



Key Economic Events

1944 - Bretton Woods Agreement:

Developing a New International Monetary System

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Event

1944 – Bretton Woods Agreement: Developing a New International Monetary System

In the first three weeks of July 1944, delegates from 44 nations gathered at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The delegates met to discuss the postwar recovery of Europe as well as a number of monetary issues, such as unstable exchange rates and protectionist trade policies.

During the 1930s, many of the world's major economies had unstable currency exchange rates. As well, many nations used restrictive trade policies. In the early 1940s, the United States and Great Britain developed proposals for the creation of new international financial institutions that would stabilize exchange rates and boost international trade. There was also a recognized need to organize a recovery of Europe in the hopes of avoiding the problems that arose after the First World War.

The delegates at Bretton Woods reached an agreement known as the Bretton Woods Agreement to establish a postwar international monetary system of convertible currencies, fixed exchange rates and free trade. To facilitate these objectives, the agreement created two international institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The intention was to provide economic aid for reconstruction of postwar Europe. An initial loan of \$250 million to France in 1947 was the World Bank's first act.

The Bretton Woods Agreement was also aimed at preventing currency competition and promoting monetary co-operation among nations. Under the Bretton Woods system, the IMF member countries agreed to a system of exchange rates that could be adjusted within defined parities with the U.S. dollar or, with the agreement of the IMF, changed to correct a fundamental disequilibrium in the balance of payments. The per value system remained in use from 1946 until the early 1970s.

Advocates of the Bretton Woods system believed that stable exchange rates would avoid the "beggar thy neighbour" policies of the 1930s and benefit economies around the world by expanding international trade. However, over time, exchange rates became uncompetitive because of the infrequent changes in parities. In addition, there were often large destabilizing flows of currency, as speculators bet on the value at which the fixed exchange rate would be refixed. There were also concerns that a fixed exchange rate system did not allow countries enough freedom to pursue their own monetary and fiscal policies.

Initially, Canada maintained a per value with the United States dollar. In 1946, the Canadian dollar was revalued, but it fell under significant downward pressure the following year and was devalued in 1949. Amid much criticism over what had been happening to the dollar's value under a fixed exchange rate system, the Canadian government decided in 1950 to allow the dollar to float. Another 12 years would pass

before Canada reinstated a fixed exchange rate.

Canada's maverick years would later become a model for other countries when the fixed exchange rate system of Bretton Woods proved unworkable in the early 1970s and was replaced by a system of floating exchange rates. Many economists and bankers still periodically call for a return to fixed exchange rates.

The International Trade Organization that had been planned in the Bretton Woods Agreement could not be realized in the form initially envisaged—the U.S. Congress would not endorse it. Instead, it was created later, in 1947, in the form of the General Agreement on Tariffs and Trade, which was signed by the U.S. and 23 other countries including Canada. The GATT would later become known as the World Trade Organization. In recent years, the two international institutions created at Bretton Woods the World Bank and the IMF have faced a major challenge in helping debtor nations to get back on stable financial footing.

Links

Bretton Woods Project

Source: Bretton Woods

<http://www.brettonwoodsproject.org>

Articles of Agreement of the International Monetary Fund

Source: International Monetary Fund

<http://www.imf.org/external/pubs/ft/aa/index.htm>

The World Bank Group Homepage

Source: The World Bank Group

<http://www.worldbank.org>

A History of the Canadian Dollar by James Powell

Source: Bank of Canada

http://www.bankofcanada.ca/en/dollar_book/index.htm

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