Bretton Woods and Bad Days for Dollars
August 15, 2011

First July 1944 and then August 1971: the dog days of summer have been momentous for the American dollar. It was 67 years ago that 44 nations from around the world gathered at Bretton Woods, New Hampshire, to plan the post-war framework for international money and trade.

Bretton Woods had been chosen by Harry Dexter White, the chief international economist at the Treasury Department and the chief American negotiator. White himself had a summer home in FitzWilliam in southwest New Hampshire, but White had been influenced by the frail chief British negotiator, John Maynard Keynes, who strongly objected to the torture of hot, humid Washington.

White and Lord Keynes had worked out the post-war monetary framework over the previous two years. The Bretton Woods accord was designed by Keynes, an Englishman, and White, an American sympathetic to Keynesian economics. Both wanted the post-World War II world to improve the post-World War I disasters. They would try to take into account the past deficiencies of the international monetary system of the 1930s but they managed to perpetuate the instabilities of the dollar-centric global financial system.

Of the two architects of the Bretton Woods agreements, Keynes was by far the better known, having published *"The General Theory of Employment, Interest and Money"* in 1936. But at Bretton Woods, with American power and the Roosevelt administration behind him, White was the more influential. Keynes, now an opponent of the classical gold standard, agreed to a system where the currencies of other nations were pegged to the dollar and the dollar was pegged to gold. But nations could demand gold for dollars to settle the U.S. balance of payments deficits. The U.S. dollar in effect had displaced gold, becoming the world's reserve currency.

The Bretton Woods system stumbled along, monetary crisis after crisis, for 27 years until the summer of 1971 when Britain demanded that the United States redeem three billion dollars for gold. President Richard Nixon and Treasury Secretary John Connally had been preparing for such an eventuality. Connally abandoned the heat of his native Texas to rush back to Washington to meet with Nixon at the White House. Together, they decided to act swiftly and convene a meeting the next day at Camp David.

Confronting the nation's top economic officials, but none of its top foreign policy leaders, Connally pushed through a domestic and international economic program intended to deal with deteriorating trade, employment and inflation. The keystone was "closing the gold window" by which other nations would no longer be able to redeem dollars for gold. In contrast to the planning of the three-week Bretton Woods meeting, the Nixon officials met on a Friday, reached consensus by nightfall, and prepared to announce the new policy by Sunday.

On the evening of August 15 President Nixon went on TV to outline his policies and denounce "speculators [who] have been waging an all-out war on the American dollar." Nixon went on to say: — "I have directed Secretary Connally to suspend temporarily the convertibility of the American dollar except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States." This was the "Nixon Shock" to the American and world economic system, followed by the first peacetime wage and price controls of American history, followed by the worst economic decade since the great depression.