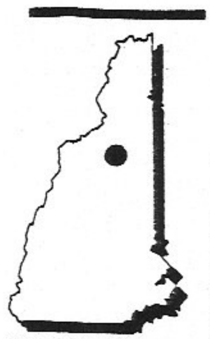
Bretton Woods Conference Nears 50th Anniversary

By HILLARY CHURA
The Associated Press

BRETTON WOODS — As fighting raged 50 years ago in Europe, an army of economists worked in New Hampshire to avert future global destruction.



BRETTON WOODS

Delegates to the Bretton Woods Conference understood the economic roots of World War II. Economic isolationism and oppression of Germany by the victors in World War I brought Adolf Hitler to power, and economic and political insecurity led to Japanese aggression in World War II.

When World War II ended, the 730 delegates wanted to be ready to rebuild the shattered European economies. They sought expanded international trade fostered by stable currency exchange rates and a new era of international cooperation.

"The definite lesson of World War I was that they didn't do enough — that countries were left to fend for themselves," Harvard economist Kathryn Dominguez said recently.

The United States and Britain began planning the conference three years earlier, in 1941.

It started 50 years ago — July 1, 1944 — and ran for three weeks at the Mount Washington Hotel, a grand resort hotel in New Hampshire's White Mountains.

The conference established fixed exchange rates; the International Monetary Fund, which gives member governments economic advice and lends them money when they have trade imbalances and other problems; and the World Bank, which lends money and helps countries build projects such as dams. The conference also planned for an international trade organization.

The system of fixed exchange rates collapsed in the early 1970s, but the conference's benefits are felt today. Countries realize the need for cooperation as well as relatively stable exchange rates. Trade barriers are being reduced, and worldwide capital flow is increasingly free.

The delegates, who gathered less than a month after the Allied invasion of Europe, came from 44 countries.

"The enthusiasm of the conference was unbelievable. Not only did the attending countries feel we could prevent a depression after the war, but they thought we could do something to hasten reconstruction," the U.S. delegation's chief technical adviser, Edward Bernstein, said recently from Washington.

"All in all, it was a very propitious time. We were really at the peak of confidence after D-Day," he said.

It was also a heady time for Bernstein, a 39-year-old Treasury Department staffer named the delegation's executive secretary.

He answered technical questions, was the U.S. spokesman at meetings to establish the International Monetary Fund and set the U.S. delegation's daily agenda. He held news conferences for the 100 international reporters.

Between the end of World War I and the beginning of World War II, countries wanted to promote domestic industries and keep their citizens employed — not help their neighbors.

They began a period of economic isolationism in which they devalued their currencies so exports would be cheaper and imports more expensive. They taxed and set quotas on imports. Other countries, loathe to allow their neighbors an advantage, followed suit and tried to outdo them.

Bernstein said there was little arm-twisting at the conference, because representatives talked about the plan many times before

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arriving in New Hampshire.

"Canada, of course, is always kind of fresh. They want everyone to understand they're not under the thumb of the United States," he said.

But the final plan was largely American.

"All you had to say was 'the U.S. wants this.' Few had the courage to stand up to us," Bernstein said.

The dollar became the main international currency because it was clear the United States would emerge least scathed from the war. It didn't have to rebuild and could supply construction materials — bought with U.S. dollars.

The dollar was tied to the price of gold, and other currencies were pegged to the dollar. Each foreign government kept dollar reserves so it could intervene if its currency fluctuated beyond prescribed levels.

Under the Bretton Woods' system, the United States let foreign governments redeem their dollars for gold.

For a time, the system worked well. World trade surged.

The system began falling apart in the 1960s when some foreign countries began to lose confidence in the dollar — in part because the U.S. Treasury was printing money to finance both the Vietnam fighting and President Lyndon Johnson's social programs.

Fearing the dollar would be devalued, foreign governments began to trade their dollars for gold. With reserves dwindling, President Richard M. Nixon announced on Aug. 15, 1971, the United States no longer would redeem dollars for gold.

Despite two devaluations of the dollar, Bretton Woods' system of fixed exchange rates collapsed. All exchange rates floated freely by the end of 1973.

The Bretton Woods' system couldn't be repeated successfully now, said Mahnaz Mahdavi, who teaches economics at Smith College.

World financial markets are more integrated than ever before and could overcome any intervention by central banks, she said. In addition, she said, countries would participate in a cooperative system only as long as it benefited them.