# h-diplo *Article* REVIEW

**William Glenn Gray.** "Floating the System: Germany, the United States, and the Breakdown of Bretton Woods, 1969-1973." *Diplomatic History*, 31.2 (April 2007): 295–323.

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The vast increase in unregulated global trade and capital flows has transformed the world economy over the past three and one-half decades. While this driving feature of globalization has brought prosperity to pockets of the globe, critics point to many downsides. On the left, concerns range from widening gaps of inequality and the environmental damage of consumerism, to the impotence of sovereign national governments in the face of unregulated, profit-seeking capital markets. Even the neo-liberal right express concerns, as recent episodes of exchange rate volatility and large private capital flight have appeared, at times, to threaten the smooth functioning of global financial system. The prescriptions from both the left and the right often include a call to the return to at least some aspects of the so-called Bretton Woods era between 1944 and 1971, when, according to conventional wisdom, international monetary relations were managed by a robust International Monetary Fund (IMF) that over saw fixed exchange rates backed by dollar-gold convertibility.

There has been much recent scholarly work by economists, historians, and political scientists that provides a far more accurate picture of how international monetary relations actually worked during the postwar period. In short, the Bretton Woods system did not function as smoothly as legend would have it. Domestically, capital and trade controls were often necessary to maintain fixed exchange rates and adjust payments imbalances. Internationally, constant management and negotiations to keep the system stable often proved acrimonious, with spillover into the political and security realms. The IMF was largely consigned to the sidelines for much of this period, in favor of state-to-state and intra-alliance negotiations. These findings are important for more than historical purposes. By highlighting the systemic flaws of the plan negotiated by John Maynard Keynes and Harry Dexter White, this research makes it clear that whatever the problems of the current international monetary system, there is no going back to Bretton Woods.

William Glenn Gray's excellent article, "Floating the System: Germany, the United States, and the Breakdown of Bretton Woods, 1969-1973," is an important contribution to this ongoing reassessment. Gray looks at the collapse of the twin pillars of the Bretton Woods system – fixed exchange rates and dollar-gold convertibility – and asks who drove the change and why? Based on his comprehensive, multi-archival research, Gray's answering is surprising but important. West Germany (FRG), as much as and at times even more than the United States, shaped the outcome by flexing its new found financial muscle. As Gray convincingly demonstrates, "German policies and priorities had a striking impact on the contours of monetary relations during these troubled years." (296)

International monetary relations are typically cast as a dry affair. Calm central bankers and finance ministers gather to hammer out arcane rules and smooth over technicalities. Members of this elite network – many of whom have known each other for years – often share a belief that they are wiser than elected officials in their home countries. Unlike trade policy, this process is often portrayed as being shielded from domestic politics. Gray upends this reserved picture. Three times between 1969 and 1973 the FRG decided to toss "aside the rules" and allow the German mark to float. Each of these decisions and their aftermath were marked by heated political struggles within West Germany, as central bankers, finance ministers, and national coalition partners argued amongst themselves and their foreign counterparts over the best policies for the FRG during a time of monetary turmoil.

What were the issues, and why were the debates so sharp? Gray reveals that the arguments emerged from fundamental *political* questions about the future of this emerging economic power: whether to be good Germans, good Europeans, or good global citizens. Each choice cut against the other. With deeply ingrained memories of postwar hyper-inflations, "good Germans" feared any policy that moved away from price stability. Unable to "sterilize" dollar inflows forever, allowing the German mark to float prevented the United States from exporting dollar inflation. This policy made sense from both macro-economic and domestic political perspective. Monetary flexibility, however, cut against being a "good European." If the Europe Economic Community had any hope of developing into more than a "customs union," at some point the major countries – particularly France and West Germany – would have to coordinate and stabilize their own exchange rates. "Floating" undermined this goal. Finally, being a good "global citizen" meant doing whatever was necessary to support the rules and functions of Bretton Woods, even if it harmed narrow German economic interests. With its new-found monetary power, many in West Germany felt obliged to avoid policies that even hinted of a return to the self-interested, "beggar-thy-neighbor" policies of the interwar period. The path West Germany chose would influence its national political trajectory, the future of European integration, and the shape of global monetary relations.

This article is part of a larger project by Gray to understand the effort by West Germany to find its place within the changing global system of the 1960s and 1970s. With West Germany's economic power increasing, U.S. relative power declining, and the Soviet threat (at least for the moment) receding, the Federal Republic of Germany puzzled over what positions to take on the important questions of the day. Key policies on a wide range of issues that seemed set during the Adenauer period– nuclear non-proliferation, relations with Eastern Europe and Russia, and strategies for re-unification – were now open to discussion. How to manage best its emerging monetary strength was a critical part of this dynamic political debate in the FRG.

Gray's contribution – both to our understanding of this discussion within West Germany and its effect on international monetary relations - is perceptive and important. It is easy to look back and assume that the collapse of the global payments regime was inevitable. The contradictions within the system, combined with the inflationary pressures of Vietnam and the Great Society, to say nothing of the increased unwillingness of surplus countries like West Germany, France, and Japan to continue to support the dollar, make it seem like the move to the current market-determined flexible exchange rates was only a matter of time. But this was not clear to policymakers at the time. As Gray makes clear in his riveting account of international policy discussions, the move away from fixed exchange rates was a terrifying jump into the unknown. What would happen when currencies floated, and could a new system be put back together?

Who would drive this new system? And perhaps most importantly, what influence would new monetary relations have on the political and security relations within the Western alliance? The answer to all these questions was uncertain, but Gray reveals that the Federal Republic of Germany no longer accepted the role of compliant follower. In many ways, Gray makes it clear that West Germany, and not the United States alone, was a key driver of this great change. By correcting our U.S. centric view, and connecting international monetary relations to critical political issues, Gray has given us a much richer understanding of the demise of Bretton Woods system and the emergence of the global monetary order that is with us today.

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*Commissioned for H-Diplo by* Diane Labrosse

[1] [Ed. Note] An H-Diplo review of this work by Jeffrey C. Livingston published in June 2005 by H-Net Book Reviews may be found at http://www.h-net.org/reviews/showrev.cgi?path=89851122406354.