FC III

BRETTON WOODS

BERKELEY
MODEL UNITED NATIONS

LETTER FROM THE CHAIR

Hello delegates,

My name is Miya Rosenthal and I am the head chair of the Bretton Woods committee for BMUN's Fall Conference 2023. I am a sophomore here at UC Berkeley majoring in Media Studies and Economics, and minoring in Public Policy. This will be my sixth year of Model United Nations and my second year of BMUN. I am passionate about improving social welfare, racial equity, and public history, as well as documenting my travels, thrifting everything, trying cute cafes, and enjoying all things sports. I am so glad to share this crisis committee as a mechanism for teaching and learning about international monetary policy. I am hoping that this committee will reflect the real world by requiring you all to be vigilant in your planning for the future while necessitating adaptation to economic crises. We are all so excited to meet you all at Fall Conference III!

Step into the year 1971, a pivotal moment in the global economic landscape. The international monetary system, established by the historic Bretton Woods Conference in 1944, is on the brink of collapse. Whispers of change permeate the air as the stability of world currencies becomes increasingly unsustainable, revealing the need for a new approach. World leaders have convened a gathering of the Bretton Woods stakeholders, scheduled to take place from March 6 to March 27, 1971. This crucial conference seeks to address the weaknesses of the existing system and envision a path forward for the international monetary framework.

Now, world leaders are calling together a conference, a second gathering of the Bretton Woods stakeholders, to discuss the imminent fall of the system. It will begin March 6, 1971 and will end on March 27, 1971. Delegates will be asked to consider the weaknesses and strengths of the system, what changes need to be made, and how to structure the international monetary system moving forward. The implications of the decisions made in this year, a turning point in the world economy, are sure to ripple out in the decades to come, dictating the future of the global community, and determining the financial practices that the next phase of development will be built on.

Sincerely,

Miya Rosenthal

Miya Rosenthal
Head Chair of Bretton Woods
Email: mrosenthal@bmun.org

BRETTON WOODS CONFERENCE

TOPIC BACKGROUND

Historical Events

The events leading up to the Bretton Woods Regime show how the instability in the world was causing concerns in the international community. Nineteenth century globalization created an increasing interconnectedness which led to an environment where the actions of one country inevitably would affect another without those actions being checked or regulated. Industrialization changed ideas about productivity and the market, influencing international trade by widening the gap between one country's capabilities and another's. This led to the establishment of an early international monetary system and the gold standard which helped to stabilize currencies and exchange rates. But this revealed the fragility of the global community through a process called arbitrage, where merchants would buy gold in one country and sell it in another to profit off of the different "prices" of gold (Eichengreen). World War I showed how easily the status quo could be disrupted as countries began departing from the gold standard. This, coupled with the lack of a central body and global distrust contributed greatly to the impact of crises in the interwar period.

International Action

The result of the increasingly globalized world and the hectic international monetary system was an unstable financial system. The German hyperinflation and the United States stock market crash are impactful events that did not occur in isolation. The events rippled out and had lasting impacts on various regions of the globe.

The Bretton Woods Conference

During World War II economists came to the conclusion that something needed to be done about financial stability on a global level. In order to manage crises and to regulate the international monetary system, several hundred delegates gathered together from July 1, 1944 to July 22, 1944 in Bretton Woods, New Hampshire. Their purpose was to establish an international body, the first of its kind, to supervise and regulate countries' financial transactions to help prevent bad repercussions from rippling throughout the rest of the international community.

The famed John Maynard Keynes (UK) and Harry Dexter White (US) were the primary thought leaders, though they disagreed very strongly with one another. During the conference, Keynes acted as a proponent for an international currency as the world was growing increasingly globalized. This idea was ultimately not implemented while White's approach - which focused on regulatory bodies - became the focus of the conference. In order to satisfy the two economists and to create a compromise for their ideas, they were put in charge of two different committees within the conference, each of which would focus on a different institution (Steil).

Keynes was one of the earliest to state radical ideas about an international monetary system and was a proponent of an International Clearing Union, which would help to balance trade on a global level. He ultimately managed the committee on the creation of the International Bank for Reconstruction and Development, the original "World Bank". The focus of the conference, the creation of the International Monetary Fund, was managed by Harry Dexter White.

The International Monetary Fund (IMF)

According to the Articles of Agreement, the purpose of the IMF was to "promote stability of exchange rates and financial flows". The IMF pegged currency exchange rates to gold using the dollar. Countries committed to making their currencies convertible conformed to various forms of supervision from the IMF, which also allowed them to access membership of the World Bank (IBRD) and the benefits, monetary or otherwise, that came with that. Even within the IMF, power could be imbalanced as votes were given to countries depending on how much money they contributed to the fund. The original purpose of the IMF as a supervisory and regulatory body has changed significantly since 1971, as the closing of the gold window and the lessening of its supervisory obligations limited its toolbelt.

Key Events

The Marshall Plan

The Marshall Plan was the popular name for the European Recovery Program, an American led international aid program created in 1948 to help rebuild the economies of the war-ravaged European countries. Over the 4 years that the plan was active, more than 12 billion dollars in aid were given out (about 125 billion dollars in 2019 dollars) in the form of grants by the US Treasury that mostly did not have to be repaid. The United States believed reducing poverty was key to fighting communism, first dispersing aid in Greece and Turkey, which were considered highly susceptible to communism. A larger percentage of the aid also went to the industrial powers, because their growth was thought to have a spillover effect on neighboring countries. The Soviet Union and Eastern Bloc countries were offered aid under the Marshall Plan, but the Soviets refused and also prevented countries under their sphere of influence from accepting aid. The Marshall Plan benefited the reputation of the United States greatly. The nation was able to cement its influence in other parts of the world through the use of aid, abrupting the balance of power by placing more financial responsibility on the US in the years to come.

Increased Involvement

Just as the United States' influence on the international organizations was cemented, more and more countries began to join the Bretton Woods organizations. At their founding in 1944, there were only 44 different countries with memberships - and these numbers were largely concentrated in western nations and the nations under their influence. However, by 1971, there were 123 member states (Center for Financial Stability).

In the 1950s, the majority of countries that joined were Asian and Middle Eastern countries. This mirrored regional movements into increased development and involvement in the global community especially inJapan, Korea, and China.

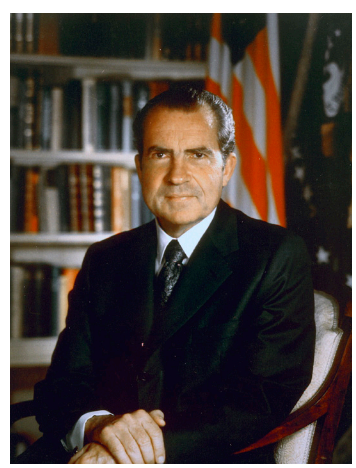
From the late 1950s and up to 1971, African countries became more involved in the Bretton Woods organizations.due to the economic success of other member nations from international pressures to develop. Despite the fact that the world was growing more and more interconnected, the ideology separating a developed "north" from a less developed "south" became more significant.

The United Kingdom and Balance of Payments

A prior monarchical superpower, the United Kingdom was an original influencer in the creation of the Bretton Woods organizations. However, as time went on, it pushed the boundaries of the very rules it helped to create. Under the rules and regulations of the International Monetary Fund, the devaluations of a nation's currency must be reported to the IMF at least twenty-four hours in advance. Initially, the UK conformed to this by devaluing its currency and warning the IMF in due time, then with an eleven hour warning, and then one hour. The IMF's inability to respond with action to this kind of activity pointed to its lack of regulatory authority.

The Fall of the Bretton Woods Regime

The Bretton Woods Regime began devolving around 1968 and finally dissolved in 1973. The year 1971 was the turning point of the system with President Richard Nixon's closing of the gold convertibility window, but the years preceding suggested problems to come.



The system was overly reliant on the United States' leadership and its currency. Countries pegged their currencies to the United States dollar, and the United States allowed sums of currency to be exchanged for gold. Through the 1960s, the United States' dollar underwent several stressful crises and struggles to to effectively devalue its currency.The result of this was the currency's perceived overvaluation against gold (International Monetary Fund). In August 1971, Nixon closed the gold window.

CASE STUDY

The Establishment of the Gold Standard

The gold standard was a monetary system in which countries directly linked their currency values to gold, such that one could buy a fixed amount of gold for a guaranteed fixed amount of paper money. This fixed amount was used to estimate the value of the currency. For example, if the US set the price of gold at $1200 an ounce, the value of the dollar would be 1/1200th of an ounce of gold (Bordo).

The gold standard was adopted across the globe in the 19th century and by the early 1900s, though it had different forms in different nations. The major advantage of the gold standard was that it offered price stability in the long run, with an average annual inflation rate of 0.1% between 1880 and 1914, since the quantity of gold in the world only grew at a slow pace due to mining. Exchange rates were also fixed since they were tied to the price of gold, due to which price levels around the world moved together. However, for the gold standard to work, central banks around the world had to play "rules" which stipulated that central banks had to increase their discount rates (the rate at which the central bank lends money to other banks) to facilitate a gold inflow or outflow to ensure that the ratio of price levels in different countries matched the exchange rate (Bordo). The gold standard worked reasonably well until 1914 because the Bank of England, the dominant central bank of the time, played by these rules, ensuring the stability of the gold standard. Then World War I broke out.

Due to the financial instability the war caused, most nations were immediately forced to suspend gold convertibility. From 1925 to 1931, the UK and USA were some of the last nations to continue holding gold, but due to the European Banking crisis and Great Depression, they were also forced off by 1933, marking the end of the Gold Standard.

The major weakness of the gold standard, one which eventually brought about its downfall, was that it did not allow governments the flexibility to set monetary policy based on the economic situation. The failure of the Gold Standard later led to the creation of the Bretton Woods System.

CURRENT SITUATION

What if the international community, in the months before, picked up on all the cues and decided they needed to reform the Bretton Woods system? What weaknesses would they change? What worked out the first time, what changed in the world, what would be better in this new world?

Committee Jurisdiction

What if, in 1971, world economic leaders realized the fragility of the international monetary system and decided they would hold a conference to address it? This hypothetical situation is the basis of this committee. We call it Bretton Woods and it may go in one of two directions: This crisis committee will either be known as the Bretton Woods Conference II or the fall of Bretton Woods. Though intended to address a different time and situation, this committee will mirror the original conference by taking place over the course of three weeks. Each day of the conference will be roughly one week (or the proportional amount) starting on March 6, 1971 and ending on March 27, 1971.

Participants will be asked to write a document – one single document for the entirety of the committee – in order to reform the regulatory bodies and the rules of the regime. They must critique the existing structure of the international monetary system and understand what actions must be taken in order to address its shortcomings. By working on one single document, participants will be coming from a realistic perspective on the necessities of compromise and the level of detail required to see legislation or resolutions come to fruition. This must happen while responding to economic crises as they come up during the conference.

During crises, delegates may respond jointly (as a committee) or personally (as an individual delegate) using their appropriate portfolio powers. These will vary given the nature of the committee and the limits of their respective assigned positions – organizational leaders, country delegates, or economic consultants.

The Dollar Wall Street Regime

The Dollar Wall Street Regime was the monetary system that replaced the system created at the Bretton Woods Conference. Although it only came into being after the events of this committee take place, the system, which many argue has persisted to today, serves as a good example of a somewhat stable monetary system. In essence, the early 1970's saw much frustration with the original Bretton Woods regime. Because the value of foreign currencies was tied to the United States dollar, recovering economies of countries like West Germany and France saw their currencies undervalued by the international monetary system. Meanwhile, a series of wars and global economic shifts away from US dominance meant that the US dollar became overvalued in comparison because, despite sluggish US economic growth that would ordinarily devalue the dollar, the value of the dollar was propped up by the recovering economies of Europe. For many European countries, fixed exchange rates meant that their otherwise-increasingly valuable currency and goods were sold for a fixed price in the US. In the US, this meant that foreign goods continued to appear comparatively cheaper because they increased in real value but could be purchased at the same price. The result was increasing dissatisfaction with the system in Europe, and economic stagnation in the US caused by the inability of domestic business to compete with imported goods that could be purchased at prices suppressed by the fixed exchange rate system. Trade meant that dollars were flowing out of the United States to the countries where goods were cheaper, further augmenting the problem by giving other countries dollars they could not afford to buy American goods with. Eventually, as European economies increasingly began leaving the Bretton Woods system and exchanging their dollar reserves for gold to provide economic independence, the United States' gold reserves began to empty. To ensure that dollars could still be converted to gold, the government was forced to devalue the dollar. Meanwhile, in Europe, countries leaving the Bretton Woods system saw the value of their currencies rise as they were no longer tied by fixed exchange rates. Eventually, President Nixon ended the convertibility of the US dollar to gold, ending Bretton Woods and creating the Dollar Wall Street Regime.

QUESTIONS TO CONSIDER

1. The Bretton Woods organizations are still around, but most don't understand how their origin shows a different purpose from their current state of being. How have their responsibilities changed? Who is managing their old responsibilities? What responsibilities do you have to these institutions as an influencer on the state of international monetary policy?

2. How have spheres of financial influence changed from the twentieth century to the twenty-first century? Which countries currently dominate the global economy? What were these countries doing in 1971? How are you related to these countries? What opinions/predictions do you (as of 1971) have about the balance of power in the world?

3. What is one successful part of the Bretton Woods Regime? What is one failure? How does your perspective in this committee inform why these particular aspects of the system are either successes or failures? What is one way you could fix one failure?

4. What does development mean to you - the person you represent in committee? How do the policies you advocate for support development? Are you inherently biased? Can you compromise?

5. We know what has happened to the international monetary system since 1971; in the same year, what policies might your position be arguing for? Should the Bretton Woods organizations be manipulated into keeping the status quo? Would your character be ok with the world as it is now?

APPENDIX

Technical Background Information

The below section contains some terms that may be useful for delegates to define for themselves before the conference. We encourage delegates to both do their own research and refine learning skills as well as to keep up with the news and the committee blog to see how these terms build into an understanding of the topic.

- Monetary policy
- Devaluation
- Balance of payments
- Beggar-thy-neighbor
- Inflation
- Stagflation
- Expansion
- Recession
- Tariffs
- Trade Agreements
- Exchange rate
- Dollarization
- Fixed exchange rate
- Floating exchange rate
- Linked exchange rate
- Managed float regime
- Dual exchange rate
- Markets
- Foreign exchange market
- Assets
- Currency
- Foreign exchange swap

COMMITTEE MEMBERS

In order to give you an idea of what the committee might look like and who will be participating, we have provided brief overviews of positions in this committee. Papers should utilize this section as a point of departure for research, but more importantly to understand what other attendees in the committee might be. Committee participation should reflect both the professional capacities and the personal ideology of these participants. Delegates can be institutional representatives, country delegates, or economists/consultants.

Anthony Barber (Delegate, UK) — A Conservative Party British politician and economist, Barber ironically had a liberal economic policy that allowed for greater cooperation with Europe and the EEC. He increased lending, simplified taxes with VAT, and suggested more relaxed exchange controls.

Antonio Ortiz Mena (President, IDB) — Mexican economist and previous Secretary of Finance for Mexico, Ortiz promoted stability and industry throughout his career. With the Inter-American Development

Bank, he helped to represent the issues of Latin American stakeholders in discussions on development.

Amartya Sen (Economist) — An Indian economist and professor of economics, Sen is best known for his influential voice on development economics and social welfare measures. His past work focuses on experiences in developing nations, particularly India, emphasizing interconnectedness.

Daniel Kahneman (Economist) — Best known for his work in behavioral economics and his work with Amos Tversky, Kahneman is a well known Israeli-American economist. Politically, he's a proponent of libertarian paternalism. He is active with academic collaboration.

Emiel van Lennep (Secretary-General, OECD) — Van Lennep was a Dutch diplomat best known for encouraging greater international cooperation in the OECD and making it more effective. Before this, he worked in the Dutch Ministry of Finance.

Friedrich von Hayek (Economist) — Hayek was an Austrian economist and political philosopher that was a strong critique of Keynesianism, belonging to the Austrian school of thought. A strong supporter of free markets and an opponent of excessive government intervention, he was active in academia throughout the 1970s.

Jacques Polak (Chief Economist, IMF) — In 1971, Polak was the Chief Economist for the International Monetary Fund. A Dutch economist, he is known for his creation of the Polak model and his writings on the balance of trade, exchange rate, and the international monetary system. He believed strongly in international cooperation.

James Tobin (Economist) — Tobin was an American economist famous for his commitment to Keynesian economic ideas. He acted as an economic advisor and on the Federal Reserve Board; at one point, he suggested the "Tobin" tax, or a tax on foreign trade to reduce speculation in currency markets.

Jamshid Amouzegar (Delegate, Iran) — Amouzegar was an Iranian economist and diplomat that served as the Minister of Finance in 1971. During his time in office during the pre-revolutionary period in Iran, he also helped to head several OPEC meetings.

Johan Beyen (Delegate, Netherlands) — Considered one of the founding fathers of the European Union, Beyen was a liberal politician and Dutch diplomat that helped to promote regional unity by helping to create the European Economic Community. He played an important role during the first Bretton Woods.

John Richard Hicks (Economist) — Hicks was considered one of the most influential British economists and was a committed Keynesian. A labor economist at heart, he helped promote the classic, European view of welfare. He is most famous for his IS/LM economic model.

Joseph Stiglitz (Economist) — Stiglitz is an American economist and professor famous for his work on risk aversion and information asymmetry. He is largely considered to be a Neo-Keynesian and has worked on issues concerning international development and international trade in the past.

Karl Schiller (Delegate, Germany) — A West German Finance and Economics Minister, Schiller was an important and generally liberal economist who believed in government involvement in the economy. Politically, he was flexible but still a staunch believer in a market economy.

Leslie Melville (Delegate, Australia) — An Australian economist that helped establish Australia's central bank, Melville was the leader of the delegation to the first Bretton Woods. He was active in both international economic and domestic policy, even acting as Australia's Executive Director for the Bretton Woods organizations.

Milton Friedman (Economist) — Friedman was a prominent figure advocating for a policy of monetarism, for free markets, and against government intervention. In 1971, he was a professor at the University of Chicago. Outspoken against Keynesianism, he achieved international fame with his book "Capitalism and Freedom".

Paul Volcker (Delegate, USA) — Most famous for his economic theory - the Volcker shock - he was Undersecretary of the Treasury for International Monetary Affairs from 1969. He played a key role in Nixon's decision to suspend gold convertibility, resulting in the collapse of Bretton Woods.

Pierre Trudeau (Delegate, Canada) — The leader of the Liberal Party and the Prime Minister in 1971, Trudeau was a Canadian diplomat and strong believer in Keynesian economic policy. He subscribed to the ideas of thinkers such as Galbraith and was a proactive proponent of economic collaboration.

Pierre-Paul Schweitzer (Director, IMF) — French businessman and previous Deputy Director of the French Treasury, Schweitzer had a lot of involvement in the question of European and international cooperation. Under his tenure as director was the collapse of the Par Value system and the creation of special drawing rights.

Rachid Driss (President, ECOSOC) — In 1971, Driss was the President of the United Nations' Social and Economic Council and a delegate to the United Nations General Assembly. He was involved with the Tunisian Neo-Destour party that eventually changed to a socialist party in the nation.

Raymond Barre (Commissioner, EC) — A famous, conservative French economist and politician, as the VP of the European Commission Barre was able to make a big impact on the European economy. Consequently, he emphasized regional cooperation more than international cooperation.

Robert McNamara (President, WB) — McNamara was president of the World Bank since 1968. The former Secretary of Defense under JFK and LBJ, who oversaw US operations in the Vietnam War. At the World Bank, he focussed in particular on poverty reduction and development programs.

Robert Muldoon (Delegate, New Zealand) — Muldoon was New Zealand's Minister of Finance and a proponent of industrial incentives. He was associated with the economic stabilization seen from a program of expenditure cuts and increases in indirect taxes.

Robert Solow (Economist) — Most famous for the Solow economic growth model, Solow is known to follow the Neo-Keynesian school of economic thought. He has been well recognized for his past experience and held several government positions. In 1971, he was active as MIT faculty.

Roberto Campos (Delegate, Brazil) — Campos was a Brazilian economist and diplomat, active in discussions on international monetary policy and domestic issues. A likely reflection of ideological exposure from the United States in the late 1960s and 1970s, he was a strong opponent of state intervention in economic issues.

Shigeto Tsuru (Delegate, Japan) — Tsuru was the Japanese Economics Minister and a professor. Expert in economics, he had connections and educational experiences in both America and Japan, working with different organizations. His experience informed his desire for an international solution.

Simon Kuznets (Economist) — Kuznets was the American economist that won the 1971 Nobel Prize in Economics, and was considered one of the premier economists of the time. He's involved in the institutional economics school of thought and actively worked with NBER throughout his career.

Valéry Giscard d'Estaing (Delegate, France) — Giscard was the Economic Minister for France. Originally a Euro-Sceptic and supporter of Gaulle, he transitioned more to the center of the spectrum over time. An economic expert, he was actually prone to shifts in his political beliefs.

Víctor Urquidi (Delegate, Mexico) — Urquidi was a Mexican economist that graduated from the London School of Economics before working for the World Bank, being active in the Mexican government, and acting as a professor. Significantly, he was a delegate to the first Bretton Woods conference.

Zhou Enlai (Delegate, China) — Zhou was a Chinese politician active during the Cultural Revolution and known for helping to carry out the policies of Chairman Mao. He helped to strengthen political ties with the international community, being noticeably friendly with the United States and Nixon in particular.

WORKS CITED

About the IMF: The End of the Bretton Woods System (1972–81), International Monetary Fund, https://www.imf.org/external/about/histend.htm.

Blanchard, Olivier, et al. In the Wake of the Crisis: Leading Economists Reassess Economic Policy. MIT Press, 2012.

Blutstein, Harry. The Ascent of Globalization. Manchester University Press, 2016.

Bordo, Michael D. The Gold Standard and Related Regimes: Collected Essays. Cambridge University Press, 1999.

Bordo, Michael D. "Gold Standard." Econlib, The Library of Economics and Liberty, https://www.econlib.org/library/Enc/GoldStandard.html.

Bordo, Michael D. "The Gold Standard as a Rule." NBER, National Bureau of Economic Research, https://www.nber.org/papers/w3367.pdf.

"Is There a Good Case for a New Bretton Woods International Monetary System?" Bordo, Michael D., and Robert N. McCauley. Triffin: Dilemma or Myth?National Bureau of Eco nomic Research, 2018.

Bretton Woods Agreements Act Amendment: Hearings Before the Committee on Foreign Relations, Unit ed States Senate, Eighty-Seventh Congress, Second Session, on H.R. 10162, to Amend the Bretton Woods Agreements Act to Authorize the United States to Participate in Loans to the International Monetary Fund to Strengthen the International Monetary System, March 30 and April 3, 1962. United States Government Printing Office, 1962.

Desai, Radhika. Geopolitical Economy: After US Hegemony, Globalization and Empire. Pluto Press, 2013.

Eichengreen, Barry J. Globalizing Capital: a History of the International Monetary System. Princeton Univer sity Press, 2008.

Eichengreen, Barry J. The Gold Standard in Theory and History. Methuen, 1985.

Gilpin, Robert, and Jean M. Gilpin. Global Political Economy: Understanding the International Economic

Order. Princeton University Press, 2001.

Helleiner, Eric. Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order. Cornell University Press, 2016.

Kahn, Richard. "The International Monetary System." The American Economic Review, vol. 63, no. 2, 1973, pp. 181–188. JSTOR, www.jstor.org/stable/1817072.

Lioudis, Nick K. "What Is the Gold Standard?" Investopedia, Investopedia, 12 Mar. 2019, https://www.investopedia.com/ask/answers/09/gold-standard.asp.

Odell, John S. U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change. Prince ton Univ Press, 2014.

Schuler, Kurt, and Mark Bernkopf. "Who Was at Bretton Woods?" Center for Financial Stability, 1 July 2014.

Steil, Benn. The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order. Princeton University Press, 2013.

United States. Department of State. "Volume I" in Proceedings and Documents of the United Nations Mone tary and Financial Conference, Bretton Woods, New Hampshire, July 1-22, 1944.

United States Department of State, U.S. Department of State. "Marshall Plan, 1948". https://history.state.gov/milestones/1945-1952/marshall-plan.

Williams, John H. "The Bretton Woods Agreements." Proceedings of the Academy of Political Science, vol. 21, no. 3, May 1945, pp. 40–50., www.jstor.org/stable/pdf/1173058.pdf.

Williamson, Jeffrey G. Winners and Losers over Two Centuries of Globalization. UNU World Inst. for Devel opment Economics Research, 2002.

BERKELEY MODEL UNITED NATIONS
PO box 4306, Berkeley, CA 94704 | bmun.org