The Geo-Political Order and the Future of the Bretton Woods System

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Abstract

Prior to the global recession in 2007, the Bretton Woods institutions faced concerns about their relevance in a world absent economic crises. Two years later in the wake of the most severe economic downturn in recent history, policy makers and scholars have called for a stronger international financial architecture and policy coordination aimed at preventing future financial crises. Despite the interest in improving the international economic framework, prospects remain bleak for new institutional, policy, or regulatory agreements. Two fundamental problems exist to redesign the Bretton Woods system. First, despite agreement over the consequences, little consensus exists about appropriate international responses. Second, it is unlikely a new institutional framework will emerge due to the evolving geopolitical order. Coordinated international institutional response to the financial crisis may ameliorate the impact of future economic downturn. However, based upon the current diversity of proposed policy responses and the geopolitical landscape, there seems little near term opportunity to facilitate new international institutional or policy agreements.

Introduction

Prior to the global recession in 2007, the International Monetary Fund (IMF) faced concerns about its relevance in a world absent economic crises. Critics contended that in a world devoid of economic crises and the IMF beginning to lose money and downsize, the need for a global lender of last resort waned (Eichengreen 2007, Rose 2006, and Mussa 2006). A variety of policy makers, scholars, and practitioners openly questioned the efficacy and reason for the World Bank with developing countries flush with cash from record high commodity prices (Einhorn 2006). With global multilateral trade talks at a standstill and bilateral agreements becoming more widely used as a method for trade stimulation, the World Trade Organization seemed less important (Dobson 2005). The major international policy institutions of the Bretton Woods system devised in the post-World War II era seemed doomed to irrelevance if not termination. Two years later in the wake of the most severe economic downturn in recent history, policy makers and scholars have called for a stronger international financial architecture and policy coordination aimed at preventing future financial crises. Despite the interest in improving the international economic framework, prospects remain bleak for new institutional, policy, or regulatory agreements.

Two fundamental problems exist to redesign the Bretton Woods system. First, despite agreement over the consequences, little consensus exists about appropriate international responses. Ten years ago one researcher noted this problem commenting:

> *"The recognition by members of the establishment of the need to overhaul* the system *is perhaps more significant than the specifics of their proposals….If the call for a 'new Bretton Woods' is to have any resonance, that is, sufficient popular appeal to make its way in the face of vested interests and inertial forces,*

> *it must be broad enough in its participation, its objectives, and its institutional modalities to inspire support* (Miller 1995, emphasis in the original)."

Popular support around broad principles or institutions does not exist. The United States has called for significant coordinated fiscal stimulus by major economies which European and Asian countries have criticized as excessive and exacerbating a cause of the downturn in addition to including protectionist legislation (Time 2009). Asian economies urge the United States to correct financial imbalances and the United States pressures others to employ greater financial and currency flexibility. Scholars note the role that excessively loose monetary policy played in facilitating the downturn, while politicians focus on a lack of regulation. Disagreement exists over the reasons for and significance of financial imbalances (Mendoza, Quadrini, and Rios-Rull 2007 and Roubini and Setser 2005). Economists now openly question how they "got it so wrong" (Krugman 2009). Though parties agree over the severity of the downturn and the need to address its impact, few agree on policies or an international framework to address financial crises in the future.

Second, it is unlikely a new institutional framework will emerge due to the evolving geopolitical order. As one well known economist put it, "the international monetary system depends on the power configuration of the countries that make it up (Mundell 1999)." The Bretton Woods system arose from the wreckage of World War II when the United States enjoyed unparalleled global hegemony.[1] The lack of powerful rivals allowed the United States to design a financial architecture around their vision of the post war world (Ikenberry 1993 and Ikenberry 1992). Today the geopolitical landscape is not conducive to a redesign of the international economic architecture. China

[1] For a detailed study of the Bretton Woods system from an economic perspective, please see Bordo 1992. For a detailed study of the politics of establishing Bretton Woods see Ikenberry 1993 and 1992.

does not have the inclination to commit to a long term international financial framework or the clout to line up supporters even if it found a deal it liked. The United States faces international skepticism on its role in creating the crisis and policy proposals. The current White House and Congress demonstrate no interest in engaging on broad issues of international economic concern. Discordant European voices fail to find common ground about the scope and focus for international financial reform. Finally, rapidly expanding emerging economies would make the establishment of a new Bretton Woods system difficult without their support.

Coordinated international institutional response to the financial crisis may ameliorate the impact of future economic downturn. However, based upon the current diversity of proposed policy responses and the geopolitical landscape, there seems little near term opportunity to facilitate new international institutional or policy agreements. The geopolitical changes brought on by rapid economic growth and shifting alliances make any significant international policy or institutional agreements difficult.

Stumbling Towards a Bretton Woods II

The current global recession has focused minds on the economic linkages between states in a globalized world. The economic debate in policy circles prior to 2007 concerned the relevance of Bretton Woods institutions and whether states broke free of interdependence on major economies. “Decoupling” of the Chinese and United States economy dominated debate of the global economy and the rising dominance of the commodity exporters flush with cash from record prices creating sovereign wealth funds (Krauss 2008 and He and Zhang 2009). Economists and policy makers engineered the

disappearance of the financial crisis relieving the world of the need for the IMF and its lender of last resort status (Cline 2006 and Schwartz 1998). Investment banks ended emerging markets dependence on the World Bank through access to credit markets and project finance expertise. Discussion two years ago debated not the need for a new and improved Bretton Woods but whether to dismantle the obsolete and aging institutions or simply let them be "hollowed" out (Best 2004).

The global recession changed the potential for international economic cooperation. The sustained and rapid growth of the world economy throughout the first part of the decade improved public finances and overall wealth. However, this period of growth masked significant underlying problems. First, the growth of the real economy coincided with record low interest rates increased money supply. Low global interest rates in the United States, China, and Europe drove up asset prices. Consumers purchased larger homes and business made larger acquisitions and investments spurred on by the easy money policies. Second, increased asset prices spurred on by easy money brought with them increased absolute debt levels. Home prices throughout the world increased rapidly encouraging consumers to purchase more with capital gains. Investment banks dominated global finance by arbitraging low interest rates with rising equity prices. The increased use of credit facilities by consumer and business with the wider dissemination of risk throughout the financial system made many firms more vulnerable than they believed. Third, countries resisted dealing with global financial imbalances. The United States incurred deficits of no less than 3% of GDP from 2002 to 2008 topping out at more than $600 billion USD. Others countries throughout the world

accumulated large currency and debt holdings by preventing currency appreciation. Underlying problems remained unresolved as economic growth masked future obstacles.

The global economic recession battered countries financially and left most unwilling to consider large international projects. While some have or proposed coordinated international policy responses, most countries have preferred to tailor economic policies to their unique set of circumstances. Major multilateral policy proposals have been met with indifference or criticism. President Barack Obama's proposal of major coordinated global stimulus was met with sharp criticism by global leaders as reckless and furthering the underlying problems that led to the financially induced downturn. There has been a marked reluctance to coordinate or make international agreements to address the global economic downturn. While never promising before the prolonged slump, World Trade Organization negotiations have been sidelined entirely since the beginning of the recession. Many bilateral trade agreements have faced difficulty being completed or ratified if signed. Countries face heightened pressures for protectionist economic policies.

The financially induced recession has prompted renewed calls for the reformulation of the Bretton Woods system. Before formulating policy or institutional responses for multilateral institutions, key questions about the economic landscape in the 21st century demand attention and will inform our response. First, what is the appropriate role for a multilateral institution in an globalized world and what policies and regulations should be enacted to prevent future downturns? Second, how do the Bretton Woods institutions evolve to meet changes in the 21st century economic and geo-political landscape? Excluding changes to IMF quotas, Bretton Woods remain structurally similar

to its foundation. While real reasons exist to reconsider, the role of the Bretton Woods institutions, difficulties exist in adapting them to new economic and political realities.

The Policy and Institutional Question

The Bretton Woods system established from the wreckage of the post World War era ushered in new multilateral economic architecture. This included a range of agreements and institutions, such as the International Monetary Fund and the World Bank, with the United States dollar as the defacto reserve currency. Broad agreement coalesced around major policy issues such as the need for a macroeconomic stability fund, reconstruction assistance to rebuild Europe, and the gradual freeing of international trade. Research calls into question however the durability and true efficacy of the Bretton Woods system (Bordo 1995). It is important to define what might fall under the new Bretton Woods auspices which as others note:

> *"An international monetary system comprises an exchange rate regime, rules governing the policies that are to be used to adjust payments imbalances, and a reserve supply mechanism to provide assets in which payments imbalances are settled.*(Williamson 1985)"

The financial recession might require changing this definition of a monetary system.

When considering a new Bretton Woods system, it is important to differentiate between changes to institutions and policies. I focus first on the question of new institutions. Little support currently exists for the creation of new multilateral institutions. Additionally, only lukewarm support exists for expanding the scope and responsibility of the existing institutions beyond their current mandate. WTO negotiations have been at a standstill with negotiations focused on agricultural supports and technical trade rules not an expanded institutional mandate into environment and

development. The World Bank has expanded well beyond its original mandate with virtually no policy arena beyond its scope. The IMF has been resistant to assuming the role of global financial regulator. Others have urged the IMF to focus on its specific mission of short term payment crises rather than expand into a variety of financial related matters (Akyuz 2005). Created as the international institution to manage financial crises, act as a lender of last resort, and provide macroeconomic policy advice, some argue the IMF should expand into micro level financial regulation. Recent requests upon the IMF include issuing best practice guidelines for sovereign wealth fund management and guidance upon derivatives. The IMF has resisted an expansion of its mandate and has only acted in an advisory role preferring to focus on capital crises in countries.

Financial market regulation consequently is a policy domain where an institutional mandate might exist, either as a new independent institution or under the direction of another such as the IMF or Bank for International Settlements.   Though a multilateral institution addressing problems of cross border financial market regulation may serve the international community well with no existing institutional competitor, the obvious question is what policies it would or should enact.

The establishment of a new Bretton Woods will depend on a broad agreement of mechanisms, policies, and states. Unfortunately, little consensus exists on policy to address multilateral economic concerns. Policy debates among scholars and practitioners have settled on few concrete steps within countries much less for large groups of countries. Excluding fiscal stimulus, few financial legislative reforms have passed major economies. Most actions to correct economic problems, come from technical and regulatory decisions taken by regulators. For instance, in the United States the primary

actors in the economic downturn are securities and banking agencies. Other than financial aid, these agencies have acted very cautiously in setting policy, technical rules, and regulation that will last beyond their limited intention. A lack of agreement on policy at a domestic level does not bode well for agreement at an international level.

Implicit in this discussion is that some policy matters that cannot be handled within an existing institutional framework. Though differences over World Bank policy exist, policy concerns do not necessitate new or expanded multilateral agreements or institutions. The WTO and its predecessor the General Agreement on Tariffs and Trade (GATT), with their multiple trade rounds continually update and revisit their policy and institutional foundation. Calls for a Bretton Woods II focus primarily on financial policy including such questions of exchange rates management, trade and fiscal imbalances, and capital market regulation. Though broad agreement exists over the issues, little agreement exists on the policy details or even broad principles.

Three specific macro financial issues are considered important. First, exchange rate management. Second, trade and fiscal imbalances. Third, capital market regulation. Let's examine these specific areas of potential multilateral cooperation with a Bretton Woods II framework.

First, exchange rate management is important for macro-economic stability. Despite its global importance to macroeconomic management and the potential role for the IMF or similar institution, little scope exists for an expanded multilateral role in managing exchange rates. Any international financial policy framework requires inherent trade offs between exchange rates and monetary policy (Obstefeld, Shambaugh, and Taylor 2005). Numerous reasons exist for a country to utilize a floating, managed, or

pegged exchange rate (Goldstein and Lardy 2005). The IMF avoids disputes about exchange rate policy between states or groups, preferring to focus on broader economic principles like sound macroeconomic fundamentals and flexibility (Mussa 2007). The IMF has never acted *ex ante* to enforce macroeconomic principles but rather *ex post* when states choose to utilize its lending facilities and expertise.

Major states hold significant disagreements on the foundations of exchange rate policy that a new or expanded multilateral institutions will not solve. Some have even argued that a defacto Bretton Woods has been created by the tacit currency agreement between the United States and China (Doole, Folkerts-Landau, and Garber 2004 and 2003). China has explicitly called for both a new global reserve currency and taken steps to make the yuan more widely used for purposes of international trade and financial capital transaction weakening the dollars defacto reserve currency status (New York Times 2009a and 2009b). Neither the policy of the United State or China indicate a willingness to solve their bilateral economic relations through the framework of a multilateral institution. Any new Bretton Woods would require the full support and cooperation of the United States and China which seems unlikely in the near and medium term. The GATT and subsequently the WTO established binding agreement and dispute resolution mechanisms to resolve international trade disputes. The growing economic importance of states with exchanges rates pegged to the dollar, such as China and oil exporters in the Middle East, reduce their willingness to accept a multilateral institution for exchange rate management.

Second, scope exists for potential agreement on financial imbalances. Critics have argued that the IMF should assume a stronger role in managing economic relations

to prevent imbalances from becoming a systemic crisis. However, little policy agreement exists on how to solve imbalances or what constitutes a financial imbalance. Excessive surpluses would seem to be targeted just as much as deficits if financial imbalance is the primary criterion. Significant debate exists about the "structural" nature of these imbalances and whether these are temporary or longer lasting (Kamin 2005, Dooley, Folkerts-Landau, and Garber 2004, and Dooley, Folkerts-Landau, and Garber 2003). Furthermore, it is questionable how a multilateral institution would enforce such an imbalance limit prior to becoming a systemic crisis.

In the middle of a significant recession, few states appear ready to make binding commitments covering their macroeconomic management. More fundamental to the discussion, are the enforcement mechanism for such agreements and then the specific principles. The EU discovered that while all members agreed to "binding" rules of financial imbalances, the enforcement mechanism of major fines as a percentage of GDP could prove worse than the cure. The United States and China differ over the macroeconomic principles of the fixed exchange rate and massive foreign reserve accumulation allowing the former to run large deficits and the latter large surpluses (Mussa 2007). Each operates on a different side of a fundamental imbalance with countries arguing over who needs to adjust (Meltzer 1991). Many oil exporter utilize fixed exchange rates while running trade or fiscal surpluses in some cases in excess of 10% of GDP. It seems unlikely that a broad multilateral agreement could be reached to limit imbalances. As research indicates, large deficit states prefer to negotiate directly with large surplus states rather than in a multilateral forum (Agur 2008).

Third, little agreement exists on the question of capital market regulation. Though cited as a problem that requires broad international agreement to address, little agreement exists on how to better regulate capital markets. The United States is cited as the case study of unregulated lending and consumer profligacy, but many economies with a wide variety of regulatory frameworks have experienced major drops in real estate prices and over leveraged consumers. Securitization and derivatives regulation has little consensus about how best to regulate the products in order to promote financial market efficiency but restrict speculation. While states recognize the need for robust financial architecture and regulation, other than preventing contagion effects, the possibilities for broad multilateral cooperation seem limited for a few reasons. First, states with major financial markets could enact working or technical groups to handle areas of policy overlap or coordination. States with sizeable financial markets have little reason to include smaller states into financial market regulation creating the opportunity for a group of the relevant or interested. Second, multilateral institutions require broad agreement on major principles rather than highly technical and regulatory matters like the type required for the regulation of capital markets. While the potential for multilateral action exists in the regulation of capital markets, it would seem to better suit a technical working group or some similar structure drawing from select countries rather than necessitating the creation of a multilateral institution. Third, states with rapid growth in financial services are reluctant to restrict their opportunity

The Geo-Politics of Bretton Woods II Reform

The establishment of the Bretton Woods system captured a unique moment in time. Created from the wreckage of a post World War II era which witnessed the destruction of many countries, the economic architecture for a new world came from unique circumstances. Though countries coalesced around broad economic principles upon which to establish the new international economic architecture from the hard lessons of previous failures, the geopolitical environment increased the possibility of agreement. The current geopolitical environment however is not conducive to broad agreement on a restructuring of the international economic architecture.

The devastation brought by World War II decimated the industrial base of participants destroying infrastructure and industry. Virtually all the World War II industrialized and numerous developing countries lay in waste from years of war. Learning from previous mistakes of major wars such as the Treaty of Versailles, the victorious states led by the United States created an international system to encourage redevelopment and economic cooperation designed to foster growth and stability. The underlying philosophy was more political than economic in that it aimed to encourage political harmony and stability between and within the states conditional upon prosperous and growing economies. As one author noted:

> *They (Bretton Woods institutions) are part of a wider undertaking to further international cooperation in the postwar world. Befitting its imposing influence, the United States took a prominent part in this enterprise. The overall design lending coherence to the blueprints for economic collaboration is predominantly of American authorship. As the charters of the International Monetary Fund and the International Bank for Reconstruction and Development bear the imprint of official American thinking, so their policies are subject to decisive American influence.* (Knorr 1948).

The United States enjoyed unrivaled political, economic, and military superiority in the post war era and held no qualms about exercising its authority. The Bretton Woods system arose under unique circumstances capturing an historical opportunity.

The current geopolitical does not hold similar promise of a broad new international agreement. There are two fundamental reasons when focusing on the geopolitical environment to be pessimistic. First, despite the global recession, no countries of significant importance lay in economic or physical wreckage. Many face serious long and short term challenges such as demographic decline, excessive debt levels, struggling economies, or structural deficits. However, no country suffers from the devastation faced by many countries after World War II. In fact, prior to the recession that began in 2007 developed economies had enjoyed one of the longest periods of sustained and robust growth in modern economic history. The developing world enjoyed a sustained period of economic growth that led to lower debt levels and improvement in many social development indicators. The lack of economic and physical destruction removes the desperate need to sign broad multilateral economic agreements. The relative strength of countries, compared relatively to a post World War II world, place countries in a much stronger bargaining position.

Second, broad multilateral agreement on a new Bretton Woods will be more difficult in a fragmented multipolar world than a bipolar world (Eichengreen and Kenen 1994). As other have noted, maintaining a Bretton Woods system requires the subordination of individual state interests to a collective interest at some supra-national level making broad multilateral institutional agreements difficult (Eichengreen 2004). The post war era existed in a bi-polar world with the Bretton Woods agreement stemming

primarily from near unilateral political landscape dominated by the United States. Rapid economic growth throughout numerous areas of the world and increased political engagement has brought the multipolar world. As one prominent economist noted in describing WTO Doha Round negotiations:

> "*The WTO has a larger membership than the GATT, and its remit is much wider. Both differences make it harder to reach agreements, a problem evident from the lack of progress in the Doha Round to date.* (Collier 2006)"

The agreements that created the Bretton Woods institutions did not widely consult the majority of countries and not with the current relative economic or political importance (Griesgraber 1995). It is more difficult to come to agreement in a more balanced multipolar world with no dominant states than in a small fractured world where power is concentrated among fewer states (Martin and Messerlin 2007).

We see these two principles of geopolitical agreement demonstrated in two current negotiations over existing Bretton Woods institutions. First, the WTO has failed to reach an agreement on a new trade round because rather than acquiescing to positions of the developed world, emerging markets buoyed by years of sustained growth and improved economic management refuse to accept offers on agriculture from developed countries (Anania and Bureau 2005). Second, IMF negotiations over changes in voting stakes and quota contributions have been lengthy and difficult. A number of economically ascendant states seeking to expand their role in the management and oversight of the IMF have negotiated to increase their voting shares. The difficulty in achieving these modest reforms has prompted criticism from a variety of parties for many reasons (Hefeker 2006). These countries which enjoyed rapid economic growth increased the number of relevant states requiring agreement among major IMF quota

holders and the other states concurrently holding negotiations to increase their stake. The process became increasingly complicated.

Turning to the potential for broad agreement about a new Bretton Woods, the possibilities for a new institutional framework seem just as difficult due to these two principles. The United States has lost significant economic and political standing in the world making a U.S. led attempt to redesign the international economic architecture difficult. Research indicates that countries with large deficits prefer to negotiate bilaterally rather than multilaterally as they hold negotiating leverage over countries with large surpluses (Agur 2008). Systems in balance however will see improved multilateral negotiations. The US role in causing the initial macroeconomic imbalances and the global recession has weakened both their willingness to create a new economic framework and their ability to persuade others to join. Though the United States still remains the global leader, their ability to construct a broad multilateral coalition has come into question. Europe is problematic on numerous levels to the creation of a new Bretton Woods. Despite thinking of Europe, any multilateral agreement would require agreement by the individual states of Europe all of which have differing opinions and economic philosophies (Bibow 2006). There is little agreement between European states on many broad economic issues and some of the biggest conflicts in WTO negotiations are between Europe and the United States.

Any agreement to restructure the Bretton Woods system would require the complete and full support and cooperation of China. At the current point in history, China has little interest or reason to support a new international economic architecture. Rapid economic growth over the past thirty years has transformed China from a rural

agrarian society into one of the largest economies in the world. Countries enjoying rapid and sustained economic growth that fundamentally improves their bargaining position do not agree to constrain themselves. China is actively working to undermine the existing international monetary system challenging the global supremacy of the United States dollar. By increasing the importance of the yuan to international trade and finance, China is actively trying to establish its own vision for a global monetary system. China likewise has designs on becoming a dominant financial market supporting Shanghai, Shenzhen, and Hong Kong. Inviting foreign companies to list on Chinese stock markets and building up necessary infrastructure, China demonstrates its interest in global monetary hegemony. These are not the actions of a country interested in establishing a multilateral framework for global monetary and financial agreements.

Other countries also play less vital but important roles in any potential agreement. Oil exporting Middle East countries which accumulated large dollar currency reserves and assets in sovereign wealth funds play an important role in sustaining the fiscal deficits in the United States. Though rapid reallocation away from dollars is unlikely, the importance of accounting for the new financial importance of Middle East oil exporters and their rapidly expanding financial markets in a new Bretton Woods is important (Momani 2008). India, though less important than Chinese involvement, will be important an important piece of any agreement. Economists argue that India as an emerging market should play a larger role in a new Bretton Woods system (Mattoo and Subramanian 2008). Brazil and Russia due to sustained economic growth during the past decade and increased political importance are important to any broad international coalition needed for the legitimacy of the new Bretton Woods. Brazil has played a major

role in Doha Round WTO negotiations demanding major agricultural concessions from developed countries and would likely require similar concessions to redesign Bretton Woods. Russia though taking a less explicit role in a new Bretton Woods has made calls to lessen the importance of the United States dollar and for a new global currency. Similar to China, they show no near term willingness to expend political or economic capital to establish a new Bretton Woods system. Based upon the increased importance of the number of important states required to make a new Bretton Woods, it seems unlikely in the near to medium term that the geo-political conditions will coalesce to allow a new Bretton Woods.

Conclusion

Despite the interest in a new Bretton Wood system, there is little definition about what policies and institutions this might mean in practice. The calls for a new Bretton Woods seem more concerned about the lack of institutional relevance than what problems might actually be solved. One economist recently described the current monetary system succinctly as:

> *This system was not planned and does not rely on international coordination. There is no role for a center country, the IMF, or gold. It is durable; in contrast to other monetary regimes, no country has been forced to abandon an inflation targeting regime. Succinctly, it is the diametric opposite of the post war system; Bretton Woods, reversed.* (Rose 2006).

Even in light of the global recession, this description holds true. This system embodies hurdles to creating a new Bretton Woods. The strength of this system prevents the establishment of a new system because more countries have benefited from this "system". The emergent economic powers such as China, India, the Middle East oil

exporters, and Brazil have benefited from this system and have less incentive to make significant concessions to form a new Bretton Woods. The difficulty of creating a new Bretton Woods will need to overcome the geopolitical hurdles of a monetary system that benefited these countries. They have benefited from this system and will not subordinate their interest to the new Bretton Woods without significant economic and political benefit. The new geopolitical landscape created by the monetary system that now stands in the way of a new Bretton Woods will not be easily left behind.

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The â€˜Bretton Woods Systemâ€™ is the term used to describe the international monetary arrangements that obtained from the WWII until the early 1970s. In fact, â€˜Bretton Woods arrangementsâ€™ might be a more appropriate phrase. The arrangements were overseen by IMF, the founding institution.Â Afterwards, the government again forswore against future bailouts. The bailout which soon followed encouraged moral hazard and the credit boom continued. In early 1982, more banks failed and their liabilities were guaranteed. The Bretton Woods system of monetary management established the rules for commercial and financial relations among the United States, Canada, Western European countries, Australia, and Japan after the 1944 Bretton Woods Agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states. The chief features of the Bretton Woods system were an obligation for each country to adopt a monetary policy that maintained A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform. Chicago: University of Chicago Press, 1993.CrossRef Google Scholar. Bordo, Michael D., and Barry, J. Eichengreen. â€œBretton Woods and the Great Inflation.â€ NBER Working Paper No. 14532, Cambridge, MA, December 2008.Google Scholar. Bordo, Michael D., and Barry, J. Eichengreen. â€œBretton Woods and the Great Inflation.â€Â In Bretton Woods: Global Perspective on the Conference and the Post-War World Order, edited by Scott-Smith, Giles and Simon Rofe, J., 73â€“87. Basingstoke, UK: Palgrave MacMillan, 2017.CrossRef Google Scholar. Monnet, Eric. Under the Bretton Woods system, central banks of countries other than the United States were given the task of maintaining fixed exchange rates between their currencies and the dollar. They did this by intervening in foreign exchange markets. If a country's currency was too high relative to the dollar, its central bank would sell its currency in exchange for dollars, driving down the value of its currency. Conversely, if the value of a country's money was too low, the country would buy its own currency, thereby driving up the price. The United States Abandons the Bretton Woods System. ... The Bretton Woods exchange rate system had a system of pegged exchange rates with currencies pegged to the dollar. The dollar was fixed to the price of gold ($35 an ounce) - giving the US Dollar aâ€¦Â Bretton woods was a semi-fixed exchange rates set up in the post-war period. The Bretton Woods exchange rate system had a system of pegged exchange rates with currencies pegged to the dollar. The dollar was fixed to the price of gold ($35 an ounce) â€“ giving the US Dollar a fixed value.Â Encourage countries to maintain low inflation / competitiveness â€“ in order to maintain value of exchange rate. Try to prevent competitive devaluation â€“ where countries seek to gain a short-term advantage by reducing value of the currency.