobody spoke. And at the end of the 40 minutes Giscard*, who was then the French finance minister, said mischievously, 'I'm afraid Mr Secretary we cannot give you that assurance'. Of course everybody knew he couldn't give that assurance, because everybody knew that no way in the world was anybody going to allow the United States to devalue by 15 per cent

Valéry Giscard d'Estaing, French politician. Minister of Finance, 1969-74, President of France, 1974-81.

against the European currencies. The whole thing was farcical. The parity of the dollar against other currencies is decided by the sum total of the governments that manage the other currencies, it is reciprocal. And to talk about the United States devaluing is like talking about the sun moving its position relative to other bodies in the solar system. At that time. It is not quite true now, but it was then, and the United States did not have that option. It could have reacted to the deficit to which it was condemned by the exchange rate policies, the metabolism if you like, of Germany and Japan by itself adopting protectionist measures or by deflating its economy. That would have been an anti-social, internationally speaking, thing to do. What was the enlightened thing to do so long as it could, was to continue to accept the position and thereby enabling world trade and payments to be in some sort of equilibrium. It was not indefinitely sustainable, because in the end, this is what really destroyed the Bretton Woods system, the United States could no longer afford to go on being beggared in this fashion. So it seems to me very important to recognise from that historical event that the United States did not have that option, and that was very important in the end to the explanation of why Bretton Woods broke down.

One last quick thing if I may just trade some casual empiricism with David Worswick on his figures. They are interesting and very important figures, and seemingly very pregnant, but I ask you to consider the possibility, I think it is true, that during those second two periods, from 1971 onwards, the world production of goods and certainly the world production of manufactures was declining quite markedly as a proportion of world GDP. And secondly, that world trade was increasing as a percentage of world GDP.

WORSWICK No it wasn't. It was flat in the 1980s.

PETER JAY Well, we are talking about 1971-91.

WORSWICK It was fairly flat in 1973.

PETER JAY But not declining. What was happening in this period was that the annual rate of growth of world GDP, from 1971, declined very markedly relative to the previous 20 years, and within it, the growth of manufactures declined both as a proportion and absolutely. Given those two facts, it is not entirely surprising that the growth of world trade in manufactures and world trade in goods is declining relative to its rate of growth in the previous two periods. That does not necessarily suggest that the payments and currency environment for world trade was less favourable in the second period than it was in the earlier period.

SKIDELSKY Just one comeback, but then I want to bring someone else in.

OPPENHEIM A comeback to two or three points. First of all, reference earlier to the counterpart behaviour of Germany and Japan in the Bretton Woods period *vis-à-vis* the United States and how important this was.

CAIRNCROSS *Vis-à-vis* the world, not the United States.

OPPENHEIM Well, *vis-à-vis* the world. If you are talking about the Bretton Woods period, that is to say up to 1971 when the United States severed the gold link, you can say that about Germany, you cannot say it about Japan. Japan was not a major surplus country at any time in the Bretton Woods period.

CAIRNCROSS I am talking about the last 20 years.

OPPENHEIM Yes, the last 20 years, but of course that wasn't the period of the Bretton Woods system. Japan only became a major accumulator of reserves in the 1970s. People have forgotten this. Japan used to have balance of payment crises *à l'Anglaise* in the 1960s. So just to correct it, only Germany really. Now on Peter Jay's point, of course by the time we are talking about the Smithsonian and all that, this is the Bretton Woods in its dying phase, this is the headless chicken phase of Bretton Woods. I mean the United States had ceased effectively to have a gold-convertible currency in March 1968, and of course what Governor Connolly was talking about, to the discomfiture of the French President, was a 15 per cent relative devaluation of the dollar compared with, as far as Giscard was concerned, the French franc. And that of course they were not prepared to accept. They were not prepared to accept it because their currencies were not 15 per cent, on a good judgement, undervalued against the dollar. That's not nonsense Alec. Look, the United States Peter referred to …

CAIRNCROSS I listened day after day in Paris to discussion of the American policy, in which the French quite clearly took the view that the Americans ought to devalue.

OPPENHEIM I am going to make the point in just a moment. First of all, Peter referred to the period mid-1950s to mid-1970s, and I noted his words, as the period of US current account deficits. First of all, wrong. The United States was in current account surplus every year until 1969. The US overall deficit was caused by long-term capital outflows from the United States exceeding accounts. Absolutely reasonable, but it makes a difference as to the view you take of US competitiveness. Until the end of that period, the United States was not clearly uncompetitive. I think it makes a difference whether a country has a current account surplus or a current account deficit. If the current account surplus is there, but is not large enough to cover its capital outflow, that is a somewhat different situation from having a current account deficit. But in any case, to answer your question directly about what the French were after, what the French were after of course was a doubling or trebling or some huge increase in the gold price. If they had got that, a) they would have been very happy to encourage the Germans to up-value relative to the dollar by 15 per cent, which they would have accepted…

CAIRNCROSS Peter said they were offered 15 per cent more on the gold price and they refused it.

OPPENHEIM Well, because 15 per cent wasn't enough, because the simple reason was that would not have restored an effective market in gold. I needn't remind anybody what happened to the gold price afterwards, and where it is now. It is now regarded as a low, and it is ten times the Bretton Woods price, about $350 an ounce. And of course the price of gold was held artificially low by US policy all those years, and people like the French, who were gold buffs, said, 'Damn it, we see a capital profit'. I don't think they saw it quite that size, they would have been happy with a price of $80 or $90 an ounce. But they certainly weren't happy with $40 an ounce or $43.50.

CAIRNCROSS You can't run the world economy on the basis of which people are entitled to ask for the price of gold to be raised tenfold. That is not possible.

OPPENHEIM It is not possible, of course not. But the fact of the matter is, this is the other half of the story, that if the United States had been allowed or had been willing to have, had been allowed by its politicians that is, a doubling or trebling of the gold price, you would not only have got a reasonable relative adjustment of the important exchange rate, which was the Deutschmark, at the same time, but, and this is the crucial thing, the increase in the gold price by itself would have eased the United States' position. It is not true that a doubling or trebling of the gold price would have simply changed balance sheet values and left the profit and loss account unchanged, it would not. It would actually have improved the US year-by-year balance of payments position.

CAIRNCROSS I don't want to get into a long argument with you, but there are many other consequences of any change in the price of gold, and one is inflation, and you have to take that into account.

SKIDELSKY I could go on listening to this for a long time, but there is a question from the audience.

SYLVIE SCHWEAG From the Treasury files that I have seen, there was a huge discussion going on in the Treasury between ministers and Treasury officials over whether they should have a more flexible exchange rate.

SKIDELSKY So your point really is that Britain was by this time less committed to currency convertibility and stable but adjustable exchange rates than most of the other countries or most of the other major powers in the system. Is that your impression?

SCHWAG I wouldn't say less, I would say they were not committed.

TEW There was the ROBOT* scheme, wasn't there, in 1952, but that was earlier on.

DELL It is perfectly true that throughout the 1950s the Treasury was debating, the Bank of England was debating, floating the currency. And indeed Macmillan in his diary says at a certain point, I think something like 1957/58, 'On my instructions the Treasury is investigating once again whether to float the currency'. Only they never did it.

Operation Robot was a Jan. 1952 Bank of England and Treasury scheme, proposing to introduce sterling convertibility on a floating exchange rate in the budget of 1952. The Cabinet did not approve it.

OPPENHEIM That's right.

DELL And the reason I suspect they never did it, was because it would have been inconsistent with their relations with the United States, who didn't want them to do it because it would give a further blow to the dollar.

OPPENHEIM Archives are totally misleading, it is what you do in public that matters.

MIDDLETON They were not talking about a floating system of course, they were talking about floating against fixed system.

OPPENHEIM And it is only the United States that matters in that regard.

NICHOLAS DINSDALE I have a point which partly relates to what was said about the performance under the Bretton Woods system of fixed exchange rates. As compared to the 1970s, it looks as though its performance is very weak under a system of flexible exchange rates, but I think it might be rather dangerous to jump to that conclusion, because the major shock which came in the 1970s was the supply side shock of the first major hike in oil prices. That is when we accept that the Bretton Woods system had broken down. But the question is, suppose it had not broken down, we accept that the United States had staggered through, what would have been the effect of a major oil price shock affecting the supply side under a fixed exchange rate system rather than a flexible rate? And I would argue in fact that the flexible rate arguably did better, because the fixed exchange rate system gives a lesser effect on price and a bigger effect on output, a bigger contraction of output. Given the severity of the contraction which occurred, at least I think given what I imagine to be the preferences of David Worswick, he should favour the flexible rather than the fixed rate because the contraction in output would have been greater under the fixed rate.

CAIRNCROSS

The proposition that has just been put does not bear examination if you look at 1979, because all that happened in 1979 testifies to the extent to which the output of the GNP falls drastically under a variable exchange rate. It may be accident, but that is what happened.

SKIDELSKY

I would only make one comment on that, which is that you might not have got an oil price shock in 1973/74 had the Bretton Woods system still been in existence. It is not entirely independent of what happened earlier.

We are coming to within two or three minutes of our official close. As I said right at the beginning, this is not only a historical reflection, but the historical reflections often, one hopes, are meant to yield an increase in wisdom and that one learns from one's mistakes and constructs better next time if one has got the chance. I wonder if anyone would be bold enough, I know Douglas Jay has already been bold enough, to suggest what might happen in the future. Am I right in thinking there has been a move back towards the idea of stable exchange rates, because the lesson of the 1970s was on the whole that flexible rates are not as good as the stable exchange rate system? That seems to be my impression, though of course many people would dispute that proposition very strongly. But if that is so, and the ERM was certainly one attempt to do this on a regional basis, are we within sight of a global system that is in any way comparable to the Bretton Woods system, and what would one do to improve such a system if one were in a position to set it up? Maybe the premise is wrong and we shouldn't even be thinking along these lines, but I think most people are, and therefore would anyone like to have the last word on what should be done or what the circumstances might provide in the way of opportunity to do something?

OPPENHEIM

I think one would dispute your premise that globally, as opposed to regionally, there is any tendency to go back to a Bretton Woods type system at this point, I would say.

DELL

Could I just say, which might give somebody else time to think of the answer to your question, one piece of personal experience I do have about this history is that I was in the House of Commons on the day Anthony Barber* came down in 1972 and announced that sterling was floating. The sigh of relief that was exhaled in the

Anthony Barber (Lord Barber), Conservative politician. Chancellor of the Exchequer 1970-4.

House of Commons was so powerful that it should have inspired British industry. Everyone was persuaded that from that moment Britain's economic problems were solved. On the Labour side too.

SKIDELSKY And of course they have been, as we know.

WORSWICK I think your question can be answered in about three sentences. There is I think in this country, not everywhere, a reluctance to get committed to fixed rates. There is, for Edmund's reason, a certain scepticism about not floating. That leaves you, when you are dealing with things on world scale or regional scale and so on, with something like fixed and floated or build-in core effects and so on.