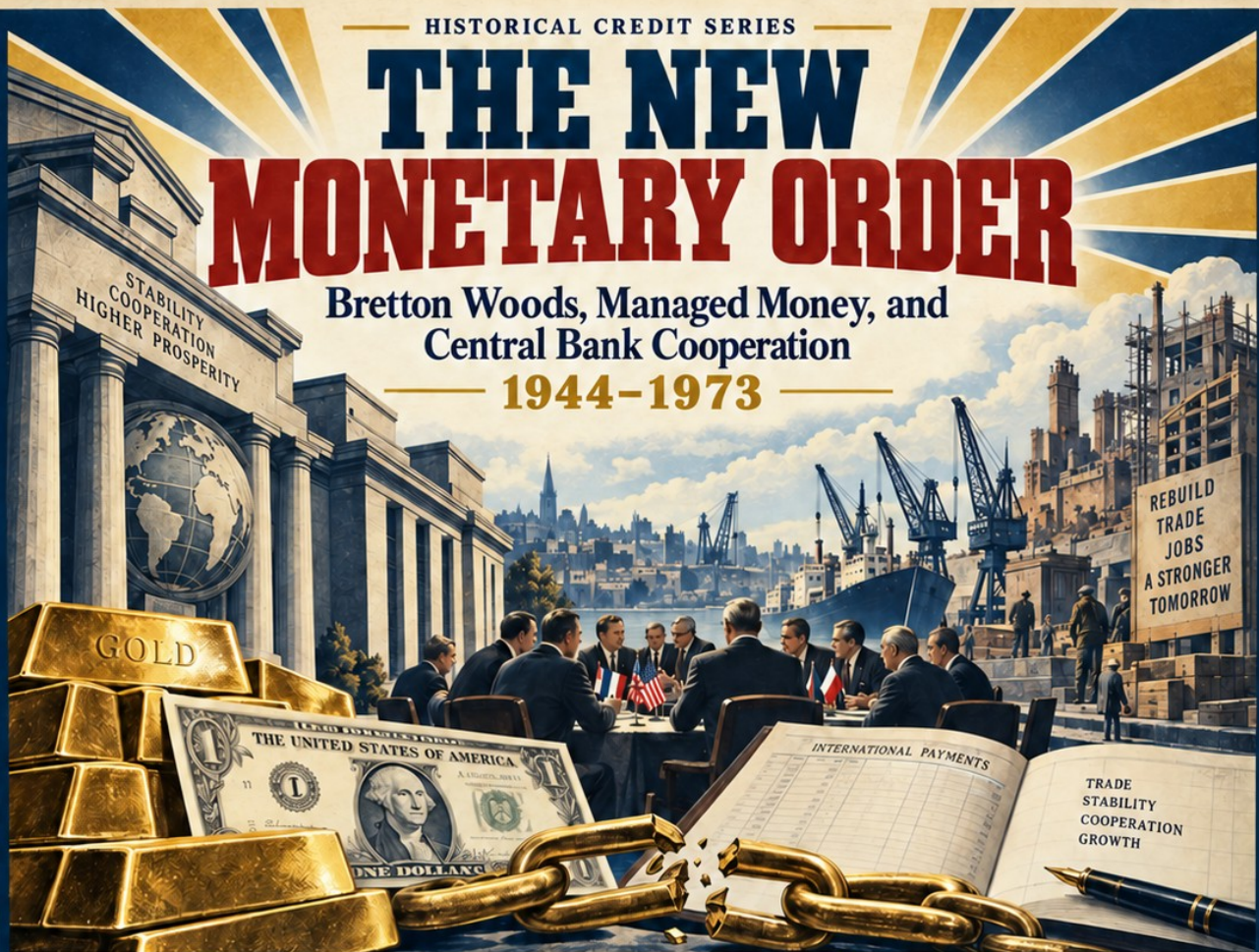


HISTORICAL CREDIT SERIES

THE NEW MONETARY ORDER

Bretton Woods, Managed Money, and
Central Bank Cooperation

1944–1973



REBUILD TRUST

Finance recovery.
Restore payments.



DEFEND THE PROMISE

Dollar reserves
meet finite gold.



REALLOCATE RISK

Floating currencies
reshape exposure.

FOUR TURNING POINTS

1944

Bretton Woods agreements

1971

US suspends official
dollar–gold conversion

1958

Western Europe restores
current-account convertibility

1973

Major currencies move to floating

When the monetary promise changes, who bears the risk?



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EXECUTIVE FRAMING

A monetary system is a structure of promises

Abstract

Bretton Woods is often remembered through two images: an agreement reached in New Hampshire in 1944 and a gold window closed in Washington in 1971. Between those moments lay a more consequential achievement: the construction of institutions that could finance recovery, conserve scarce settlement assets, and sustain international exchange while governments pursued domestic economic objectives. This paper examines that achievement through the history of credit. It asks who advanced resources, which promises made those advances acceptable, and where risk moved when the original commitments became difficult to maintain.

The argument is that postwar monetary trust rested on several distinct supports: productive recovery, official financing, payments cooperation, controls on capital movements, and confidence in reserve assets. Their functions overlapped, but they were not interchangeable. Netting could reduce settlement needs without forgiving debt. Credit could postpone payment without correcting an enduring imbalance. A reserve currency could remain useful even after one of its conversion promises was withdrawn. The separation of these functions explains both the system's effectiveness and the limits of its repair mechanisms.

The narrative follows institutional design in 1944, reconstruction finance and European payments cooperation, the restoration of convertibility, the strains surrounding the dollar, and the successive decisions that led to widespread floating among major currencies in 1973. France, Britain, and West Germany illuminate different positions within the order: reconstruction borrower, pressured currency issuer, and recipient of destabilizing reserve inflows. The resulting interpretation treats the end of the parity regime as a change in the allocation of risk, rather than the disappearance of international monetary cooperation. [1–15]

Three findings for the historical credit series

First, credible settlement required more than a quoted exchange rate. Import capacity, access to usable reserves, and the financial position of the party promising payment mattered together. Second, public support changed the timing and distribution of adjustment. It could prevent a temporary shortage from destroying viable activity, yet also protect an exchange rate after the political basis for defending it had weakened. Third, the survival of the IMF and World Bank demonstrates that institutional credibility can outlast the monetary rule under which institutions first developed.

CENTRAL ARGUMENT

Bretton Woods succeeded where cooperation converted temporary constraints into manageable commitments. It fractured where maintaining one promise increasingly required authorities to sacrifice another.

Keywords: historical credit; Bretton Woods; monetary trust; reconstruction finance; reserve currencies; capital controls; central bank cooperation; exchange-rate risk.

ORIENTATION AND EVIDENCE

From reconstruction to regime change

This installment begins where *The Promise Under Strain* ends: with the effort to turn wartime planning into a durable international settlement. The earlier paper followed the erosion and reconstruction of monetary trust from 1914 to 1944. Here the unit of analysis expands from the national promise to the relationships among treasuries, central banks, international institutions, commercial banks, and borrowers. [16]

Period	Historical turning point	Credit question
1944–1947	IMF and IBRD design; ratification; early lending	How can governments pool capacity while limiting exposure?
1948–1958	Marshall Plan; European Payments Union; current-account convertibility	Can finance and clearing reopen exchange before reserves are abundant?
1951–1968	Treasury–Fed Accord; official swap network; sterling and gold crises	Which balance sheet absorbs the cost of defending stability?
1969–1971	Creation of SDRs; intensifying reserve and policy tensions	Can liquidity reform preserve the existing conversion promise?
1971–1973	Gold suspension; Smithsonian realignment; widespread floating	What remains payable when the exchange-rate rule changes?

Table 1. Chronological orientation. Historical anchors drawn from [1, 5, 7–11, 12–14]. Periods overlap because institutional change was cumulative.

Scope and method

The paper combines the original 1944 agreements and contemporary public statements with archival institutional histories and economic research. Treaty provisions establish the intended rules; speeches reveal public objectives and political framing; retrospective accounts help reconstruct implementation. These sources answer different questions. A statement of purpose is not evidence that the purpose was achieved, and an institutional anniversary history is not an independent estimate of an institution's economic contribution.

The emphasis is the United States and Western Europe, with a distinct discussion of development finance and representation. It does not offer a comprehensive history of every member, colony, newly independent state, or national exchange-control regime. Nor does it estimate how much postwar growth Bretton Woods caused. Its contribution is a comparative explanation of financial mechanisms and the distribution of adjustment costs.

Numbered references identify the evidence for historical claims. Worked examples, risk classifications, and comparative judgments are the paper's analytical reconstructions. Hypothetical values are explicitly labeled and are not historical observations. References to the IMF and IBRD Articles describe the original 1944 text, not their present amended form. No inference about current policy follows automatically from these historical cases.

HOW TO READ THE CHAPTER

Pages 4–9 explain construction and operation; pages 10–14 examine pressure and breakdown; pages 15–17 draw the comparative credit lessons. References and publication information follow.

1 • INSTITUTIONAL DESIGN, 1944

Stability with room to adjust

The conference held July 1–22, 1944 brought together representatives of 44 countries. Agreement on the IMF and the International Bank for Reconstruction and Development was followed by national acceptance and organizational work; the conference did not itself restore functioning international payments. The design emerged while war was still being fought, making reconstruction an immediate institutional problem rather than a distant aspiration. [1–3]

The original IMF Articles joined exchange stability to an explicit possibility of adjustment. Article IV specified par values expressed in gold or the US dollar of the stipulated 1944 gold content. It also allowed a member to propose a parity change to correct fundamental disequilibrium, with Fund consultation and procedures governing concurrence. Article VI permitted controls on international capital movements while protecting current payments subject to the agreement's exceptions. Article XIV accommodated a transitional period in which restrictions on current payments could persist. [1, Annex A, Arts. IV, VI, XIV]

A deliberate compromise

These provisions matter because stability and immobility are different commitments. A country facing a temporary shortfall might need foreign exchange while shipments, receipts, or confidence recovered. A country facing a persistent mismatch between its exchange rate and economic conditions might need a different parity. Treating both cases as identical would either force unnecessary contraction in the first or prolong an unsustainable promise in the second. The treaty recognized the distinction without supplying an automatic test for deciding which situation prevailed.

That omission created a continuing problem of judgment. A government could reasonably fear that announcing a possible parity revision would encourage capital flight before a decision was reached. Creditors could equally fear that additional support would merely allow others to exit at the old rate. An adjustable system therefore needed procedures that were credible before a crisis, precisely when the parties had the least incentive to expose disagreement. This tension was built into the problem of governing an adjustable promise; it was not proof that every eventual crisis was unavoidable.

The negotiated boundary of international authority

The IMF did not become a world treasury or a central bank with unlimited capacity to create every currency its members required. Access to its resources operated within specified conditions, and the original agreement contemplated charges, repurchases, and restrictions on use. Governments retained their national institutions and important policy choices. [1, Annex A, Arts. V–VI]

The resulting order placed a cooperative layer over national monetary systems. Its durability depended on governments continuing to accept the distribution of costs that cooperation produced. Rules could organize negotiation and supply time. They could not permanently settle whether employment, price stability, external balance, or preservation of a particular parity should take priority in every country and every circumstance.

2 • CREDIT ARCHITECTURE

Two institutions, different promises

The IMF and IBRD addressed related but distinct financing problems. The Fund's original framework allowed a member to obtain another member's currency in exchange for its own, within conditions and limits. This was a mechanism for access to usable foreign exchange. The Bank's framework authorized loans and guarantees for reconstruction and development, with attention to the project, the borrower, and repayment prospects. [1, Annex A, Art. V; Annex B, Arts. I, III–IV]

Mechanism	Immediate function	What still had to be credible
IMF resources	Provide access to foreign exchange under the agreed framework	Appropriate use, future external adjustment, and repurchase obligations
IBRD loan	Finance reconstruction or development expenditure	Borrower and guarantor capacity to service the obligation
IBRD guarantee	Support financing by other investors	The guarantee's terms and the capacity of the institution behind it
National reserves	Settle payments or support an exchange rate	The availability and acceptability of the reserve asset when needed

Table 2. Institutional functions and residual obligations. Interpretation of the original agreements [1]; this is not a description of current lending products.

The Bank as an intermediary in public credit

The original Bank Articles required a suitable public guarantee when the member itself was not the borrower. They called for a competent assessment of a proposal, reasonable terms, attention to repayment prospects, and control over the use of proceeds. Lending for specific projects was the norm, with an exception for special circumstances. These requirements connected a developmental purpose to a recognizable discipline of underwriting. [1, Annex B, Art. III, §§4–5]

A guarantee did not manufacture productive capacity. It inserted another obligor between the lender and possible loss. That could improve the terms on which funds were raised, but the guarantor's own capacity and willingness to perform remained relevant. Likewise, a project could be socially desirable while generating its fiscal or foreign-exchange benefits too slowly to meet the proposed debt schedule. The analytical task was to connect the timing of benefits to the timing and currency of repayment.

Why the distinction matters

Consider a power station that will improve industry's output over a decade but requires imported machinery immediately. Long-term finance may fit the investment. A brief delay in export receipts calls for a different instrument. Repeated short-term advances to finance a long-lived reconstruction program create refinancing dependence; a long-term loan used to sustain an overvalued exchange rate may preserve a problem rather than build repayment capacity. Instrument choice is therefore part of credit quality, not merely an administrative detail.

Bretton Woods enlarged the range of public financial commitments available after the war. It did not eliminate the need to distinguish a recoverable timing mismatch from an undertaking whose expected resources were insufficient.

3 • RECONSTRUCTION FINANCE

France and the real economy behind repayment

The IBRD's first loan, signed on May 9, 1947, provided \$250 million to the Crédit National of France with a French government guarantee. France had requested \$500 million in support of the Monnet reconstruction and modernization plan. The Bank used the special-circumstances provision to support a broader program rather than a narrowly defined individual project. Its archival account describes both the appraisal of the program and the supervision of imported equipment and materials. [13, pp. 8–12]

The case reveals a double confidence problem. France needed external resources before reconstruction could fully replenish its own capacity to earn and mobilize them. The new international lender also needed to demonstrate that it could select, finance, and administer a large exposure. The borrower's credibility and the intermediary's credibility were being developed together. A successful transaction could help establish both; an adverse outcome could weaken confidence in the model beyond the individual loan.

Why physical investment was only part of recovery

George Marshall's June 1947 address described a European economy whose exchange relationships had been damaged along with its physical capital. A farmer with food to sell needed manufactured goods worth receiving in return. A government spending scarce foreign exchange on necessities had less available for reconstruction. The Economic Cooperation Act, signed on April 3, 1948, placed recovery assistance within a program concerned with production, trade, financial stability, and workable exchange relationships. [12]

The credit implication is that repayment capacity is relational. A factory's machinery may be sound, but the factory still needs fuel, transport, suppliers, customers, and a payments system. If one missing input prevents output, a loan to another part of the chain can remain idle. Conversely, finance that removes a bottleneck may support activity beyond the financed asset itself. This is a mechanism through which coordinated reconstruction could be valuable; it is not a quantitative estimate of the Marshall Plan's contribution to growth.

What reconstruction success cannot establish by itself

European recovery also had domestic, political, technological, and institutional dimensions. The Marshall Plan was a US program with Cold War purposes and should not be conflated with IMF operations or treated as the sole cause of recovery. The historical literature's disagreement about its precise growth contribution counsels against attributing an entire postwar expansion to a single financing initiative. [4]

For this series, the narrower conclusion is stronger. A lender evaluating reconstruction has to examine the economy that will service the claim, not only the security documenting it. Maturity, foreign-exchange needs, essential imports, and complementary investment all affect the path from an authorized loan to a performing asset. France illustrates why development underwriting and macroeconomic reconstruction could not be cleanly separated.

CREDIT INTERPRETATION

A productive investment becomes a credible debt only when the borrower can turn its benefits into the right currency, in the right amount, at the required time.

4 • EUROPEAN PAYMENTS COOPERATION

Clearing conserved reserves; credit bought time

The European Payments Union, established in 1950, consolidated participating countries' bilateral balances through the BIS into a position against the union. Part of the residual imbalance could be financed rather than settled immediately in scarce reserve assets. Its role ended with the restoration of current-account convertibility in Western Europe at the close of 1958. [5]

A worked illustration of multilateral clearing

Assume three countries have the following obligations at a common settlement date, stated in an agreed accounting unit. Ignore fees, disputes, exchange-rate changes, and transaction timing. This example illustrates arithmetic, not the EPU's historical quotas or settlement rules.

Bilateral obligation	Amount
A owes B	100
B owes C	80
C owes A	60
Total gross obligations	240

Member	Receivables less payables	Net position
A	60 – 100	Pays 40
B	100 – 80	Receives 20
C	80 – 60	Receives 20

Table 3. Hypothetical clearing example. Total net debtor funding is 40, versus 240 of gross obligations. Counting transfers into and out of a clearing agent would give a different transaction-volume measure.

Netting leaves A with a payment of 40 and leaves B and C entitled to 20 each. If an arrangement finances half of A's net obligation, A supplies 20 in reserve assets now and owes 20 later. Under an assumed equal allocation, each creditor receives 10 now and a claim worth 10 on the arrangement. The financing share is an invented teaching assumption. It is separate from the arithmetic of netting.

The risk that remains

The example separates three achievements. Common accounting establishes what is owed. Netting cancels offsetting claims and reduces gross settlement requirements without changing any member's net position. Credit shifts part of the remaining funding requirement to a later date and allocates that exposure to a creditor. The numerical reduction from 240 to 40 must not be described as forgiveness of A's net debt.

A practical arrangement also needs authority to apply the netting, consistent records, rules for incomplete payments, and limits on accumulating credit. Otherwise a member's delayed payment becomes uncertainty for the rest. The wider lesson is that reliable infrastructure can conserve liquidity, while lending terms determine whether the resulting residual exposure remains manageable.

5 • DOMESTIC MONETARY AUTHORITY

The public balance sheet also had limits

Central banks were not invented at Bretton Woods. Their importance in this period came from the interaction of existing domestic responsibilities with a new international framework. The 1951 Treasury–Federal Reserve Accord provides a revealing US example. During the war, the Fed supported very low government borrowing rates, including a 3/8 percent Treasury-bill peg and an implicit 2.5 percent ceiling on long-term Treasury yields. Maintaining those prices required purchases when private demand was insufficient. [7]

As inflation and the Korean War sharpened policy disagreements, debt-financing objectives collided with monetary control. The March 1951 settlement allowed the Fed to move away from its wartime support commitment. It was a particular institutional settlement over US government debt and money creation, not a worldwide inauguration of central-bank independence. [7]

Who bears interest-rate risk?

An issuer benefits when debt can be sold at a predictable low yield. A bondholder benefits when an authority stands ready to support the bond's price. But if private investors prefer to sell at that price, the supporting institution has to absorb the securities or revise the promise. A commitment intended to stabilize the debt market can therefore make the supporter's balance sheet respond to investors' choices.

Removing the support changes the allocation of risk. Investors holding existing fixed-rate securities can experience price declines when market yields rise. The treasury may face higher costs on new or refinanced borrowing. The monetary authority gains greater freedom to choose its purchases in light of price stability and other objectives. None of these effects means the government has stopped paying its bonds. Market value, financing cost, and contractual performance are different dimensions of the promise.

The domestic and international commitments intersect

A country defending an exchange rate faces a related difficulty. Its monetary decisions affect domestic borrowing conditions, but they can also influence the willingness of residents and foreigners to hold its currency. Tightening may support the external commitment at a cost to borrowers and employment. Easing may help domestic activity while intensifying external pressure. Capital controls and official credit can mediate these effects without making the trade-off disappear.

This is why central-bank capacity cannot be measured only by whether it can issue domestic money. It also depends on which obligations it has undertaken, which assets counterparties demand, and which costs the political system permits it to impose. An authority able to supply local settlement balances cannot thereby create foreign exchange or gold on demand. The distinction becomes central to the reserve-currency problem discussed below.

ANALYTICAL FINDING

Public backing relocates risk. Its credibility depends on the supporting institution's resources, mandate, and ability to sustain the promised action when costs rise.

6 • CONVERTIBILITY AND CAPITAL CONTROLS

Managed openness was part of the design

Current-account convertibility and unrestricted capital mobility describe different permissions. The original IMF Articles distinguished current payments from capital transfers, permitted controls on the latter, and provided transitional arrangements for the former. The late-1950s restoration of current-account convertibility in Western Europe therefore did not mean that every investment transfer became unrestricted. [1, Annex A, Arts. VI, VIII, XIV, XIX; 5]

The policy constraint

The following reasoning explains why that distinction mattered. Suppose a country promises a fixed exchange rate while another market offers a more attractive return on comparable assets. If investors can move funds freely and expect the parity to hold, the interest differential encourages movement toward the higher return. Defending the parity may require reserve transactions or a domestic-policy response. A government cannot assume that it can indefinitely preserve a fixed rate, unrestricted financial movement, and an independently chosen monetary stance under every condition.

Controls can create some room between these commitments by limiting eligible transfers, imposing costs, or delaying movement. That room is contingent rather than absolute. Enforcement consumes administrative resources; restrictions may favor some transactions over others; and opportunities to change the timing or form of payments can weaken their effect. A system of managed openness therefore depends on the rules' practical reach as well as their formal language.

A payment can be valid and still difficult to complete

For a borrower, permission to incur a debt does not automatically establish access to foreign exchange at maturity. Three questions must be separated: can the borrower generate the local resources, can it obtain the required currency, and can it transfer that currency to the creditor? A commercial lender exposed to a foreign borrower thus has reason to assess both the borrower's financial position and the surrounding payments regime.

The distinction also explains why national reserves are not the same as the liquid assets of each private firm. An exporter may earn dollars while an importer needs them; a bank may intermediate those flows; and public rules may govern their conversion or use. National accounting can show a manageable aggregate position even when particular institutions face binding timing constraints. Conversely, a healthy firm can suffer when the national system cannot supply or authorize the settlement it requires.

The bargain's strength and cost

The managed framework offered a way to reopen trade while preserving domestic policy space. Its cost was that international finance operated through a differentiated set of permissions and official judgments. Stability was partly produced by constraints on the channels through which pressure could appear. To assess the historical system fairly, one must count both the activity those protections helped sustain and the transactions they restricted; the absence of immediate exchange-rate movement is not by itself a complete measure of success.

7 • THE RESERVE-CURRENCY PROBLEM

Dollar liquidity and confidence in conversion

The functioning postwar order relied heavily on dollar reserves and the US commitment to official gold conversion at \$35 an ounce. Dollars accumulated abroad through US external payments, including investment and official outflows. A US balance-of-payments deficit in the period's usage did not necessarily imply a current-account deficit: a current-account surplus could coexist with larger outward capital and official flows. [6, 8]



Figure 1. Linked public commitments. Original explanatory schematic based on [1, 3, 6]. Arrows indicate dependence, not a literal transaction route; no historical quantities are plotted.

A simplified accounting example clarifies the distinction. Suppose an economy receives 30 more from current transactions than it pays, but net investment and official outflows total 50. Ignoring other entries, the remaining 20 must be matched by reserve movements or financing, including additional claims held abroad. The numbers are hypothetical. The example shows why the supply of external dollar claims cannot be inferred from the trade balance alone.

The liquidity-confidence tension

The dollar could satisfy demand for a convenient international asset without a matching increase in gold. But a growing volume of external dollar claims, set against a finite gold stock and a fixed conversion price, raised doubts about the conversion commitment. This tension between reserve provision and confidence is commonly called the Triffin dilemma. It intensified as US inflation and international policy differences placed further pressure on the system. [6, 11]

The analytical difficulty was contingent redemption. A reserve asset can work well while holders prefer to retain it. Its vulnerability appears when many eligible holders want the promised alternative at once. Comparing a stock of external claims with a stock of gold illuminates exposure, but it is not a complete solvency test: claims differ in holder, maturity, legal character, and route to conversion. Nor did every private dollar balance carry a direct right to demand US Treasury gold.

Reserve-currency status therefore gave the United States room that an ordinary deficit country did not possess, while creating a distinctive constraint. Other countries could hold its liabilities as reserves; the issuer could not assume that their willingness to do so would remain independent of US policy. Confidence depended on both the usefulness of the dollar and the expected terms of its conversion. These two sources of demand could diverge.

THE PROMISE UNDER EXAMINATION

The question was not simply whether a dollar claim would be paid in dollars. It was whether the official holder could still obtain the promised quantity of gold at the established price.

8 • UNEQUAL POSITIONS WITHIN THE SYSTEM

Sterling pressure and the German counterpart

Britain devalued sterling by 14.3 percent to \$2.40 per pound on November 18, 1967, after sustained pressure and official support. West Germany faced the opposite problem as funds moved into marks: on May 9, 1971, it announced that it would cease defending the parity limits, giving greater weight to restraining inflation. These episodes illustrate different national positions within the same exchange-rate order. [8, pp. 40, 59]

The country losing reserves

The sterling episode raises a general distinction between defending a currency's immediate market price and restoring the conditions under which that price can persist. Borrowed reserves can finance intervention. Higher interest rates can change the return to holding the currency, and domestic restraint can affect imports and activity. Each measure has a different cost and time horizon. When support has to be renewed repeatedly, the relevant question is what future change will allow it to be repaid.

Devaluation is likewise not a costless escape. It changes the domestic price of foreign-currency obligations and imported goods. Exporters may benefit if their costs do not rise by as much as their foreign revenues, but that effect depends on contracts, supply capacity, and the composition of inputs. The historical decision can thus be understood as choosing among distributions of loss, rather than choosing between an adjustment with costs and an adjustment without them.

The country receiving reserves

A country receiving unwanted inflows confronts a different constraint. To prevent its currency from appreciating, its central bank can purchase foreign exchange and supply domestic money. Unless other operations offset the domestic effect, this expands local monetary balances. Sterilization—offsetting intervention through other balance-sheet operations—can separate the two temporarily, but its practicality depends on instruments, market conditions, and the persistence of flows.

Revaluation or floating can reduce the obligation to keep purchasing foreign currency, while affecting exporters and the domestic value of foreign assets. Cooperation therefore requires agreement from both sides of an imbalance. The deficit country may resist contraction or devaluation; the surplus country may resist appreciation or domestic expansion. An instruction to restore balance does not decide whose preferred objective gives way.

Position	Immediate pressure	Distributional choice
Currency under selling pressure	Loss of usable reserves or reliance on support	Restraint, financing, controls, or a lower parity
Currency under buying pressure	Reserve accumulation and pressure on domestic policy	Sterilization, controls, accommodation, or appreciation
Reserve-currency issuer	Doubts about the promised reserve conversion	Alter domestic policy, negotiate burden sharing, or revise the promise

Table 4. Analytical comparison. These are policy choices and potential effects, not estimates of each country's historical losses.

9 • OFFICIAL SUPPORT AND ITS LIMITS

Gold pools, swaps, and the price of time

The London Gold Pool, formed in 1961, coordinated official intervention in the gold market. Its collapse in March 1968 was followed by a two-tier arrangement separating official monetary gold dealings from the private market. The Federal Reserve also began a network of reciprocal currency arrangements in 1962, initially with the Bank of France. [9]

Research by Bordo, Humpage, and Schwartz shows how swaps provided temporary cover against gold conversion and how the BIS placed borrowed dollars in the Eurodollar market during periods of strain. Their interpretation is that intervention could buy time without resolving the system's deeper policy incompatibilities. [8, pp. 2–5, 28]

Liquidity support is a contingent bridge

A simplified official swap exchanges currencies with an agreement to reverse the exchange on specified terms. Those terms can reduce one party's immediate currency exposure, while creating obligations that have to be settled or renewed. The exchange does not erase the need to acquire the currency required for reversal. Details of valuation, maturity, guarantees, and any renegotiation determine who ultimately carries risk.

The practical test is the exit path. If a temporary disturbance reverses, a bridge facility can prevent otherwise sound commitments from being disrupted. If the underlying imbalance continues, the facility may require repeated renewal, additional guarantees, or a new source of repayment. Duration is therefore informative but not decisive: a longer operation is not automatically improper, and a short one is not automatically safe. The question is whether the anticipated source of repayment is becoming more credible.

Why assistance can change incentives

Support may calm a market by demonstrating that an authority has partners. It may also allow claimants to leave while the old conversion terms remain available. The participants then have different interests in timing: a holder can prefer immediate redemption, the debtor can prefer additional time, and supporting institutions can prefer an orderly adjustment that limits wider disruption. Cooperation coordinates these interests without making them identical.

The two-tier gold arrangement illustrates a boundary rather than a final resolution. Separating official and private dealing can shelter an official price from some market transactions. It also makes the distinction between a quoted official valuation and the price available elsewhere more visible. A rule can reduce the channels through which pressure reaches the official balance sheet, while leaving the underlying valuation disagreement intact.

ANALYTICAL FINDING

The value of official credit lies partly in what can be accomplished during the time it supplies. Without a credible adjustment or repayment path, more time can mean more exposure rather than greater resilience.

10 • RESERVES, DEVELOPMENT, AND REPRESENTATION

Whose needs defined the monetary order?

The reserve debate did produce an institutional innovation. The IMF created Special Drawing Rights in 1969 as a supplementary international reserve asset. SDRs were not a private currency, and an allocation was not the same transaction as a conventional IMF loan. Their design addressed the availability of official reserve assets; it did not itself establish an unlimited facility for financing any member's external payments. [10]

Conceptually, reserve creation and adjustment solve different problems. Adding an accepted official asset can reduce dependence on a scarce settlement medium. It cannot by itself determine which exchange rate is appropriate, which country should change domestic policy, or who should absorb an existing valuation loss. A reserve innovation can therefore improve one part of a system while leaving its central bargaining problem unsettled.

Development was present in the original design

The Bank's original Articles explicitly placed development alongside reconstruction and directed equitable consideration toward both. Yet prudent repayment requirements also meant that the desirability of investment did not alone make a borrower eligible on any proposed terms. [1, Annex B, Arts. I, III] The later creation of the International Development Association in September 1960 addressed a related gap: poorer countries needed financing on softer terms than regular IBRD loans could provide. [15]

This distinction changes the analysis of scarcity. A country may need longer maturity, lower charges, or concessional support because benefits arrive slowly or because its ability to mobilize fiscal and foreign-exchange resources is limited. More short-term reserve liquidity would not necessarily solve that problem. The design of development finance thus cannot be reduced to the design of exchange-rate stabilization.

Voice was part of the financial architecture

The original IMF voting formula combined basic votes with votes linked to quotas. The conference record also includes India's reservation about the size of its quota. These facts are sufficient to show that participation and influence were questions within the founding settlement, not concerns invented only after the system's breakdown. They do not establish a single position held by all developing countries. [1, Annex A, Art. XII, §5; delegation statements, p. 117]

The analytical issue is who defines a manageable burden. A large reserve holder, a reconstruction borrower, and a country seeking long-term development finance can evaluate the same reform differently. One may prioritize the value of existing claims, another continued access to credit, and another the terms under which new productive capacity can be financed. International institutions make these interests negotiable; their governance influences which claims receive priority.

A history centered only on the dollar and European parities would miss this broader trajectory. The period also generated institutions intended to address unequal financing capacity. Their development is part of Bretton Woods' legacy even though they did not preserve the original gold-conversion arrangement.

11 • THE TRANSITION, 1971–1973

The gold window closed before the pegs ended

On August 15, 1971, President Richard Nixon announced the suspension of dollar convertibility into gold or other reserve assets under the stated US policy. The announcement was part of a wider domestic and external program that included a 90-day wage and price freeze and a 10 percent import surcharge. The speech framed the program around employment, inflation, and defense of the dollar. It described the conversion suspension as temporary. [14]

A primary source for priorities, not a neutral diagnosis

Nixon's address is evidence of how the administration presented its decision. It is not independent proof that speculation or foreign practices were the sole causes of the crisis. The bundling of trade, wages, prices, taxes, and currency policy is revealing in itself: the government treated the external commitment as one element in a larger political and economic settlement. When it revised that commitment, domestic objectives remained central to its explanation.

The suspension changed a particular promise to official holders. It did not cancel every dollar obligation, make domestic bank deposits disappear, or immediately establish the final exchange-rate arrangements that followed. Distinguishing those effects prevents the history from collapsing several separate transformations into one dramatic evening.

The attempted repair

The December 1971 Smithsonian Agreement attempted to sustain adjusted pegs, including a proposed official dollar gold value of \$38 an ounce and wider currency bands. It did not restore the earlier official gold-redemption commitment. Continued pressure, further dollar devaluation, and widespread floating among major currencies in March 1973 completed the breakdown of the old parity arrangement. [11]

The analytical weakness of an announced realignment is that a new number must still be supported by credible behavior. If holders expect another adjustment, the wider band can change the timing or size of movements without removing their incentive to move. An official gold valuation likewise has a different economic meaning when eligible holders can no longer obtain gold on the former terms. The distinction is between an accounting reference and a conversion facility.

What the break did—and did not—resolve

Floating reduced the need to defend a particular bilateral price against every market pressure. It also made currency changes more directly visible in borrowers' and investors' balance sheets. A country could gain flexibility in domestic policy while its firms faced greater variation in the local cost of foreign obligations. An exchange regime can change who bears a risk without removing the underlying exposure.

The IMF and World Bank continued after the parity system changed. That continuity is consistent with the chapter's central claim: institutions for consultation, financing, and development could retain value even when a specific conversion promise no longer commanded sufficient support. The institutional order and the exchange-rate rule had become separable.

12 • BALANCE-SHEET ANALYSIS

An unchanged debt can become harder to pay

The following example isolates currency risk. A firm owes 1 million dollars. Its revenue and available cash are in a domestic currency. Initially one dollar costs 5 domestic units; after an exchange-rate change it costs 6. Assume the principal, interest terms, cash resources, and payment permissions otherwise remain unchanged. These are hypothetical values, not a reconstruction of a particular historical borrower.

Measure	Before	After
Dollar principal	\$1,000,000	\$1,000,000
Domestic units per dollar	5	6
Domestic cost of principal	5,000,000	6,000,000
Domestic cash available	5,500,000	5,500,000
Cash surplus / shortfall	+500,000	−500,000

Table 5. Hypothetical unhedged foreign-currency debt. The local cost rises 20 percent: $6 \div 5 = 1.2$. The domestic currency's dollar value falls 16.7 percent: $1 - (1/6) \div (1/5)$. Percentage changes differ because the denominators differ.

The firm still owes exactly the same dollar principal. Its ability to pay has deteriorated because the local resources needed to acquire those dollars have increased. This is a currency shock that can become a credit problem. A dollar-earning exporter might be partly protected; a firm with domestic revenue and imported inputs could be exposed on both debt service and operating costs. A hedge may offset some movement, but its terms, maturity, funding needs, and counterparty performance must match the exposure.

Six promises that should not be confused

Risk	Question the analyst must ask
Credit	Will the obligor perform the contractual payment?
Liquidity	Can the required funds be obtained by the settlement date?
Currency	How does exchange-rate movement change resources and obligations?
Convertibility / transfer	Can funds be exchanged and delivered under the applicable regime?
Valuation	What is the claim worth if sold or translated into another unit?
Purchasing power	What goods and services will the payment buy?

Table 6. Original analytical taxonomy. Categories interact and are not mutually exclusive.

A paid claim can lose market value; a solvent borrower can lack settlement currency; a liquid domestic balance can be difficult to transfer abroad. Bretton Woods' history becomes clearer when each episode identifies the specific promise under pressure rather than treating every impairment as the same kind of default.

13 • COMPARATIVE INTERPRETATION

Design constraints met political choices

No single explanation captures both the construction and the breakdown of the postwar order. A structural account emphasizes the tension between expanding dollar reserves and finite gold backing at the established price. A policy account emphasizes the changing compatibility of national monetary choices. A political account asks why governments accepted some adjustment costs and refused others. The evidence discussed in this paper supports using these explanations together, while stopping short of a new quantitative ranking of their importance. [6, 8, 11, 14]

How the explanations connect

Reserve dependence created exposure to a loss of conversion confidence. Diverging policy objectives made the exposure harder to contain. Political choices determined which promises authorities would revise when they could no longer preserve all of them on acceptable terms. Structural vulnerability helps explain why cooperation was repeatedly required; it does not by itself explain the exact timing or form of every decision.

Intervention	Problem it can address	Limit it does not remove
Multilateral clearing	Redundant gross funding requirements	An unmatched net debtor position
Official credit or swaps	Temporary shortage and settlement timing	Persistent imbalance or an inadequate repayment path
Capital controls	Some channels of destabilizing movement	Underlying valuation disagreements and enforcement costs
Reserve-asset creation	Insufficient accepted official liquidity	The distribution of adjustment obligations
Parity revision or floating	An exchange-rate commitment that cannot be sustained	Currency mismatch and the domestic consequences of repricing

Table 7. Comparative mechanism analysis, developed from the historical cases. Effects are conditional; no instrument guarantees the stated benefit in every setting.

Could a different settlement have lasted?

Earlier realignments, different national policies, more symmetrical adjustment, or a larger role for jointly created reserve assets are conceivable alternatives. Each would have required participants to accept costs or institutional changes they might resist. A counterfactual that assumes cooperation without explaining its political basis is incomplete. This paper therefore does not claim that a particular alternative would certainly have preserved the system.

The opposite claim—that collapse on the observed timetable was inevitable—is also stronger than the evidence presented here warrants. A regime can contain a serious structural tension and still have multiple possible paths. Assessing those paths requires more than identifying the final failure. It requires asking what participants knew, what instruments were available, and which distributions of risk could have obtained agreement at the time.

The defensible conclusion is conditional: official support is most durable when the commitments it sustains remain compatible with a plausible adjustment path and a politically acceptable allocation of its costs.

CONCLUSION AND SERIES CONTINUITY

Monetary trust survived by changing its terms

The historical movement from 1944 to 1973 was not simply a journey from rules to discretion. The original order already required judgment about access to financing, capital controls, parity changes, and the boundary between temporary shortage and fundamental disequilibrium. Its institutions made that judgment more organized and cooperative. Their achievements depended on the resources and political commitments behind the rules.

The contribution to a longer history of credit

Earlier installments of this series followed the recording of obligations, the growth of monetary institutions, and the relationship between banking and public authority. This chapter extends that trajectory across borders. The credit chain now included national reserve assets, international lenders, official guarantees, clearing arrangements, and reciprocal support among central banks. Each layer widened the possibilities for exchange while adding another relationship whose performance had to be trusted.

The essential continuity is the separation between a claim and the conditions that make it perform. Written obligations, recognized money, or an official parity can establish the terms of a promise. They cannot alone ensure the output, tax revenue, foreign exchange, or political consent required to honor it. Bretton Woods increased the institutional capacity to manage that gap. It also exposed the difficulty of managing the gap when national commitments pulled in different directions.

Three enduring analytical questions

Who supplies the settlement asset? The answer determines whether a shortage can be relieved by domestic issuance, must be financed abroad, or requires a change in the promise. Who bears the residual exposure? Netting, guarantees, official lending, and hedging alter that answer in different ways. What makes eventual adjustment credible? A bridge is useful only in relation to what it connects: recovering receipts, stronger productive capacity, a revised exchange rate, or another identifiable source of performance.

These questions produce a more precise account than a simple opposition between sound money and managed money. Gold conversion itself depended on rules, institutions, and decisions about eligible claims. Managed arrangements could strengthen repayment and settlement, or postpone recognition that their terms required revision. The historical task is to examine the mechanism and its effects in each case.

Where the next chapter begins

By 1973, major currencies had moved into a different exchange-rate environment, while the institutions created for consultation and international financing continued. The next historical problem is how private and public balance sheets adapted: how international banks extended credit, how borrowers managed currency mismatches, and how subsequent shocks tested the promises built in the new environment. Those developments lie beyond this paper's endpoint, but their governing question is already visible.

CLOSING PROPOSITION

Monetary trust is durable when the promise is specific, the supporting resources are usable, and the allocation of risk remains acceptable to the institutions and people expected to carry it.

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Series placement

This paper follows *The Promise Under Strain: War, Depression, and the Reconstruction of Monetary Trust, 1914–1944*. It continues the series’ progression from early currency and pre-coin credit through coinage, banking, state finance, and twentieth-century monetary reconstruction. Its narrative is designed to stand alone and to function as a chapter in a future collected volume.

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