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Closing the Gold Window: The End of Bretton Woods as a Contingency Plan

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Abstract

In August of 1971, President Nixon announced that the United States was "closing the gold window," bringing an end to the postwar system of international exchange rate stability and precipitating a period of significant uncertainty and transformation in global institutions. Although this critical historical episode is important for an understanding of historical "neoliberalism" and institutional change, modern sociological perspectives have scarcely been applied to it. The present analysis uses archival data to show that closing the gold window was never the goal or preferred strategy of the Nixon administration, which had spent years preparing much more modest reforms. Nevertheless, US policymakers took this unilateral action as a contingency plan to achieve a short-term goal, knowing that it would dramatically change the functioning of the international economy. Surprisingly, the autonomous structure of the IMF did not channel US initiatives toward gradual evolution but rather helped determine a radical change in strategy.

Keywords

Bretton Woods, International Monetary Fund, institutional change, neoliberalism, economic policy

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The three decades leading up to the global economic crisis that began in 2007 were a time of rapid economic change, marked by a series of crises and innovations that became the basis of what we think of as global neoliberalism today. Many of the changes in the international economic landscape have had to do with international currency markets. In 1992, George Soros infamously took a roughly $10 billion position against the British pound, forcing a devaluation that profited Soros at least a billion dollars from his short sale. Soros was similarly implicated in the Asian currency crises of 1997. Events such as these have raised questions about the empowerment of private and international actors over sovereign governments, and liberalized currency markets have been at the center of concern. Although Soros's very public embarrassment of the Bank of England sparked an important conversation on the topic, it was hardly an unprecedented event. Not only private individuals such as Soros but also major banks, multinational corporations, and sovereign governments had been making similar use of international currency markets since the 1970s.

These actors have often operated by in fact contributing to exchange rate volatility in order to profit, and they had been doing so for at least two decades before the infamous Soros maneuver. In the 1970s, private banks became more heavily invested in developing economies and increasingly leveraged on foreign currency positions. Flows of investment capital into and out of developing economies took on a more speculative character during that time, as international investments rapidly increased in volume and volatility. In turn, just as the "neoliberal" era has been marked by the rise of international monetary profiteers, there have been major losers as well. The 1970s are well known for the acceleration of fiscal crises in the developing world, crises that were often exacerbated by speculative capital flight from the looming prospect of currency devaluation. This pattern was of course marked by the accumulation of ever-greater levels of foreign debt, held significantly by private banks and the International Monetary Fund (IMF), and by the increased use of "conditionality" in IMF loans. The 1970s, therefore, are well documented as a period of major upheaval in the international economy, centering significantly on international currency markets. What enabled this upheaval?

Before and after Soros and the wave of structural adjustment programs through the IMF, antiglobalization movements have risen and been repressed. Academic debates about the very nature of "globalization" and its consequences have ebbed and flowed as well. Global flows of finance capital have already allowed the greatest economic crisis of the new century. Underlying all this, however, has been an international system predicated on liberalized currency markets. It might sometimes escape our memory that the world was previously governed by a system of fixed exchange rates. Throughout the postwar period, exchange rates were fixed in place by an institutional regime known as the Bretton Woods framework, in which the IMF guaranteed exchange rate stability by way of the US dollar's convertibility to gold at a fixed price. Many of the developments alluded to above were predicated on or exacerbated by the breakdown of that international monetary order. This breakdown is known as the end of Bretton Woods, marked by President Nixon's 1971 announcement that the US Treasury would be "closing the gold window"—ceasing the exchange of dollars for gold, immediately overturning the system of fixed exchange rates that had prevailed since 1945. What prompted this radical decision?

Despite the clear importance of this case for our understanding of the modern global economic landscape, modern social science has scarcely grappled with the political causes of the end of Bretton Woods. The present research does just that: declassified archival data allow us to examine the process leading to the end of Bretton Woods, through the actions and deliberation of key officials in the US Treasury and the White House, and demonstrates clearly how President Nixon arrived at his radical 1971 position. The article will review the existing scholarship, push back against the idea that Nixon's decision was largely structurally determined, and instead offer a contingent political explanation. The key puzzle to be explained is that the United States never wanted to bring an end to Bretton Woods, nor was closing the gold window ever a preferred strategy in international monetary reform. Rather, the United States was backed into that position through international politics, turning begrudgingly to closing the gold window in order to achieve a short-term relief of its international deficits, given international opposition to the more modest reforms that the United States preferred.

The end of Bretton Woods, reexamined in this light, is presented as a late-arriving contingency plan of the US government, in response to failed attempts to negotiate reform to Bretton Woods and uncertainty over whether it could succeed in bending the regulatory structure of Bretton Woods toward the policy the Nixon administration preferred. The concern was not the pending collapse of the Bretton Woods system in itself but rather the prospect of a multilaterally negotiated path forward. This finding significantly alters our understanding of the history of the case and offers an alarming account of institutional change more generally. Not only are powerful actors able to overturn major institutional structures directly through purposive action; it is also perfectly clear that they may opt to do so, not out of any conviction or grand design but rather begrudgingly to achieve a different purpose. That abrupt and unexpected end to a decades-long global institutional regime should be considered in the context of the contemporary one. Many aspects of the global order, such as defense sharing through the North Atlantic Treaty Organization and American hegemony through the dollar's status as the international reserve, have evolved continuously through existing institutional channels since Bretton Woods was inaugurated, as many scholars of institutional change would predict. However, the findings of this case align with those that point to the role of purposive institutional displacement as a driver of change that needs to be more adequately theorized.

The following section introduces existing political-economic analyses of the end of Bretton Woods; it also serves as an important background to the narrative that follows a discussion of the new data used in this analysis. The bulk of the narrative traces the intrastate deliberation and international politics surrounding international monetary reform, highlighting the pivot toward closing the gold window as a strategy precipitated by the failure of other preferred options. The discussion and conclusion will identify several insights that these findings bring to our understanding of the contemporary global economic regime and to instances of major institutional change more generally.

Understanding the End of Bretton Woods

Background

The 1944 Bretton Woods agreements established the International Monetary Fund (IMF) as a body to provide liquidity for member states facing short-term fiscal deficits and moreover to facilitate economic cooperation, providing general fiscal stability through a system of fixed exchange rates. Payments into the Fund by countries in a position of fiscal surplus would effectively finance the short-term deficits of other countries, and fixed exchange rates were intended to "maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation."[1] The notion of competitive exchange depreciation is important to understand for this case, as it was exactly the US goal in international monetary reform. It is understood as an attempt to correct international payments deficits through the exchange rate rather than domestic policy. Fixed exchange rates were supposed to allow for a stable expansion of trade and investment without major fluctuations in the balance of payments, giving countries a stable fiscal platform from which to engage in Keynesian management of the domestic economy. The growth of robust developmental states was facilitated considerably by exchange rate stability.

It is important to understand how this stability was achieved technically. The core feature of the IMF Articles of Agreement was mandatory convertibility of any currency to another, and central banks were required to intervene in currency markets to maintain their exchange rate within 1 percent of a set "par" value. Ultimately, though, par values themselves were held in place by the guaranteed convertibility of the dollar to gold at a set price.[2] This fact deserves several comments. First, because the US Treasury held the majority of the world's monetary gold, the United States was at the center of the international monetary system. Second, an important caveat to this system was that IMF member countries were granted a grace period after ratification of the Articles of Agreement to establish a stable par value for their currency.[3] This transitional period was cut off exceptionally early for Great Britain, forcing it into an indebted position after the war and cementing a shift in imperial politics away from British sterling toward the hegemony of American gold.[4] In the immediate postwar period there was a shortage of dollars in the international system, but as postwar economies were rebuilt and the American private sector was increasingly attracted to overseas production, that shortage became a dramatic flood of dollars outside the United States.[5]

The Bretton Woods system therefore came to function as a de facto dollar standard, and large swathes of the world's liquidity were held at central banks in the form of US dollars.[6] The dollar's status as the "international reserve currency" gave the United States a unique imperial right, or "exorbitant privilege,"[7] to offload the costs of its global military apparatus and significant deficits. Given amassing deficits and the dollar's status as the world's most liquid currency, "the United States need have no concern about financing her payments deficits, since other countries can be relied on either to accumulate dollars or, if they do not wish, to undertake [exchange rate] adjustment."[8] That is, a deficit-created outflow of another country's currency was liable to be converted into dollars internationally, while the massive international buildup of dollars was simply held in place as the world's most liquid asset, serving as an indefinite extension of credit to the US Treasury. Defending the status of the dollar was unquestionably the American interest in monetary reform; the puzzle lies in explaining why the United States chose to break with the international monetary system to pursue that goal.

The Unraveling of Bretton Woods

The central dynamic of Bretton Woods, as mentioned above, was a combination of exchange rate stability and major economic expansion, including an expansion of trade and capital flows. Those dual features are key to understanding part of the causes and consequences of the end of Bretton Woods. The conventional understanding points correctly to a contradiction between those trends, by which the expansion of trade and foreign investment exacerbated the tendency of dollars to accumulate abroad, undermining confidence in the dollar and threatening the dollar-based international monetary system. The demise of Bretton Woods is largely attributed to this structural contradiction. In the aftermath, it must be said that if exchange rate stability was ultimately incompatible with increased trade and capital flows in a dollar-dominated monetary system, it is understandable that liberalization of exchange rates would introduce significantly more volume and volatility into both arenas. In fact, volatility in capital movements was a major concern with floating exchange rates and a primary reason that White House advisers initially rejected the proposal. Immediately after Nixon's announcement, there were a series of international negotiations to "patch up" the Bretton Woods system under terms that would virtually erase American deficits through exchange rate changes. Indeed, though, the United States recognized that it was likely operating in a future of exchange rate flexibility. By 1973, the world's major currencies began to fluctuate much more than they had previously, and it was apparent that floating exchange rates were the core of the new monetary system. In addition to exchange rate changes in Western Europe and Japan, exchange rate volatility helped cause or exacerbate significant fiscal crises in the developing world, along with a rapid increase in the role of the IMF, which extended much larger amounts of credit to increasingly indebted countries. By the mid-1970s, the IMF and the US Treasury became central players in a series of such fiscal crises, which culminated in harsh "conditionality," the well-known practice of imposing fiscal austerity and, later, more specific neoliberal reforms as a condition of lending.[9] It is important to remember that this animating feature of contemporary global economic relations links directly back to the end of gold convertibility in 1971.

Regarding the relationship between stable exchange rates and the expansion of international trade and capital flows, there was a central contradiction in Bretton Woods, famously attributed to the economist Robert Triffin in 1960.[10] The basic observation of the "Triffin dilemma" was that the expansion of trade and capital mobility, coupled with rising deficits that the United States was allowed to accrue by way of the dollar's status as the international reserve, would lead to an unsustainable shortfall of gold in the US Treasury to back the excess dollars in circulation. The shortfall would ultimately lead to a crisis of confidence in the dollar, threatening the stability of the system and, certainly, the dollar's dominance of it. Indeed, several significant moves away from the dollar in currency markets abroad were considered to be the proximal cause of Nixon's decision to close the gold window to stop a supposed run on the US Treasury. This widely accepted narrative holds that the gap between US gold and the global dollar glut became critical in 1971, forcing Nixon to take definite action to maintain the world's liquidity, or at least to avoid a situation of international monetary reform whereby the dollar was removed from its position as the international reserve.[11] The narrative is, however, called into question by an analysis of primary sources. John Connally, secretary of the Treasury, speaking with President Nixon (on tape) on the eve of the Camp David meeting, argued bluntly,

> I don't think we ought to think in terms of a crisis. We're lined up here with six billion dollars. What the hell difference does it make whether we've got six or ten billion, in the final analysis. I'm not worried about that, that doesn't worry me in the least. . . . We owe thirty billion, so what, so we can't pay it . . . if they call us. That isn't the critical point.[12]

My analysis is more concerned with the political and institutional circumstances of the case, because if economic circumstances are insufficient to explain the *fact* of American action here, the political motivations alone are insufficient to explain the *form* of that action.

The narrative below treats US strategists as both constrained by the existing political and regulatory structure of the Bretton Woods–era IMF and sufficiently powerful to flout those constraints by directly choosing to overturn the institution. The narrative analysis is broken into two distinct chronological phases. The first, and longer, period is characterized by compliance with the existing international monetary system and the pursuit of what may be fairly described as gradual reforms to it. The narrative will show a clear exclusive preference for reformist strategies, which eventually were met with skepticism from other major parties to the IMF. After giving up on these reform negotiations, the Americans turned to studying the Articles of Agreement in order to reinterpret existing rules to allow for a major one-time adjustment of the dollar's relative value, effectively removing its dollar deficits. When the Treasury Department finally concluded that IMF rules were insufficiently flexible to allow for this kind of "discretion," then and only then did it turn to the more radical option of closing the gold window altogether. Thus the political and regulatory constraints of the IMF channeled US action, not toward more gradual and indirect institutional changes but actually to the opposite. The lesson of the case is that powerful actors such as the US executive branch may take strategic action to blow up a taken-for-granted major institution, not as an intended goal or strategy. Rather, major institutional change can take place knowingly and purposively, but simply as a means to a shorter-term goal. This narrative suggests that subsequent "neoliberalization" of international economic policy should be seen in the context of the US government's awareness that it needed to adapt to a new environment of its own creation but not of its own preference.

Data and Method

This novel explanation for the end of Bretton Woods represents a major revision to the predominant historical understanding of the case. Part of this correction should be attributed to a different theoretical approach. Rather than treat structural contradictions as sufficient for causal explanation, attention to the political dynamics of Bretton Woods offers a promising way to understand this episode.[13] The main contribution of my analysis is the collection of primary data that allows for a detailed contingent explanation. The analysis makes use of extensive primary documents showing the entire process of international monetary reform within the working group headed by Paul Volcker, who would later be the chair of the Fed under Presidents Carter and Reagan, from its initial formulation through its culmination in 1971. The narrative is composed with attention to the development of US strategy and its preferred policy options, to evaluate how those variables evolved in relation to the politics of IMF negotiations.

All archival data are from the National Archives II in College Park, Maryland. They were taken largely from a single series in the Treasury Department records that covers the activities of the Volcker Working Group (VWG) from 1965 through the early 1970s, and over 10,000 pages of documents were sorted and analyzed in order to compile a detailed narrative. Many key documents that represent high-level position papers or contingency plans were found in records of other executive branch organizations, but all are cited from their location in the Treasury Department series as the primary research site. The documents from the VWG comprise daily memoranda from within the policymaking group and key external communication with the US Executive Director to the IMF, the White House, and the State Department. The documents include communication between VWG members that discuss strategy, opinion, draft policy, or diplomatic proposals. Together, these documents represent a uniquely deep look at the process of international monetary reform, as the VWG can be thought of as a central node in the planning and coordination of international monetary reform. Throughout this episode, the primary goal of US reform efforts was a relative devaluation of the dollar (or an equivalent upward revaluation of other major currencies), to clean up the glut of dollars in foreign central banks.

Closing the Gold Window in Institutional Context

Although Bretton Woods is sometimes referred to as a system of "fixed" exchange rates, it is more accurately described as a system of "stable" exchange rates or an "adjustable peg."[14] That is, the fixed par values of currencies were allowed leeway for one-time exchange rate changes, using institutionalized provisions in the Articles of Agreement that would become relevant in the American quest to devalue its exchange rate position. The Bretton Woods international monetary system had actually evolved considerably since its inauguration in 1948, including several cases of one-time changes to the stable par values of exchange rates. These cases were studied closely by the VWG for three reasons. First, they had the potential to affect America's gold position and foreign dollar holdings directly, for the reasons correctly identified by political-economic accounts of the case. Second, they represented a growing body of precedent for one-time exchange rate changes under the special case of “fundamental disequilibrium.” Invoking this provision of the Articles of Agreement required IMF approval but stipulated that the IMF might not disallow one-time rate changes in cases where maintaining the given par value would negatively impact the ability of member states to maintain full employment policies.[15] To the VWG, the concept of fundamental disequilibrium represented a potential to exploit IMF rules in their favor. By construing their position thus, they could, in theory, justify an alteration of the dollar’s gold value. The issue was particularly thorny because of the dollar’s status as the reserve currency and the anchor of the gold-exchange system. Although the revaluation of a single nondollar currency relative to gold had no direct impact on the value of any other currency, a revaluation of the dollar relative to gold would have direct consequences for all other currencies. That exact plan was put forward by the economist Robert Mundell in the 1960s, as will be discussed below.

Throughout the 1960s, discussions of the Triffin thesis had made their way into policy circles and broader discourse, and there was some broader support for the supplementation of liquidity within the international monetary system. In 1965, President Johnson initiated a secret-classified Working Group to study reforms to achieve this goal. Known initially as the Deming Group, for Fred Deming, then undersecretary of the Treasury, it was known as the Volcker Working Group after Paul Volcker was appointed undersecretary by the new Nixon administration.[16] In creating the Working Group, Johnson stated that “the Free World will need some way of systematically producing the additional liquidity which has been supplied by the payments deficits of the United States. This will require international agreements among the nations which are the primary sources of liquidity.”[17] More than just rhetoric, the actions of the Working Group would reflect this Bretton Woods–era internationalism—Johnson mandated that policy options be “fit for negotiation” within “a world of fixed parities.”[18] This established and reflected the initial parameters of reform-rule compliance and diplomatic feasibility. From the US point of view, however, the issue was not just a systemic concern but a matter of maintaining a dollar-based international monetary regime, along with its full-employment policy at home and deficits abroad, which were effectively subsidized by this system. In sum, the US goal in international monetary reform was to ensure that the monetary system operated not just in itself but on the continued basis of the dollar’s “exorbitant privilege”[19] as the international reserve currency.

The Working Group was housed in the Department of the Treasury but was composed of members of the Council of Economic Advisers, the State Department, and eventually the National Security Council under Nixon. Aside from its chairmen, key members were George Willis, deputy undersecretary, who was deeply involved in draft policy proposals, and legal counsel Michael Bradfield, who would provide key analyses of IMF rule compliance and, in fact, compliance with US law. Finally, Bill Dale, representing the United States as an executive director at the IMF, was a regular point of contact and strategist for international negotiations, as well as a liaison between the VWG and State Department outposts overseas.

The Initial Approach: Multilateralism and Compliance

For nearly three years after its establishment, the Working Group's activities were largely confined to internal discussions, aside from soliciting proposals and analyses from academic economists. The primary objective was to introduce some controlled exchange rate flexibility in the international monetary system to achieve a devaluation of the dollar relative to other major currencies and strengthen the dollar's position without a significant fiscal contraction. The Working Group's task was to study ways of introducing this exchange rate flexibility, and the process of selecting viable options illustrates the initial logic of reform. They preferred courses of action that aligned with the existing institutional framework of Bretton Woods: multilateral negotiation and short-term exchange rate stability.

Within that framework, the Working Group identified two mechanisms to achieve the dollar's devaluation: "wider margins" and a "crawling peg." Both approaches to exchange rate flexibility, while aiming to maintain the dollar as the international reserve and to boost its competitive position, reflected orthodox preferences for the Bretton Woods political and economic status quo. Wider margins meant simply increasing the 1 percent window in which currencies could fluctuate relative to the dollar, allowing the United States to negotiate an upward revaluation of other currencies. This proposal of course would depend on its negotiating power; there was thus concern that it would actually encourage further *depreciation*, rather than the desired *appreciation* of foreign currencies. Noting that "it generally appears to be easier to bring about depreciation than appreciation under the present system," the Working Group preferred that countries be "required to avoid intervention in the exchange markets for their currencies."[20] There was further concern that this proposal would give a significant competitive disadvantage to the US dollar—as the reserve currency, it could only fluctuate half as much as others.[21]

Like the wider margins plan, the crawling peg was seen to carry significant risks. It was more ambitious, in that it would allow exchange rate par values to fluctuate indefinitely, albeit in a gradual, managed way that preserved short-term stability. The concern for short-term stability was major, as it was feared that even managed doses of exchange rate flexibility would have negative effects on capital flows that could affect US firms. Hendrik Houthakker of the Council of Economic Advisers called proactively for "some discreet discussions with multinational companies" to address this fear.[22] As with the wider margins plan, there were concerns that a crawling peg would actually work in the opposite direction, ultimately undermining the dollar's position as the international reserve.[23] The United States distinguished crawling pegs that automated par value changes from those that allowed the crawl to be governed in a discretionary way—making it subject to political decision and therefore compromising the US goal of devaluation. The Working Group of course preferred the "self-adjusting peg" (SAP), which would be "first and foremost a decision-making system which substitutes an agreed set of criteria for the existing procedure of each individual government coming separately to its own conclusion."[24] That is, rate changes would be subject to an algorithm rather than direct control by non-US central banks.

In effect, both wider margins and crawling pegs represented moderate reforms to Bretton Woods and maintained its primary feature of stable exchange rates. Further, these proposals fit the multilateral political logic of Bretton Woods. Both options would maintain the IMF as a venue for managing exchange rate stability multilaterally, and the American approach to achieving these reforms required multilateral agreement. It should also be said that both of these reforms had been introduced for study by the IMF itself.

Proposals rejected by the Working Group also indicate deference to the multilateral and fixed-rate logic of Bretton Woods. The ultimate decision to close the gold window is rendered especially puzzling by the fact that before undertaking negotiations on reform, the Working Group thoroughly considered altering the dollar-gold link and thoroughly rejected the idea. Rejection took the form of the "Mundell Plan," which, although much more radical than wider margins or crawling pegs, was actually less radical than the action ultimately taken. Mundell advocated liberalization of the dollar itself relative to gold within 7.5 percent margins,[25] creating significant liberalization of all international currencies. The Mundell Plan was discussed as soon as the Working Group convened in 1965, and members were largely opposed to it on three grounds. First, changing the gold price "would be difficult to reconcile with the existing provisions of the [IMF] Articles."[26] Mundell's argument was characterized as "defective, or at best misleading, in its suggestion that Fund widening of the gold margins . . . could be accomplished with minimal disruption, leaving all other (major) countries operating under the terms of Article IV, Section III."[27] Further, "a unilateral U.S. declaration [changing the gold price] could be meaningless unless it had wide multilateral support."[28] Garnering international consensus was seen as a critical oversight in Mundell's thinking.

The final objection to the Mundell Plan came from an adherence to fixed-rate economic orthodoxy; members of the Working Group were actually opposed to exchange rate flexibility in principle. The Mundell Plan was clearly the "entering wedge of almost unlimited . . . flexibility."[29] In assessing this prospect, George Willis summarized the views of the Working Group in a memo to Volcker by saying that flexible exchange rates had "considerable theoretical appeal, but in practice . . . [were] liable to produce chaos."[30] Policymakers were thus explicitly aware of a "very wide gap between the interest of academic economists and those of practitioners."[31] There is no evidence to suggest that the theoretical distaste for exchange rate flexibility changed at all, even as the group's activity pivoted toward exactly that.

Negotiating Reform: Discovering Veto Possibilities

Late in 1968, with the US presidential election approaching, the Working Group decided to use the 1968 annual meeting of the IMF to "pave the ground" for a diplomatic campaign for wider margins or a crawling peg going forward.[32] Nixon's election brought Paul Volcker to the position of undersecretary of the Treasury for international monetary affairs and hence chair of what was known thereafter as the Volcker Working Group. Volcker stepped in just as the push to flexibility negotiation was beginning; he entered his office to a briefing regarding how to proceed. The first question concerned the appropriate venue. At that point, the IMF Group of Ten (G10) was viewed as the preferred negotiating venue[33] in the interest of keeping international involvement "as small as possible."[34] If negotiations could be restricted to major economic powers, the potential veto power of the broader Fund membership could be bypassed. By September 1969, the United States could formally bring exchange rate flexibility to the table in the G10, creating a mandate to study the issue within a specially appointed working group of the IMF executive board.

Also in September, West Germany allowed its currency to float freely on the open market, after approval by the IMF, eventually intervening to stabilize it at a new exchange rate. This action received significant attention in the VWG, which commissioned a full investigation into the German "experience" with the float. It was interested specifically in two major questions: first, the mechanisms by which private currency markets affected the German mark's value during the brief period before the German government intervened to establish a new, higher, par value; second, how commodity markets responded to this period of liberalization.[35] Two months later, Ralph Korp, treasury attaché at the US embassy in Rome, responded with a report compiled from "discrete contact" with Italian officials regarding the German liberalization. Korp's contacts noted that cross-border trade was largely unaffected, largely because private contracts during the liberalized period were denominated in currencies other than the mark. Further information would be difficult to obtain without approaching "a different breed of people, i.e., importers, exporters. . . . Such contacts would, of course, greatly increase the risk of revealing what we are 'about.'"[36] Evidently, the scrutiny of that very brief exchange rate liberalization was "about" American interest in forms of exchange rate flexibility that were more aggressive than plans put forward by the IMF. In its initial talks on the issue, however, Bill Dale represented the United States' interest in exchange rate flexibility as a passive response to discussion in academic circles, because "sooner or later some of these proposals will have to be examined . . . so that [we] can take an intelligent posture toward them."[37] At an initial G10 meeting, Dale assured members that they were not "considering any non-discretionary system of moving rates, or any proposal for very wide margins around exchange parities."[38]

Meanwhile, in early 1970, legal analyses from the IMF itself made it clear that a nondiscretionary SAP, the favored US option, would require amendment to the IMF Articles of Agreement.[39] However, prospects for such an amendment were largely shut down in the G10, as its attention turned to the "presumptive criteria" for a crawling peg based on the political discretion of member states. The problem with presumptive criteria was that they "would apply directly and explicitly to other countries, but only indirectly to the United States,"[40] because of the dollar's fixed price relative to gold. Achieving its desired exchange rate adjustment would require *asymmetric* presumptive criteria—that is, universal criteria that determined the trajectory of par values would apply only to other countries. Dale noted that "when a U.S spokesman speaks of presumptive criteria which would apply to others, but not to the United States, it is the most natural of all reactions for others to consider it invidious . . . [presenting] nearly as much in the way of difficult political implications as cutting the link to gold, by way of explicitly showing the world to be on a dollar standard."[41]

In early 1970, George Willis, the deputy undersecretary, summarized the US position in a memo to Undersecretary Volcker. Essentially, they both recognized that opposition to amending the IMF Articles was significant, but the plan was to try to keep the door open for SAP proposals after "educating" countries of their benefits.[42] At that point, France, as the most vocal opponent of the US initiative, held up progress in the G10 by forming a caucus within the European Economic Community (EEC), attempting to devise a common European position on the issue of monetary reform and to force "solidarity in 'broader forums.'"[43] Through leaked confidential EEC documents, the VWG learned that discussions revolved around the prospect of European monetary integration, already the precursor to a common currency. A meeting of European finance ministers discussed a policy of denominating central bank interventions in exchange markets in local currencies, rather than the dollar,[44] a significant threat to the dollar's monetary dominance under the fixed-rate system. The "big six" countries of the EEC sought agreement on close parity between their currencies going forward before taking up the issue of exchange rate flexibility.[45]

It is apparent that the French aimed to accelerate the prospect of European integration as a lever against dissenting governments in international monetary negotiations with the United States and that this aim was fairly successful. Reporting on conversations with sources in the West German finance ministry, a Treasury official noted that

> the Germans have come to the conclusion that it will not be possible to get any support within the EC. . . . This suggests that we will have an up-hill battle to keep the subject alive at all. I suspect that the French smell victory. . . . In fact, we may see some maneuvering by the French to minimize the influence of G 10 simply because at this point they're trying to keep to the minimum the US influence on the direction in which the common market is going. They're opposing any kind of special consultative mechanism between the EC and the US, they may even find that the Australian interests in the OECD and the Austrian interest in WP3 provide an opportunity for sabotaging the forums in which the US has an opportunity to influence EC decision-making.[46]

In 1970, the agenda of the IMF's executive board confined the discussion to widening exchange margins from 1 percent to 2 percent and continuing to work on clarifying the presumptive rules for discretionary rate changes.[47] At that point a stalemate was starting to solidify. Dale summarized the situation earlier in a memo to the VWG stating that "no one else has developed a 'felt need' for [an SAP]," and "precious few have seen very much need for [crawling pegs per se]. . . . The first basic problem for the United States in fostering a . . . crawling peg system is that it resembles pushing on a string."[48]

The United States continued to push the SAP onto the agenda, although its "general expectation [was] that only relatively minor changes will be ready for recommendation to the Governors by this Fall."[49] The plan remained to obtain "the substantial modification we consider necessary through more informal routes,"[50] specifically by working with allies to keep amendments to the Articles on the agenda going into 1971.

However, more vocal opposition began to emerge within the G10, the IMF executive board, and the broader membership of the IMF. On behalf of the bloc of developing countries, Byanti Kharmawan of Indonesia made a statement to the IMF expressing categorical opposition to exchange rate flexibility.[51] Fairly embarrassing to the United States, the South Vietnamese representative made a similar statement.[52] Further, Japan registered vocal opposition, and virtually every member of the executive board either was expressly opposed to flexibility or wished to proceed informally and cautiously.[53] West German and Italian silence on the issue, despite their informal collaboration with the United States even in intra-European politics, indicated the success of the French maneuver.

Reconsidering Strategy: The "No-Veto" Possibility

Learning that multilateral reform efforts faced overwhelming veto prompted reconsideration. In August 1970, Willis issued "The Case against a Major Push for an IMF Flexibility Amendment in 1971." Progress was unlikely "without a great deal of pressure," and there seemed "to be no assurance of success."[54] Further, "pushing against a string," as Dale had put it, would "increase suspicions of our motives. What do we have up our sleeves? Do we look at exchange flexibility as a means for getting rid of our balance of payments problems?"[55] This was the consistent concern of US diplomacy—taking care not to reveal the extent of its interest in exchange rate flexibility as a means to devalue the dollar. In fact, the actions of the VWG for at least the previous four years constituted precisely such a devaluation campaign. Managed exchange rate flexibility was viewed explicitly by the United States as a means to eliminate deficits through the exchange rate, rather than domestic policy.

The Working Group had compromised those goals significantly in the drive to produce reforms that maintained the basic institutional structure of the Bretton Woods monetary system. Now they were faced with an apparent failure of those options. Dale echoed this further: "Why is our credibility so strained. . . . We have been consistently underestimating the difficulties of pulling off a flexibility push, and . . . we are underestimating them now. . . . The matter is not ripe for international action in 1971."[56] In a memo to the VWG dated August 10, 1970, Dale explicated a key realization that is worth quoting at length:

> We tend to forget—but others don't—that smaller countries want to be sure their interests are protected—even overprotected—by the international established law. In a sense, a loosening of such concepts of the par value system could hurt them—or so they believe—while a big country like the United States always has enough power to protect itself, and indeed to pressure others. There is a sense in which smaller countries are much more prepared to approve, or at least tolerate without much protest, individual cases of flexible behavior . . . than they would be to write such provisions positively into international law. This consideration suggests that we may get farther by doing than by trying to legislate.[57]

This realization was the key to later radical institutional displacement, and it summarizes a signal lesson from this case. Faced with overwhelming veto power, US policymakers sought a more feasible option. The final attempt at reform was a matter of manipulating existing IMF rules rather than achieving any change to them through multilateral negotiation. The activity of the VWG after August 1970 revolved around legal counsel Michael Bradfield and general discussion of the feasibility of revaluation "under the present Articles of Agreement of the International Monetary Fund."[58] The United States, at this point, was seeking a one-time devaluation of its currency within the existing provision for "fundamental disequilibrium" as discussed above. All analyses concluded that any changes to par values would be subject to review of the IMF executive board.[59]

The term "fundamental disequilibrium" is a notorious one for scholars of this case, largely because its definition is very difficult to deduce. Bradfield's analysis did locate a potential opportunity to test the boundaries of the Articles, namely, because *small* changes in par values were not subject to concurrence with the IMF, "it would seem to be possible to construe the Articles as allowing the Fund to approve a series of changes over a period of time . . . giving the member the overwhelming benefit of the doubt."[60] The definition of "small," however, was in itself insufficient to correct a fundamental disequilibrium. From this place of ambiguity, "it would not be possible to conclude that the Fund is not required to object to a proposed change in par values that was not fully adequate to correct the fundamental disequilibrium."[61] The question then would become one of "how far the Fund can go in approving small and frequent changes in exchange rates before it crosses the line of approving a fluctuating rate."[62] The most relevant guideline to this question Bradfield could find was in an IMF paper stating that "treaties must be applied in good faith." He noted that this paper "obviously proceeds from the assumption that the drafters of the Articles of Agreement intended a fixed rate system. . . . If this assumption is correct . . . then an amendment is necessary in order to adopt any kind of system involving more frequent and smaller changes in parity."[63] At that point, all attempts to negotiate reform or exploit existing rules unilaterally were abandoned.

By early 1971, closing the gold window was effectively "plan A" for the VWG and the White House. A VWG memo on January 28, 1971, outlined sweeping plans to initiate a "radical realignment" of the international monetary regime by closing the gold window.[64] Although the action eventually taken on August 15 deviated from this plan because of the desire to circumvent Congress, the January memo presents closing the gold window as an audacious attempt to force its desired devaluation. The plan

> would concentrate action within a two week period . . . of the IMF Annual Meeting. . . . The United States would discontinue the "free" sale of gold and SDRs against dollars and would close exchange markets. . . . The President and other officials delegated by him would be authorized to propose and agree to a combination of a uniform change in par values and a change in the par value of the U.S. dollar in such a manner that the official U.S. dollar price of gold would at no time exceed $35 per ounce. This would be sought by an initial step comprising a uniform appreciation of the currencies of all Fund members of the appropriate magnitude (say, up to 25 per cent), the United States would propose, and the Fund would agree to, an individual depreciation of the U.S. dollar back to the point where the official price of gold would be $35. . . . [The revaluations] should aim for a U.S. official settlements surplus . . . in the range of $2–3 billion per year.[65]

The VWG was very aware of the ambitiousness of their plan, to say the least. Volcker cautioned that "it would be necessary in order to maintain our bargaining position taken through inconvertibility . . . that the U.S. make clear from the start that the U.S. would be prepared to live with the floating rate systems indefinitely."[66]

In the spring of 1971, the Treasury, the VWG, and the White House accelerated study of the logistics behind closing the gold window. They executed legal studies of the authority of the president and secretary of the Treasury to close the gold window without congressional involvement.[67] They also studied the sanctions that may be imposed by the IMF for this clear violation of the IMF Articles of Agreement. These analyses determined that, while technically there would be grounds to expel the United States from Fund membership, outsized American influence and contribution to the IMF made this very unlikely.

Article One of the IMF Articles of Agreement stated the mission of the Fund as "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation."[68] In the light of these two functions of Bretton Woods, the American approach to the matter contained an inherent contradiction that eventually boiled over. While the adherence to exchange stability and "orderly . . . arrangements among members"[69] guided their initial approach to reform, it was precisely the second function—a competitive depreciation—that closing the gold window sought to achieve. When the goal of devaluation was no longer compatible with Bretton Woods compliance, the United States decided to proceed in a unilateral manner. Plans to close the gold window were finalized in May 1971 and executed in August.

Discussion

This analysis shows that the end of Bretton Woods was not the originally intended outcome of the US reform campaign but was eventually decided and directly enacted to circumvent the regulatory and political structure of the IMF. How does this change our understanding of the case and its critical aftermath? What does it tell us about how policies get made within state and international institutions more generally? The explanation given here does not rely entirely on the structural circumstances within the Bretton Woods economic system or on the existing institutional constraints of Bretton Woods. Nor were American policymakers enamored of the idea of floating exchange rates in theory or practice. Rather, the evidence presented shows that powerful actors may bring about major and enduring institutional change, not as the primary goal itself but as a means to achieve a short-term goal. In this case, closing the gold window was meant to defend the hegemony of the US dollar, after efforts to negotiate other solutions had failed.

The fact that subsequent US international economic policy was marked by a significant turn toward liberalization requires further analysis, beyond the scope of this article. Although ultraliberal economists had been advocating closing the gold window or other forms of radical exchange rate liberalization for many years, they were still very marginal figures in the political and intellectual mainstream. Such is the significance of the fact that shortly after the VWG gave up on Bretton Woods–compatible reforms, Milton Friedman became a regular guest at the White House. In January 1971, Nixon named the Wall Street billionaire Peter G. Peterson chairman of the newly created Council on International Economic Policy, which interfaced with other executive branch groups, such as the National Security Council, and pushed significantly for closing the gold window and for corresponding moves toward liberalization in other aspects of international economic policy.

Numerous accounts of neoliberalization in trade, finance, domestic fiscal and monetary policy, and foreign investment after the end of Bretton Woods focus on the coordinating role of international institutions. However, Nitsan Chorev's convincing analysis of the formation of modern US trade policy notwithstanding, many of those accounts portray the paradigm shift as diffuse and piecemeal, amid growing institutional heterogeneity and complexity. How do we reconcile that account with the fact that the underlying foundation of liberalization—exchange rate flexibility—was directly and unilaterally enacted by an administration that never really preferred such a course of action? In tracing the historical process of international monetary reform, we are reminded of a simple approach to the problem of structure and agency that allows us to see institutions as structuring outcomes in complex, diverse, and contingent ways, without discarding overarching political interests that animate these processes. Attention to the historical foundation of key institutions allows us to see the regular potential for major institutional regime change,[70] rather than presume such significant changes to be "exogenous shocks" or too complex to be the product of a single action or design. Floating exchange rates were viewed initially as an unacceptable risk to the United States because of their impact on short-term capital flows and the interests of US-based multinational enterprises. Further research should examine both the reformation of the IMF after Bretton Woods and US economic policy changes as responses to the problems *they themselves* introduced in the international monetary system by closing the gold window.

Conclusion

The findings of this analysis are also provocative in that they lead us to consider a viable counterfactual scenario in which the United States could successfully have negotiated reform to Bretton Woods that maintained the basic feature of exchange rate stability. Although my findings do not directly challenge accounts of subsequent neoliberal institutionalization that describe changing actors and ideologies[71] or balances of class power,[72] it is worth tracing those developments back to the end of Bretton Woods to imagine a trajectory of the global economy that need not have included liberalized exchange rates. The foreign exchange crises of the 1970s in the developing world corresponded to a growing wave of debt dependence and a new deployment of IMF "conditionality" in the context of greatly expanded private and IMF lending. The liberalization of exchange rates was followed by a campaign to reduce restrictions on the entry of foreign capital into previously protectionist economies, as well as an expansion of the role of private banks in lending to indebted countries. Whether we attribute those changes to the growing power of private multinational capital or ultra-liberal economic ideology, or view them as an inevitable consequence of American postwar hegemony, the history of neoliberal globalization should account for the fact that these actors and ideologies did not intentionally construct the architecture of exchange rate liberalization: they rather capitalized on the position an empowered Treasury and willing president essentially stumbled into as a contingent political development.

Overall, my findings suggest that single executive decisions may empower previously marginal actors and ideologies in far-reaching and ultimately unforeseen ways. At the same time, they should also draw attention to the importance of purposive action in institutional change. For many scholars of institutional change, powerful actors are seen as being forced to pursue their interests through existing institutional channels, and the changes they seek often result in gradual shifts in the institutional structure because of institutional constraints. This gradualism is characteristic of many accounts of neoliberalization, in which actors migrate to a new policy paradigm through a series of local innovations.[73] Indeed, gradual evolution may be the most common form of institutional change,[74] and it is important to consider that in fact it was a plausible outcome of US efforts to reform the Bretton Woods system.

However, the case of Bretton Woods clearly demonstrates that exceptions to the rule can have a dramatic and enduring impact. We might learn from how and why this case deviates from the expectations of institutional constraint. For James Mahoney and Kathleen Thelen, the outcome of purposive change initiatives should depend on “veto possibilities” and “discretion” in the interpretation and enforcement of rules.[75] That is, modes of gradual change to an institutional framework are explained by the structure of existing rules: Are they open to a creative reinterpretation? Do they empower opposing parties to block major change initiatives? When veto possibilities are strong, as in multilateral international institutions, we are to expect “layering” or “drift”—for example, gradual evolution of the IMF Articles of Agreement. The initial US strategies of wider margins and crawling pegs offered significant veto possibility from their G10 counterparts, which became clear in time. Scrambling, then, the VWG turned to in-house legal counsel to examine the possibilities of achieving the devaluation through an interpretation of the IMF rules for “fundamental disequilibrium.” What intervened?

Again, the counterfactual stands where the United States could have made a case for a one-time change to the dollar’s gold value or gone forward negotiating modest changes to the par value system. In that light, the radical nature of Nixon’s decision is all the more striking and surprising. Although major institutional displacement is largely sidelined in institutionalist understandings of change, this case offers an opportunity to understand the regular potential for major change within existing institutional arrangements. The evidence above has shown that, in the last instance, the breakdown of the postwar international monetary system was determined by neither its own structural contradictions nor the institutional constraints posed by the Bretton Woods framework. Rather, it was determined by a process in which the US executive came to learn of institutional constraints, changed its strategy multiple times in response, and only then decided that unilateralism offered the surest chance of success.

There is ample scholarship that focuses on how institutions *accommodate* challenges; existing institutional constraints do typically temper and redirect challenges into gradual, unexpected evolution. Now it would be timely to focus attention on the historical conditions and properties of institutions that make them vulnerable to radical reformation. The end of Bretton Woods should be seen not as an inevitable outcome of structural constraints, but as a bold and aggressive response to the failure of existing institutions to accommodate the goals of an empowered US executive.

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