

Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971*, Chapel Hill: University of North Carolina Press, 2004, pp.xii, 263.

Bretton Woods is back in fashion, due to some suggestive parallels with the international monetary situation 40 years ago. Now, like then, the international system is made up of a center and a periphery. The center has the exorbitant privilege of issuing the currency used as international reserves and a tendency to live beyond its means. The periphery is committed to export-led growth based on the maintenance of an undervalued exchange rate, a corollary of which is its accumulation of low-yielding international reserves. In the 1960s, the center was the United States, while the periphery was Europe and Japan, many developing countries not yet having been fully integrated into the international system. Now there is a new periphery, China, but the same old core, the United States. Because China has 200 million rural unemployed still to be shifted to the export sector, it is happy to stick with an undervalued exchange rate and continue accumulating dollars indefinitely, this being the price of social peace and prosperity at home. The United States, meanwhile, still enjoys the luxury of living beyond its means. Given this happy equilibrium, there is no reason to worry about the problem of global imbalances. The current system, like Bretton Woods before it, has many years to run.

There is also a less sanguine interpretation that draws a rather different analogy with Bretton Woods. In this view, the U.S. balance of payments deficit should be seen against the backdrop of conflicts over American foreign policy. If other countries grow fed up with American unilateralism in the wake of the Iraq War, they may develop second thoughts about financing its deficit, the advantages of undervalued exchange rates

and export-led growth to the contrary notwithstanding. If they see the United States as using its exorbitant privilege to project military and diplomatic power in objectionable ways, they may pull the plug, as the French pulled the plug on the Gold Pool in the 1960s. This could bring the current constellation of exchange rates and payment balances crashing down, much as Bretton Woods came crashing down in 1971.

Frances J. Gavin's erudite account of the politics of international monetary relations in the Bretton Woods years has more in common with the second viewpoint. Gavin sees the Bretton Woods System as central to the Cold War bargain. European financial support for the dollar was the quid pro quo for U.S. military support for European security. But as the Europeans came to feel more secure and became more determined to shape their own security policy, that bargain grew less appealing. Once foreign support for the U.S. balance of payments was withdrawn, America faced a dilemma. It could withdraw from Europe, abrogating its foreign policy commitments and casting the world's geopolitical future into doubt. Or it could impose controls on capital outflows, devalue the dollar, and close the gold window, abandoning economic multilateralism. Through the adoption of a series of expedients, the status quo survived through 1970, but inevitably it came tumbling down.

The strength of Gavin's account is its detailed rendering of official deliberations, based heavily on archival sources. His account rather privileges U.S. policy, though it is not clear whether this reflects the reality – that outcomes, more often than not, turned on U.S. policy decisions – or the fact that his sources are predominantly American. The text also suffers from a tendency to take heated rhetoric at face value. Every danger listed in

a memo to the president is potentially the most serious economic crisis since the Great Depression.

Bretton Woods was indeed a fragile financial system. More than that, it was intrinsically unstable. Once the U.S. rejected John Maynard Keynes' proposal for "bancor," a synthetic form of international reserves, the only source of incremental liquidity for the expanding world economy was official foreign holdings of U.S. dollars, requiring the need for chronic U.S. deficits but at the same time undermining confidence in the system. Indeed, it can be argued that these flaws in its economic structure and not conflicts within the Western Alliance were the fatal weaknesses of Bretton Woods.

Gavin is right to emphasize that the Bretton Woods System only functioned in anything resembling the manner foreseen by its architects for 13 short years. But neither was its collapse a disaster. The end of the United States' exorbitant privilege did not force the Americans out, free the Germans up, and allow the Soviets in. The transition to floating exchange rates went smoothly enough, and there was no disruptive shift in the U.S. balance of payments. There certainly was no new Depression.

Thus, an authoritative account of Bretton Woods would require attending not just to the politics of international monetary relations, which receive detailed treatment here, but also to their economics, which developed in surprising and unanticipated ways. A proper history of this system, which treats its economics as carefully as its politics, has yet to be written.

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