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The IMF and Bretton Woods Conference

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International Monetary Fund (IMF) and the World Bank

The system established two major international financial institutions - the International Monetary Fund (IMF) and the World Bank (also known as the International Bank for Reconstruction and Development). The Bretton Woods system was largely the product of Anglo-American negotiations. The British representative was the prominent economist John Maynard Keynes. The United States representative was Harry Dexter White who, given the economic dominance of the US, was able to exercise a powerful influence on Bretton Woods polices.

Bretton Woods conference

In 1944 representatives of 44 allied nations met at Bretton Woods, New Hampshire. They wished to avoid the turmoil in international monetary and commercial relations which characterised the interwar years and which were seen as a cause of the Second World War. Several points of agreement emerged:

1. The floating exchange rates of the 1930s had been an impediment to trade and investment and had produced damaging destabilisation
2. The gold standard system, in which currencies were permanently fixed in value against gold, was too rigid
3. If currencies were no longer to adjust freely, there would have to be a reliable method of ensuring that each nation had sufficient reserves in gold or dollars to guarantee their currencies. A liquidity fund would be set up for this purpose
4. There should be no return to the economic preference and conflict which, in the American view, were embodied in imperial preference and Nazi Germany's bilateral trade agreements
5. A representative institution should regulate international cooperation in financial and monetary affairs

There were significant differences between the British and American approaches, particularly with regard to the liquidity fund. Keynes wanted unlimited access to the fund. The US representative wanted the rights to draw on the fund to be linked to contributions.

The Bretton Woods agreement of 1944 attempted to resolve these central problems. The disadvantages of floating and rigidly fixed exchange rates were avoided by 'pegging' each currency against gold. Member states agreed to maintain their currencies within one per cent of this value, although they were allowed to revalue their currencies should circumstances produce 'fundamental disequilibrium'. Dollars were fixed in value against gold and were the only currency directly convertible into gold. Before long the dollar became the dominant world currency.

The agreement set up the International Monetary Fund (IMF) to ensure that member states had access to funds to help guarantee the 'pegged' value of their currencies. Members paid a subscription, based on the size of their economies, into the IMF, which could be drawn, according to quotas, when they lacked sufficient reserves to back their currency. The outcome represented the American view of how the liquidity problem should be solved. The Bretton Woods arrangements were incorporated in a Bretton Woods Agreement Bill and a subsequent Exchange Control Bill.