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Bretton Woods Failed When Fiscal and Monetary Discipline Did

The fixed exchange-rate regime after World War II worked well until Congress and the Federal Reserve broke through their guardrails.

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Judy Shelton argues that a return to a Bretton Woods-type monetary regime would guarantee monetary and financial stability ("The Case for Monetary Regime Change," op-ed, April 22). This system of fixed exchange rates, anchored by backing the dollar with gold, did work reasonably well from its inception in 1948 until about 1965. However, it was destroyed by our failure to maintain fiscal and monetary discipline.

The rate of inflation accelerated to an average annual rate of about 3.4% during 1966-1972 from an average rate of about 1% during 1960-1965. This depreciation in the value of the dollar led foreign central banks to cash in dollars for gold, leading to unsustainable gold outflows. President Richard Nixon responded by suspending the redemption of dollars for gold in August 1971. That was the beginning of the end for Bretton Woods and the gold standard.

The Bretton Woods regime didn't guarantee monetary stability, instead its continuation depended on disciplined monetary and fiscal policies. Even if it were feasible to turn the clock back and institute a similar regime, it wouldn't change the fact that monetary and financial stability is ultimately dependent on the wisdom and foresight of the Federal Reserve, along with congressional awareness of the dangers of perpetual federal budget deficits.

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