RISE AND FALL OF BRETTON WOODS

Kristijan Gavranić, Dejan Miletić

Secondary School for Economy and Trade Kula, Faculty of business economics and entrepreneurship PEP, Serbia

Abstract

The aim of this research is to reveal the causes that brought to the collapse of The Bretton Woods system based on the convertibility of gold to the US dollar, fixed but adjustable exchange rates, and the election of one national currency as a world currency. Based on analysis of the ratio between gold reserves and currencies, it can be concluded that due to the sudden increase in demand for commodities, and gold as a means of payment, there is a deviation from the golden rule and the attachment of currency to gold, in order to protect their own gold reserves. In the case of Bretton Woods agreement, unwillingness of the United States to, based on similar circumstances, devalue US dollar, and the desire to protect their own gold reserves, leading to collapse of The Bretton Woods system.

Key words: *gold, gold standard, currency, exchange rate, devaluation, bretton woods system, international monetary fund*

1. INTRODUCTION

Through the historical development of economic forces, the exchange of goods went beyond the narrow barriers of nation states. Trade became one of the pillars of the economic development and money became increasingly important in the exchange of goods. An accelerated trade led to the need of the constant and solid relations between the currencies used by different countries in order to express the value of commodities in the most accurate way. Gold was taken as a reference as one of the most practical metals and therefore the first currencies were bound to it. The parities of currencies were set against gold and they depended on the supply and demand of gold in the markets. The new rule of the gold standard was introduced. Such a system, despite its advantages, exerts a major drawback which is reflected in the attachment of the currency to gold. Frequent changes in the gold market led to currency fluctuations making the system relatively unpredictable. Strengthening of the trade requires an additional amount of money in circulation, therefore its attachment to gold and the amount of gold reserves appears to be a limiting factor.

The world came to the need of the modern monetary system creation in order to solve the accumulated problems. The countries worked on the creation of a monetary system which would have impact on large part of the developed countries of the world with the role of preserving the stability of the national economies. The models of the future world monetary system differed in the very basics and the model agreed at Bretton Woods came out as a result of compromise. According to it the place of the future central world currency was given the US dollar due to large reserves of gold this country had. The bondage of dollar to gold, despite the new way of managing exchange rates, remained as the limitting determinant of the future system. Faced with the increased demand for dollars due to increase in the volume of trade but also because of other countries keeping dollars as a reserve, the US government conducted various kinds of restrictive policies in order to maintain the gold parity. However, soon afterwards, because of the pressure of accumulated national problems and partly due to the expansionist policy towards the east, US dollar left its attachment to gold and the Bretton Woods system ceased to exist. Despite the problems it faced, and its termination in the original meaning, this system has far-reaching consequences on the functioning of the present day world monetary system. Today, its institutions such as the IMF and the World Bank have much stronger impact on the economic measures implemented by the member countries of the system. By the creation of a single world monetary system, the new rules in the functioning of international finance were introduced, and by declaring dollar as the world currency, the US rose to the position of the world's leading monetary

power. Bretton Woods, as such, provides the basis for understanding the today's system of finance, even though that Keynes' somewhat humanistic vision of the future was partly excluded in the agreement.

2. HISTORICAL INFLUENCE OF GOLD AND SILVER ON THE DEVELOPMENT OF THE MONETARY SYSTEM

One of the oldest metals which people processed and adapted to their needs was gold. Considering the fact that gold in nature appears in a pure form, not as a compound, processing it did not require any additional skill or knowledge in ore melting. The beginnings of gold use date back to 6000 BC and it originates from the territory of Asia while the first findings of processed gold were found in Europe in Varna, Bulgaria and they date back to around 500 BC.

Gold trade was widely present in Egyptian and Mesopotamian civilizations where there is numerous evidence of gold and silver exchange during trades. Furthermore, the civilizations of South America such as The Incas, The Mayans and the Aztecs knew the value of gold and used it in trade. On European soil, the golden currency was used by the Greek and the Roman civilizations as the means of exchange and safeguarding the value. With the development of trade came a greater need for mobility of money, its improved durability as well as the need for its stability against the loss of value. Therefore the bonds became to appear which would be worth the amount of money that was written on them and which could be exchanged for money right away. The use of such bonds slowly replaced the use of coins and in a way they presented an early form of paper money which was yet to come.

Free trade was developed in the beginning of 19th century and it created larger traffic of goods and services and the participants in international trade felt the need for a system which would, in an adequate way, solve the international trade relations. The need to have the value of all the goods adequately expressed through a general equivalent, which would be in a privileged position and would have a monopoly on all other equivalents, leads to gold being the basis of future monetary systems. "From the moment when the role of a general equivalent belongs to only one type of goods, this type of goods begins to function as money, that is, it gets a specific social function and therefore a social monopoly to play the role of a general equivalent in the world of goods." (Source : Marx, K., 1947. The Capital, Volume I, Culture, Belgrade, p. 30)

Countries soon began to express nominal value of their currency in gold, allowing for a clear comparison between their currency and the general equivalent - gold. That is how a new period known as "The Gold Standard" began.

Date of adoption of the gold standard

Country	Year of law adoption
Great Britain	1816
Germany	1871
Sweden, Norway, Denmark	1873
France, Belgium, Switzerland, Italy, Greece	1874
Uruguay	1876
The Netherlands	1875
USA	1879
Austria	1892
Chile	1895
Japan	1897

Russia	1898
Mexico	1905
Panama	1904
The Dominican Republic	1901

(Buckley, A.,2004 ,Multinational finance , fifth edition, Pearson Education limited, Harlow, UK, page 17.)

To make a clear relation between the currencies of the countries which took part in trade, it was necessary to express their nominal values through a fixed income in gold, that is, to create a fix ratio between an ounce of gold and the currency. Countries which accepted this type of the monetary system had to use golden currency as the basic means of exchange and to allow free import and export of gold into their country. Hence, their reserves rose and fell based on the gold flow. It was important for countries which accepted the rule of "The Gold Standard" to have their gold reserves grow undisturbedly which would allow the conversion of gold to their currency at any given moment. Based on the amount of gold they had the countries played the role of a warrantor in the process of currency to gold exchange, as well as a warrantor for the stability and the value of the currency. Defining a fixed relation between an ounce of gold and the currency, as well as an uneven ratio between the supply and the demand for gold as well as an uneven price for gold on different markets led to a difference of value between the currencies. Each country, guaranteeing to trade its currency to gold and the other way around was ready to sell or buy the necessary amounts of gold on the market. Owing to the fixed ratio between an ounce of gold and the currency the exchange rate was unvarying, meaning that it was fixed. Currencies could be swapped into one another easily, without risk, using mint rates, which would show the amount of gold a central bank possessed. Setting up clear rules and fixed relations between the currencies and gold meant that international trade could now take part undisturbedly without any issues.

2.1 Gold parity and the mechanism of price and gold change

Until World War I the monetary system based on "The Gold Standard" was self-regulated and was not based on the rules of international institutions. Its functioning was based on the ability to transfer a certain currency into gold, a fixed relation between currencies and gold, and the ability to express the value of different currencies through gold. This led to the appearance of gold parity, due to the differences in supply and demand for gold in countries as well as the difference in weight of gold in the currency.

As an example, before World War I, the US dollar had 1,50463 grams of pure gold while the British Pound had 7,322382 grams of pure gold. The parity between the US dollar and the British Pound would be 4,86656.

By adopting "The Gold Standard" and using it, the economy would adopt a self-regulating mechanism of balance of payments equilibrium. This system was based on the fact that by raising export from country A to the country B and with the convertibility of the currencies to gold, there would be an increase in the amount of gold in country A due to the surplus which was created during export. Simultaneously, in the country B there would be a deficit in the amount of gold it possesses considering the fact that during the import of goods there comes to a great loss of gold amounts by which the goods are paid for. Raising the amounts of gold in country A would lead to an increase of prices in that country, due to bigger supply of gold while in country B, due to a big gold drain, it would lead to lower prices, considering the low amount of gold in circulation. The level of low prices in country B would stimulate country A to start importing goods from country B due to the high prices it has. That way, the prices in country A and B would be at the same level.

This mechanism of balance was introduced by David Hume under the name "price-specie flow" in 1752 but it did not get much support and even Adam Smith who was against mercantilism as well as Hume published his doctrine in *"Lectures on Justice, Police, Revenue and Arms" reported by a student in 1763, edited by Edwin Cannan in 1896, New York 1964,* critiqued his belief that the public wealth of a country consists of money.

However, in practice, this type of independent adjustment of the market to monetary fluctuations came to certain exceptions which caused certain doubts in whether this type of economic thinking could work.

"In order for the process of adjustment to function, the countries were not obliged to carry out sterilization (i.e. to neutralize the effects of) balance of payments deficit or surplus in the money supply. On the contrary, the rules of "The Gold Standard" were that countries with deficit should strengthen the process of adjustment with firmer credit restrictions, and the nations with surplus should enforce credit expansions. However, Nurkse and Bloomfield came to the conclusion that monetary authority was often not respected by sterilizing a part (just a part) of the imbalance of the balance of payments. Mikaeli claims that it was necessary to do that in order to mitigate the process of adaptation and to prevent the reduction of money supply in countries in deficit and sudden growth of money supply in countries in surplus". (Source : Salvatore, D., (2009), International Economics, Publishing Center of the Faculty of Economics in Belgrade, Belgrade, p. 784). What limited "The Gold Standard" as the system of monetary influence was the fact that trade revolved around gold, which made gold the factor that limited the possibility of trade growth. In case of gold reserves not being able to follow the growth of trade, it leads to a bigger supply of goods and therefore the demand, due to the decrease of purchasing power goes down, which leads to lowering of the overall prices and with it comes a decrease in supply and a limit in trade volume is set.

2.2 World economy in the period between the two World Wars

The beginning of World War I brought the need for bigger amounts of gold which would replace the needs of war economy for goods and services in the countries which followed "The Gold Standard". However, releasing bigger amounts of gold and its transport beyond the country's borders would cause a deficit which could not be covered by the new influx of gold in the war economy. This was the reason the countries which followed "The Gold Standard" firmly decided to abandon it and to start printing their own money which did not need coverage in gold but would finance their war needs. World War I brought imbalance to the market, that is, it brought great demand for goods and services in a short time period, which could not be covered by current gold reserves without seriously jeopardizing the gold stability of the country. This was the reason these countries turned to a seemingly safer option of the problem solving which was printing money but without any coverage in gold. However, this way of solving the deficit led to the fall of trust in the currencies, weakening their value and the appearance of various speculations on the financial market which, in the end, resulted in weakening of the world trade. Great fluctuations of the exchange rate appeared shortly after World War I and became stable in 1925 when Great Britain reversed its pre-war parity between the pound and gold and removed the embargo on gold export. This system was soon followed by Switzerland, France and Scandinavian countries. This was not a purely gold-based system but also relied on reserves which were held in pounds, US dollars and French francs. This led to the certain saving in gold. Establishing a system such as this in post-war economies led to the fact that certain currencies quickly became overrated as well the development of deficit in countries which were economically destroyed after World War I and their incapability to cover their own expenses. Due to France setting the rule that all surplus owed to it had to be paid in gold shook this parity system and the pound quickly stopped being convertible to gold.

In the USA the early twenties of 19th century are said to be the most unstable economic period in its history. Uneven distribution of income between different social classes lead to 0,1% of the upper class having the combined income equal to the income of 42% of the lowest class. So those 0,1% controlled 34% of total savings while 80% of Americans did not have any savings at all (Source : M. N.

Rothbord,1989. A History of money and banking in the United States, New York, pp. 116. - l18). A quick increase of productivity, the decrease in prices due to lower expenses and a low level of worker wages all lead to the market excesses and then to the appearance of credit expansion. On the other hand, the high trade barriers enabled the export of goods from European countries into the USA and the absence of reciprocity lead to the inability to pay the interest on loans of the USA (Source : C. P. Kindleberger, 1988, The Work in Depression; 1929 - I 939, New York, pp. 107.-111). In the United Kingdom a great depression culminated in 1930 and it was mainly due to the pound being overrated but also due to the lack of will to have it devaluated. In France, the crisis was significant in 1933 and 1936 and Germany fell into the crisis in 1929. What all the countries had in common was that years before the culmination of the crisis they had problems with recession and issues with the functioning of economic systems they could not deal with. Furthermore, an uneven distribution of income between the rich and the poor lead to the weaker purchasing power and then to the reduction and the stagnation of the economy. Stock market speculations caused additional shock to an already insecure economy by reducing the industrial production by almost 9%.

World War I brought destruction to the territory of the European continent. Credits and loans for wars had to be taken from the countries which had excess at their disposal. Therefore, the USA credit funds became focused towards the European countries. These credits were often followed by the purchase of American goods and high deficits were covered by the overflow of the warranted gold to the USA.

3. THE ATTEMPT OF PRESERVING THE INTERNATIONAL STABILITY, BRETTON WOODS CONFERENCE

The conference in Bretton Woods (New Hampshire, USA) was held on 22nd July 1944 with the goal of creating a monetary system which would maintain the international stability and allow the stable relation between the currencies as well as the easier flow of goods among countries. The purpose of the new system was to avoid the past currency instability and its negative consequences. The meeting had high importance and was attended by John Maynard Keynes, the head of the British delegation and Harry Dexter White as the representative of the US treasury. A lot of different opinions could be heard on the design and function of the future monetary system. Keynes believed that the future system would have to allow an adequate method of regulating the supply of money and credit in order to maintain a long stability of prices within the country and a method which would regulate the supply of foreign currency in the attempt to prevent the temporary changes during the seasonal or other movements and which are not the effect of any permanent disorders between the internal and external prices. In order for this system to work there had to be an effort from all the participants, that is "with a determined act from the US Bank of Federal Reserves , The French Bank and The Bank of England a lot more could be accomplished than most, mixing the symptoms or the exacerbated state with the disease, were ready to accomplish. In any case, the most efficient solution would be that the three central banks of the countries mentioned above created a mutual programme of restoring trust in the international market of long-term loans" (Source : Ostojic, PN, Pejic, R. L., 1987, Economic Essays, John Maynard Keynes, Matica Srpska, Novi Sad, the European Center for Peace and Development, Belgrade, Cekos, Novi Sad, p. 72)**.** Having this in mind, Keynes believed that the future was in "The Clearing Union" which could create international stability as well as a unique world currency. Such a system would allow a suppression of gold as the primary foundation for a monetary system and create clear, firm rules of international finances which would have the goal of raising productivity of productive forces as well as raising overall employment and, as its final goal, raising social wealth. Bonding of the previous currencies to gold was, for Keynes, a problem which caused the instability of money, because the instability of money, in most countries, was due to the instability of national currencies in relation to gold, since gold often does not maintain its stability in relation to the purchasing power. However, the role of gold in the level of development of the monetary systems was grand because gold, accepted as a general equivalent, could not be replaced with a more suitable equivalent at that time. Keynes said to that: "We still do not have a better resort which could be used as an endpoint protection or a reserve in case of emergency" (Source : Ostojic, PN, Pejic, R. L., 1987,

Economic Essays, John Maynard Keynes, Matica Srpska, Novi Sad, the European Center for Peace and Development, Belgrade, Cekos, Novi Sad, p. 159).

Only the use of gold in the new system would allow for an easy transfer to the new type of function of international finances, without a sudden rupture with the previous systems and gold was used as a liquid reserve for balance of payments adjustments and repayment of foreign debt.

However, with the downfall of the primary idea of a new world currency, Keynes, due to a high pressure from the US, accepted the US dollars as the world currency which could be converted into gold. Even though, in the end, both sides agreed to conduct a new system of the fixed and adjustable courses which would allow for certain independence to countries in leading their own financial politics, Keynes was not pleased. The new system was supposed to, through the rule of "The Gold Standard", allow for stability of the currencies and provide more room for interventionist and social methods of economic management. It was agreed that new international institutions would be created which would allow the undisturbed functioning of the new international monetary system. For that purpose, The International Monetary Fund (IMF) and The International Bank for Reconstruction and Development (IBRD) were created while the general agreement of customs and trade was adopted a few years later. The goals of The International Monetary Fund as an institution were to (Source : International Monetary Fund. Articles of agreement of the International Monetary Fund (1944). – Washington, D.C. : International Monetary Fund, 2011. p.2) :

- develop the international monetary cooperation through permanent institutions which would use the mechanism for consultation and cooperation when solving international monetary issues
- allow for an easier spread and balanced development of international trade and contribute to promotion and maintaining a high level of employment and real income as well as development of production resources of all the members as its primary goals of economic policy
- promote stability of the currency, orderly maintenance of course arrangements between the members and avoiding the overflow of depreciation
- accelerate the multilateral relations in payments on the basis of the current transactions between members and removal of currency limits which prevent the growth of world trade
- establish trust in stability of the members by allowing temporary access to the funds of the IMF with the goal of fixing errors in the balance of payments without having to result in measures which would destabilize national and international prosperity
- shorten the length and reduce the level of imbalance in the international balance of payments in accordance with terms mentioned above

3.1 The basic principles of functioning of the Bretton Woods system and its rise

This system of gold exchange standard was based on the convertibility of gold to the US dollar, at a fixed rate without any limitations. That ratio of gold to the US dollar was 35 dollars to one ounce of gold, while other countries had the task of setting the price of their currency in regard to the US dollar and to intervene on foreign exchange market in order to maintain such a ratio to the US dollar. If it were to come to a huge change of the foreign exchange rate which was based on supply and demand there could be, with accordance with the IMF, an adjustment of the exchange rate under the condition that it is previously proven that all necessary precautions were taken and that the foreign trade deficit could not be neutralized in a longer time period. Precautions which were taken to prevent deviation from the currency in a greater measure than the allowed one were purchasing of own currency and withdrawal of dollar reserves in case of depreciation or the purchase of the dollar in case of appreciation. The temporary balance of payments deficits were covered by the funds of reserves and the funds of the IMF. The funds which the IMF had at its disposal were funds from quotas; each country was obligated to pay 25% of its quota in the US dollar or gold while the rest could have been paid in the country's currency. The IMF would then put funds at disposal to the country's central bank,

up to 125% of the country's quota. Of course, the funds given had to be paid back in the period of three to five years so they would not turn into longterm credit arrangements. In case a need for longterm funds came along, the member country could talk to The International Bank for Reconstruction and Development.

The Bretton Woods system was based on the fact that countries which had certain disorders could quickly and adequately react, using the IMF funds. Unfortunately, it often happened that member countries, often with a deficit, unwillingly devaluated their currency, or putting it in other words, the countries with a surplus, unwillingly revaluated and stopped collecting foreign currency reserves.

“The reluctance of developed countries to change their parity had two significant effects. First, it is Bretton Wood system denied a large degree of flexibility in the process of balancing the balance of payments of member states. It is this played a key role in the collapse of the system in August 1971. Secondly, it is related to the previous point, the reluctance of developed countries to change their parity in the case of the fundamental imbalance caused tremendous destabilizing international capital flows, and paved the way for speculators to gain lucrative profits". (Salvatore, D., (2009), International Economics, Publishing Center of the Faculty of Economics in Belgrade, Belgrade, p784). Despite this Bretton Wood system has undergone expansion and an increasing number of countries accept a new way of regulating international finance. By the end of 1946, 41 countries were members of the IMF, and by May 1971, even 124 countries.

During 1962, the IMF constitutes the General Arrangements to Borrow-GAB, through which allows a replenishment of its resources to a height of 6 billion US dollars, intended for countries with balance of payments deficit. These funds would be raised from the ten most developed countries such as the USA, Great Britain, West Germany, Canada, Belgium, Switzerland, Japan, the Netherlands, France and Italy. This possibility of additional loans, which were not subject to the initial agreement, shows the confidence of most developed countries of that time in the institutions that have arisen with the Bretton Wood agreement. On the other hand, countries that had the balance of payments difficulties, used standby arrangements on the basis of which they had the opportunity to later use the necessary funds, where they would initially pay 0.25% of the total amount, and at the moment of pulling to get a loan with annual rate of 5.5%. The rapid entry of membership in the IMF led to an increase in the funds and resources of the IMF by the end of 1971 amounted to 28.5 billion dollars. Loans by the IMF to the member countries until 1971 were in the amount of 22 billion dollars. In this way, the Member States who have had problems with the balance of payments, avoided the loans at the capital market at high interest rates.

In 1961, the United States, Britain, France, Italy, West Germany, Switzerland, Belgium and the Netherlands have founded “gold pool” to prevent the rise of the dollar above the price of 35 US dollars per ounce and thus provide stability of the gold reserves of the US, and also the stability of the monetary system of Bretton Woods.

3.2 The collapse of the Bretton Woods system

The rapid movement of the economy and the post-war construction led to the growing movement of capital and the exchange of currencies. There was a growing demand for dollar since it became a world currency and the Bretton Woods system was based on the convertibility of dollars into gold. In the first period of development of the Bretton Woods institutions, namely from 1945 to 1949, the US recorded the balance of payment surpluses with Europe that were based on the development of war-torn Europe and the Marshall Plan. This positive trend of the exchange with the European countries lasted until 1950, when the economy of the European countries slowly became stable with the appearance of the first deficit in the US balance of payments. The emergence of the deficit presented an overflow of dollars in newly developed countries and the beginning of the growing demand for the dollar. The countries which have rapidly developed were creating their own foreign exchange reserves using dollars obtained from the surplus for the simple reason that they were able to convert them at any time to gold. Unlike gold these dollar reserves brought interest, and due to accelerated demand for this currency they could be exchanged for another currency at any time. Therefore, the deficit of the

USA strongly magnified and it exercised an additional pressure on the stability of the currency. This was the reason the US government made several decisions in order to stop the trend.

-it was forbidden to the US citizens to keep their gold abroad

-the USA help users were conditioned to buy the American products

-the FED was to create the funds in the major Western currencies in order to be able to buy the dollar without using gold.

All the above mentioned measures have not borne any fruit while the US participation in the Vietnam War aggravated the monetary situation due to the excessive emission of money and financing of the war needs which all led to the rapid growth of inflation.

With the beginning of 1968 the surplus in foreign trade balance disappears while the growing trade deficit was financed by issuing dollars. In 1970s the amount of the quantity of dollars in circulation amounted to more than $ 40 billion which was $ 27 billion more than before the crisis had begun in 1949. Likewise, gold reserves were reduced from $ 25 billion as they were recorded in 1949 to$11 billion in 1970.

Faced with these problems, the US government had to make a choice either to devaluate their currency and thereby lose the leading position in the world, or to adopt a series of measures in order to stabilize the situation. Given the conditions prevailing in the global geopolitics with the strengthening of the Soviet Union, the US government made a series of measures to preserve position of the dollar in the world market.

However, the adopted measures such as intervention in the foreign exchange market, maintaining the long-term interest rates low did not give the desired results. Large amounts of dollars were already significantly above the amount of gold reserves and the possibility of their conversion to gold, which further worsened the monetary stability of the United States. In response to the situation, in order to discourage the excess conversion of dollars into gold, a decision was made to issue medium-term bonds denominated in dollars with the guaranteed exchange rate (Roosa bonds). However, even this could not prevent the further conversion, due to the further increase in the amount of dollars and the wants of other countries to increase their own gold reserves. Therefore, the ratio of the dollar against gold reserves was nearly 4:1 in 1970. European countries such as Germany and the UK, where economy rapidly developed, were not considering the idea to carry out the revaluation of their currencies and by purchasing gold on the market they made their economies even more stable. Faced with this situation, on 15 August 1970, US President Richard Milhous Nixon decided to abolish the convertibility of dollar into gold which officially presents the collapse of the Bretton Woods system.

Establishing the system on single cash currency which, in addition to the role of the national currency, would have the role of the world currency, was crucial for the future of Bretton Woods. Such a difficult task, which was placed in front of the dollar and the US government, unfortunately did not give the expected results. By protecting its own economy and on the other hand facing with the domination of dollar as the world money, the US was unable to make the required equilibrium. With the loss of part of its own gold reserves, and the emergence of inflationary pressures, the US decided to do what was in that moment good for its own economy and that was to break with the conversion of dollars into gold. Such a unilateral move, which destroyed the whole Bretton Woods system in a relatively short period of time in order to the preserve their own interests can be seen as an act of self-sufficiency, however, the attitude of other countries goes in favor of this decision since they achieved substantial surpluses in foreign trade, and created surpluses of dollars and therefore decided not to revalue their own currency and thus to achieve their own interests. Bretton Woods was designed as an equal system in which each country would be able to turn to an international institution in the case of an imbalance. It was also designed as the system which was based on the genuine need of member states for the balanced global balance of payments with the stable currencies as well as the system where the interests and needs of wider society were to be placed before the national interest. However, in practice there was no mechanism which would make the pressure on countries with surplus to execute the revaluation of their own currencies, as well as on the countries with a deficit to carry out a

devaluation of the currency. This left space for the possible speculations about the future change of course expectations, as well as the occurrence of pressure on the countries with deficits. Abandoning the Keynes Plan and putting dollar in the center of the world economy but without any specific mechanisms to force the other state members to place the interest of preserving the world's monetary stability over the national interests led to the emergence of certain irregularities that made the agreement of Bretton Woods unsustainable. Basing an entire international system on a single currency was the idea of which even Keynes was fearful about to a certain degree. Unfortunately, his faith in a single clearing currency which would be called Bancor, Daric, Unitas and which stability would have to be respected and supported by all the member countries was unsupported. Consequently, this new plan which was adopted in Bretton Woods, placed in front of the US a heavy burden of maintaining the stability of the international economics. In the 1970s that burden proved to be too difficult and the practice of Bretton Woods was abolished.

4. CONCLUSION

The consequences of the imbalance between developed and developing countries, frequent fluctuations and non-equilibrium state of the economy as well as the crisis which were caused by these phenomena all led to the attempt of formulating a unified international system which would remove all the negative points that arise as the result of balance sheet imbalances, frequent currency oscillations and thus it would contribute to the better functioning of the global economy. Such a system would have the aim to intervene with the necessary amount of short-term money loan at those countries that demonstrate deficits in order to quickly stabilize the system as well as to prevent the spreading of the negative deficit impact on other countries. The dollar was set as the foundation of this system and it would function as the world currency having its backing in gold. The novelty were fixed but adjustable exchange rates, which certainly represented progress taking into account the previous practice of central banks that were in favor of a fixed exchange rate tied to gold. The Bretton Woods system represents, despite its negative points, another milestone in the functioning of the international monetary system because it brings novelties in terms of determining the model courses, as well as the new international institutions which influence survived and even gained in importance at the present time. The system error of Bretton Woods was setting dollar as the world currency having in mind the earlier rejection of the Keynes' idea about a new world currency which would be supported by all member countries. This all made the mistake to be too difficult for a developing system. By imposing dollar as the world currency, the world itself was imposed the problem of preservation of the dollar to gold parity as well as the gold reserves of the United States. Although in the first years of its existence the Bretton Woods system recorded success, the development and economic empowerment of the countries which were recovering from the effects of World War II also brought the placement of the national interests ahead of the preservation of the world's interest and the world's monetary system. This error made the Bretton Woods vulnerable and unresistant to events such as the US expansionist policy and therapid development of certain European countries which led to a sudden increase in demand for the dollar and the imbalance in between the realistic amount of dollars with the firm backing in gold and the amount of emitted dollars which significantly exceeded the gold reserves. By the rejection of Keynes' ideas, the founding countries and primarily the United States, limited the durability of the Bretton Woods Project not weighing all the possible future implications of such a large system of international finance. Bonding of the selected world currency for gold, as well as the lack of understanding for the impossibility that this same currency meets the global demand for it, certainly did not present the way to set up a more permanent international monetary system.

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