**One**

Alvaro – it doesn’t take a rocket scientist to conclude that you have produced an academically accomplished essay. Your writing is clear, your development good and your conclusion, which is the end point of the development of your piece, is at least a conclusion that deserves discussion. However (and you knew this was coming) I want to make a few remarks on revisions or additions that I think could have improved upon what was already excellent.

The first – and many professors will disagree with me on this – is that the reader finds a piece on a difficult subject more accessible if the “voice” of the writer comes through. Were I shown your essay as simply a random work among others, I would not have been able to guess or even attempt to guess who the author was. This means that I am reading summary snatches of Helleiner and Schenk rather than additions and interpretations of their soporific work. Your documentation is above reproach, yet many of the subjects you document are, for the student not versed in economics, rather abstruse. Why, for example, do we need stable exchange rates at all if an international system of trade is to achieve its maximum potential? What is the relationship between a country trying to stimulate its economy (more production; more jobs) and the subsequent tendency to upset global economic equilibrium by putting pressure on whatever exchange rates happen to be in place at the time *and are also fixed*. If fixed exchange rates are in fact necessary for a successful international economic system, how are national economies to continue on an expansionary course that will quickly exhaust the ability of IGOs such as the International Monetary Fund (IMF) to intervene successfully?

We can’t answer this question if we don’t know why the expansionary policies of emerging nations tend to upset the equilibrium of the international economy by placing unsustainable pressure on stable exchange rates. And if we don’t know this, we can’t understand why the Bretton Woods system, after two decades of tortured success, simply collapsed. I won’t try to look into these fundamental issues at this point, but I think that you and the class must be sure that you understand them. I have a feeling you do – and it would have helped your essay to share your basic knowledge. Instead, you more or less ignore the total collapse of the Bretton Woods system and the reasons for this collapse, reasons without which we can’t understand our contemporary global economic system.

Finally, you advance the FSB as a more effective alternative at present than the remnants of Bretton Woods. Yet, we don’t get a sense of the incredibly feeble nature of the FSB in today’s global economy.

My final suggestion would be this: tear off a chunk of the weekly question; do your research; then write an unmistakably “Made in Alvaro Land” essay that answers the questions you raise in your own words – and does so in a simple fashion that everyone can understand. When you’ve wrapped up this stage of your essay, go back over your research and give credit to the sources you relied on. This piece of advice applies not just to you but to the entire class.

Dr. K

**Two**

ZY – your edited essay certainly shows no signs of the defects you perceived in your first draft. Since I haven’t seen that draft I don’t know if those concerns were justified . . . or if you’re just paranoid! In any case, this submission is nearly flawless in content and extremely well presented.

Just a couple of comments that I hope you’ll find helpful at some future point before I make a few remarks about content. You write: “It was clear at that time that the US would be setting the rules for the Bretton Woods agreement, as it had the most powerful military and the biggest functioning economy at the time.” We did have the biggest functioning economy, but you must remember that the Bretton Woods agreement was drafted and signed in 1944. At the time, the Soviet Union had by far the world’s most powerful military, having defeated Germany in the East at a terrible cost to itself. Eighty-eight percent of the German troops killed in WWII, which we entered approximately two and a half years after it began, were killed by Russians. Our fatalities were fewer than those of both the Free French and of Yugoslavia, something we don’t hear a lot about in American schools. In addition, we had not yet finished development of the A-bomb and did not know if it would work. Though suspicion of Russian motives after the defeat of Germany were rife, we were still a few years from the outbreak of the Cold War and wanted Russia aboard as part of the new economic system. This was not to be, as the world separated into two distinct blocs in the late Forties.

Second, you make a leap from the collapse of the Bretton Woods system at the beginning of the Seventies to the challenged legitimacy of the present economic system without adequately describing what followed that collapse. In other words, what *is* the present system? I know this wasn’t part of the question, but it’s still something we should focus on – especially if we want to determine whether some of the old Bretton Woods institutions, such as the IMF, are still necessary.

So much for my quibbling, which really does address minor issues. You perfectly capture the world situation that created the “Bretton Woods Moment.” This was the desire of the United States to set up a system that would be favorable to itself as the world’s only fully functional large economy with a large balance of trade surplus and holdings in gold that seemed at the time inexhaustible. We had made sure that Britain would not be a competitor that would dilute our hegemony by extending a Lend Lease program just generous enough to keep the Brits from losing the war but stingy enough to make sure that they exhausted their Sterling reserves. When Bretton Woods began, US Assistant Treasury Secretary and Soviet Spy, Harry Dexter White, presented the system favored by the US which, as you say, no one had a choice other than to accept. John Maynard Keynes’s proposed system, which was not drafted to benefit one nation above others but to stimulate growth and employment everywhere, was rejected.

The main reason I bring up the system that followed the Bretton Woods collapse is that only in this context do we now see the wisdom of what Keynes proposed. Rather than a system dependent on a sole currency dominant at the time (the USD) and pegged to gold to maintain stable exchange rates, Keynes wanted a type of international clearing house or ICU that would register the surpluses and deficits of member states. Trade surpluses would then be available for loan to countries with trade deficits, thus promoting expansion and employment in debtor nations rather than enforcing on them development-killing cutbacks in expenditures of the type that would inevitably be a precondition of IMF loans. Gold and the dollar would have nothing to do with the system: a new international reserve currency called the “Bancor” would become the currency of the ICU. By forcing countries with trade surpluses to effectively invest those surpluses in countries with trade deficits, the ICU/Bancor system would automatically stabilize exchange rates while not throwing less developed countries into a recessionary spiral occasioned by cutbacks in public spending.

From the collapse of Bretton Woods to the present, we have seen a growing gap between the richest and poorest countries on earth. The IMF and World Bank, hangovers of the old system, struggle to deal with economic forces too powerful for them to control. And the WTO, the culmination of many years of GATT negotiations, attempts to enforce a system of trade that tends to help rich countries while discriminating among many that are among the poorest . . . unwittingly opening the door to TNC exploitation.

In summary, Bretton Woods depended on the economic hegemony of the US. When the countries of Europe and Asia finally recovered from the war, such hegemony was no longer possible. In fact, now the US poses an enormous threat to the international economic system because of its gigantic balance of trade deficits, something no one but possibly Keynes foresaw in the Forties.

Dr. K

**Three**

Warren – I find it commendable that you gone beyond the required readings to support your contentions and explanations. This is something I would like to encourage everyone in class to do – at least on occasion. I think your essay is very strong on explaining why the Bretton Woods system collapsed. Imagine. World trade is growing. The production of wealth is growing. Along with these developments, the need for liquidity – or the availability of capital for investment – grows. If the dollar is pegged to gold at a price of 35USD per ounce of troy, then more dollars are going to be needed to fuel the international system. Nations and individuals will of necessity attempt to collect dollars, as there is at the time no other currency that can be moved around internationally to invest where it makes the most sense to do so. But the piling up of dollars has another, more ominous side, one precipitated in part by the US having gone from being a big creditor nation at the end of the war to a nation that spent far more than it took in during the Sixties. Clearly, this would mean that dollars spent abroad and not offset by equal purchases would simply float around out there, up for grabs. This may have been good in terms of adding liquidity to the global system, but what happens when everyone – speculators and nations – notices that the dollar is grossly overvalued?

Think about what you would do if you had a pocket full of dollar bills while it was still convertible into gold at 35UDS and ounce - but was worth only a small fraction of that. Would you rather be carrying around the paper or the metal? So there was a run on the dollar, led by the French. Let’s get rid of all this paper and empty Fort Knox. Which was essentially what happened until the US put the brakes on physical conversion of paper for gold in the late Sixties. We said that everything was still pegged to gold, but who was going to believe that? If it was thus pegged, why couldn’t you just walk up and convert it as before. The fact is that reality preceded words . . . and the words finally came, allowing currencies to float against one another with nothing pegged to anything. This is when we finally began to see the wisdom of what Keynes had proposed at Bretton Woods and what the US and its chief negotiator, Treasury Secretary and Soviet Spy, Harry Dexter White, had proposed, were more substantially different than originally thought. Ironically, as we’ll see, Keynes’s system would have helped offset the growing gap between the rich and the poor in today’s world; White’s system did not have the intellect behind it to do this – much less to sustain itself.

Now back to your essay. The role demanded of the IMF in an age of floating exchange rates became so large that the IMF could not meet the demands for its services. Hence came it’s unfortunate attempt to dictate and enforce the internal economic behavior of those countries to which it lent money; hence Warren’s delight when the agency was kicked out of Hungary!

You all know, I assume, that I did not design this course and am perhaps therefore more willing to accept or even prefer partial answers to multi-part questions such as you received this week. We see from Warren’s work how much more he could have explained if he had explained only the collapse of the Bretton Woods system; and into how much more detail Alvaro might have gone if he had thought it permissible to focus on only one aspect of the week’s question. In the future, if you find you have so big a mouthful that you are choking, reduce the size of your bite and go into more depth.

Dr. K