

Task: Describe the collapse and reasons of Bretton Woods System

Topic: Collapse of the Bretton Woods System

Type: Analytical Essay

Length: 2 pages

Formatting: MLA

Requirements: Give a detailed overview of why the Bretton Woods System had collapsed. Analyze and outline the reasons and contributing factors.

Name:

University:

Course:

Tutor:

Date:

Collapse of the Bretton Woods system

The drastic plunge of the United States balance of trade marked the start of the collapse of the system. This situation can be best explained using the Triffin dilemma. This canon argues that if the US dollar is used as the international reserve currency, then the US should be prepared to accumulate trade deficits in order to provide sufficient liquidity to other nations so as to fulfill their demand for foreign exchange reserves. Additionally, the value of assets valued in terms of the dollar held in foreign central banks exceeded to supply of gold in the United States. This would have caused speculation against the dollar. To avoid this, the US trade deficits would have to cease, which would generate liquidity issues. The solution to the liquidity problem would be the acceptance of current account deficits by the US. However, that would result in the exhaustion of gold reserves. None of the solutions open to the US seemed viable. The US ended up implementing several smaller defensive measures aimed at avoiding speculative attacks against the dollar, such as provision of greater authority to the IMF in its lending capacity and short-term credit swaps in central banks.

The other cause of the collapse of the Bretton Woods system was the very structure and nature of the par value system. Foreign governments were at liberty to rectify a fundamental disequilibrium. However, the governments did not know when such disequilibrium occurred. Therefore, even though governments had the power to alter their exchange rates, the very nature

of the par value system hindered the re-pegging of the exchange rates, thus making it difficult to maintain equilibrium in international payments. Inevitably, this led to the inflexibility in rates of exchange, as well as fears of potential shortages of liquidity, thus increasing incentives for currency speculation. As a result of the simple but essential assumption of the system, it could not work effectively. The United States, which was the central figure in the Bretton Woods system, ultimately brought it to an end. To avoid the intensifying disequilibrium in the US balance of payment and the growing sentiments on national protectionism, President Nixon forced new regulations in the exchange rates between the US, Japan and Europe, as well as tariffs on all imports, and wage and price controls to impede inflation.

Following the suspension of the convertibility of the US dollar into gold by President Nixon, the Jamaica agreement was implemented. The new system introduced a new exchange rate system in which all member states were bound to cease manipulating their rates of exchange for competitive reasons. They had to choose to either avoid assigning uniformity to their currencies which was supposed to float liberally on the foreign exchange market, to fix their currency's value by pegging it to other currencies and not to gold, or to tie the currency's value to one or multiple other currencies. This solution was a compromise between the American policy that pushed for withdrawal of gold from its supreme position and the French idea to retain gold as part of the organization and operation of the international monetary system. Central banks now had the freedom to conduct transactions using metal without any constraints on them or on the market. Moreover, the obliteration of the authorized price of gold allowed central banks to conduct transactions at market prices and to reevaluate metal stocks in their possession.

Overall Impression

Well, I do realize that the paper is written for those who understand the basics of economics, but could you at least briefly explain what the Bretton Woods system is? This is an elementary requirement: a paper's introductory paragraph should contain enough background info to enable further understanding of what the paper is about. Oh yeah, and where did you lose the conclusion? This, as well as a number of minor grammatical and phrasing mistakes, makes your paper worse than it could be.