

## WARM UP

**1** When and where did the Bretton Woods Conference take place? Which two international organisations were established during this conference?

## ■ Bretton Woods and the gold exchange standard

The first forms of money were objects which had an intrinsic value, for example gold or fur or spices. Then paper money was developed and it was supported by gold reserves. This meant that paper money could be converted into gold at any time at a fixed rate. This gold standard was adopted during various periods of the 20th century and central banks had to keep enough gold reserves to pay any demands. A type of gold exchange standard was implemented at the Bretton Woods conference in the USA in 1944, with the US dollar tied to gold. Nowadays, most money is fiat money, that is paper notes and coins which have little actual value themselves but which are made legal tender by order of the government.



The Bretton Woods Conference took place in the summer of 1944, in the middle of the Second World War. Delegates from 44 countries met to discuss how to reshape the world's international financial system and ensure post-war prosperity thanks to economic co-operation. At the Mount Washington Hotel in Bretton Woods in the US state of New Hampshire, the principal negotiators were the US and the UK. Harry Dexter White represented the US Treasury and John Maynard Keynes was advisor to the UK Treasury. The delegates focused on how to establish a stable system of exchange rates, how to pay for rebuilding the war-damaged economies of Europe and how to encourage free trade. To do this they founded two international organisations: the International Monetary Fund and the World Bank.

The negotiations at Bretton Woods also gave the US currency a dominant position in the world economy since the US dollar became the reserve currency and was tied to gold at a fixed exchange rate. The currencies of the other participating countries were then pegged to the US dollar and the US agreed to redeem these countries' foreign dollar reserves for gold. The major problem with the system was that the participating countries' dollar reserves were far bigger than the US gold reserves. Furthermore, by the 1970s, the US currency was under pressure from a combination of factors, including the cost of the Vietnam war and the growing trade deficit. The US printed large amounts of dollars and as other countries continued to trade their dollars for gold this led to massive reductions in the amount of gold held by the US central bank. In 1971, US President Nixon announced the termination of the convertibility of dollars to gold, a moment often referred to as the Nixon Shock. This led to the abandonment of fixed exchange rates and the introduction of floating rates, where the value of all the main currencies was determined by market trading.

## READING COMPREHENSION

**2 Read the introduction and match the two halves of the sentences.**

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|-------------------------------------------------|-----------------------------------------------------------------------------------------|
| 1 Valuable objects like gold and fur            | a <input type="checkbox"/> is fixed when there is a gold exchange standard.             |
| 2 With the gold standard,                       | b <input type="checkbox"/> to describe most of the world's currencies today             |
| 3 The exchange rate between a currency and gold | c <input type="checkbox"/> linked the US currency to gold.                              |
| 4 The Bretton Woods system                      | d <input type="checkbox"/> the amount of paper money has to be backed by gold reserves. |
| 5 Fiat money is the term used                   | e <input type="checkbox"/> were the first forms of money.                               |

**3 BEC Now read about the Bretton Woods system and choose the correct option.**

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 What was the purpose of the Bretton Woods conference?<br>A To end World War II.<br>B To reform the international financial system.<br>C To change the relationship between the US and UK.                                                 | 4 What was the Nixon Shock?<br>A The resignation of US President Nixon.<br>B The announcement that the US had no more gold reserves.<br>C The declaration that the US would no longer convert dollars to gold. |
| 2 Under the Bretton Woods system, the US government promised...<br>A to exchange foreign dollars for gold.<br>B to reduce its gold reserves.<br>C not to dominate the world economy.                                                        | 5 What was the consequence of this?<br>A Floating exchange rates were introduced.<br>B The value of all major currencies fell dramatically.<br>C Currency trading had to be abandoned.                         |
| 3 What was one drawback to the Bretton Woods system?<br>A The US was able to refuse to exchange foreign dollars.<br>B US gold reserves were too small compared to the demand.<br>C Participating countries had too few dollars to exchange. |                                                                                                                                                                                                                |

## WRITING

**4 Write a short essay on Bretton Woods and the gold exchange system. Use these questions as a guideline.**

- What were the aims of the Bretton Woods conference?
- What exchange rate system was introduced?
- What were the benefits of this?
- What problems did the system face?
- When and why was the Bretton Woods system abandoned?