

From Bretton Woods to the Euro

*Why have a European
centralised currency?*



*Could we have a
World Currency?*

WW2
Devastation and poverty

**Danger of
nationalist monetary
policy
reducing currency value**



Marshall Plan
US\$13 billion

**Loans repayable in
national currency**



Bretton Woods 1944

Marshall Plan
US\$13 billion
(how to pay back –
risk of inflation)

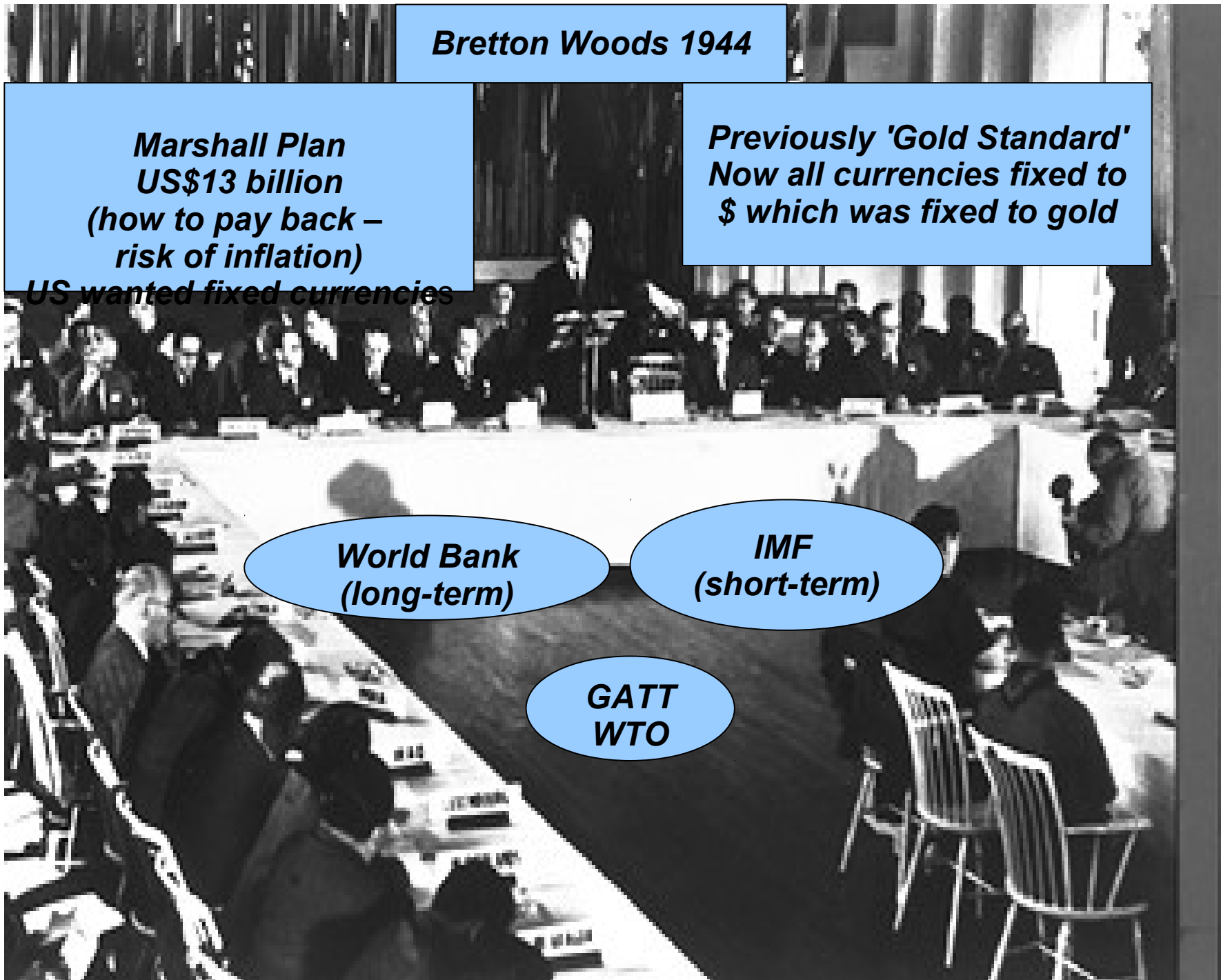
US wanted fixed currencies

Previously 'Gold Standard'
Now all currencies fixed to
\$ which was fixed to gold




World Bank
(long-term)

IMF
(short-term)

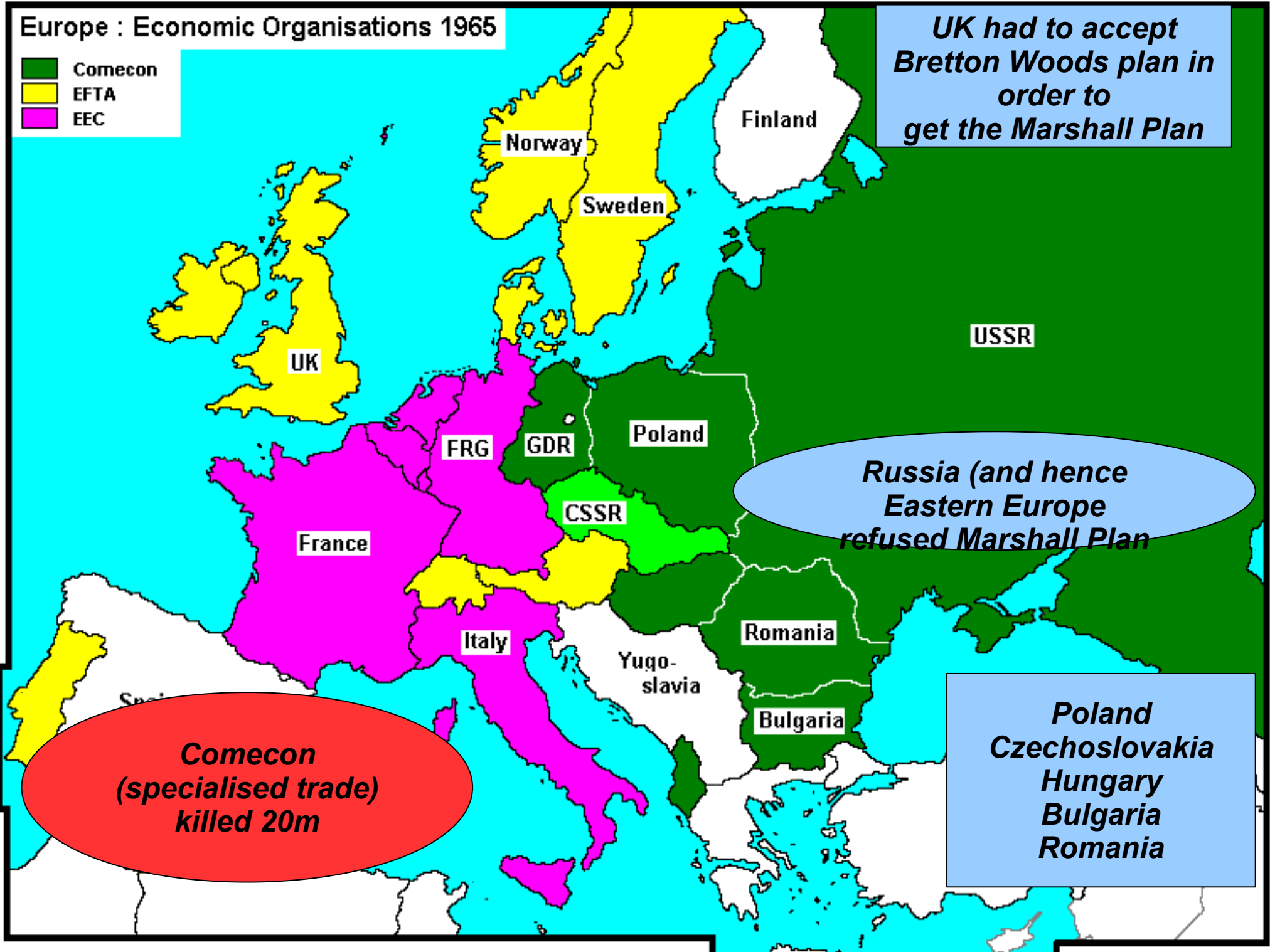
GATT
WTO



Europe : Economic Organisations 1965

-  Comecon
-  EFTA
-  EEC

*UK had to accept
Bretton Woods plan in
order to
get the Marshall Plan*






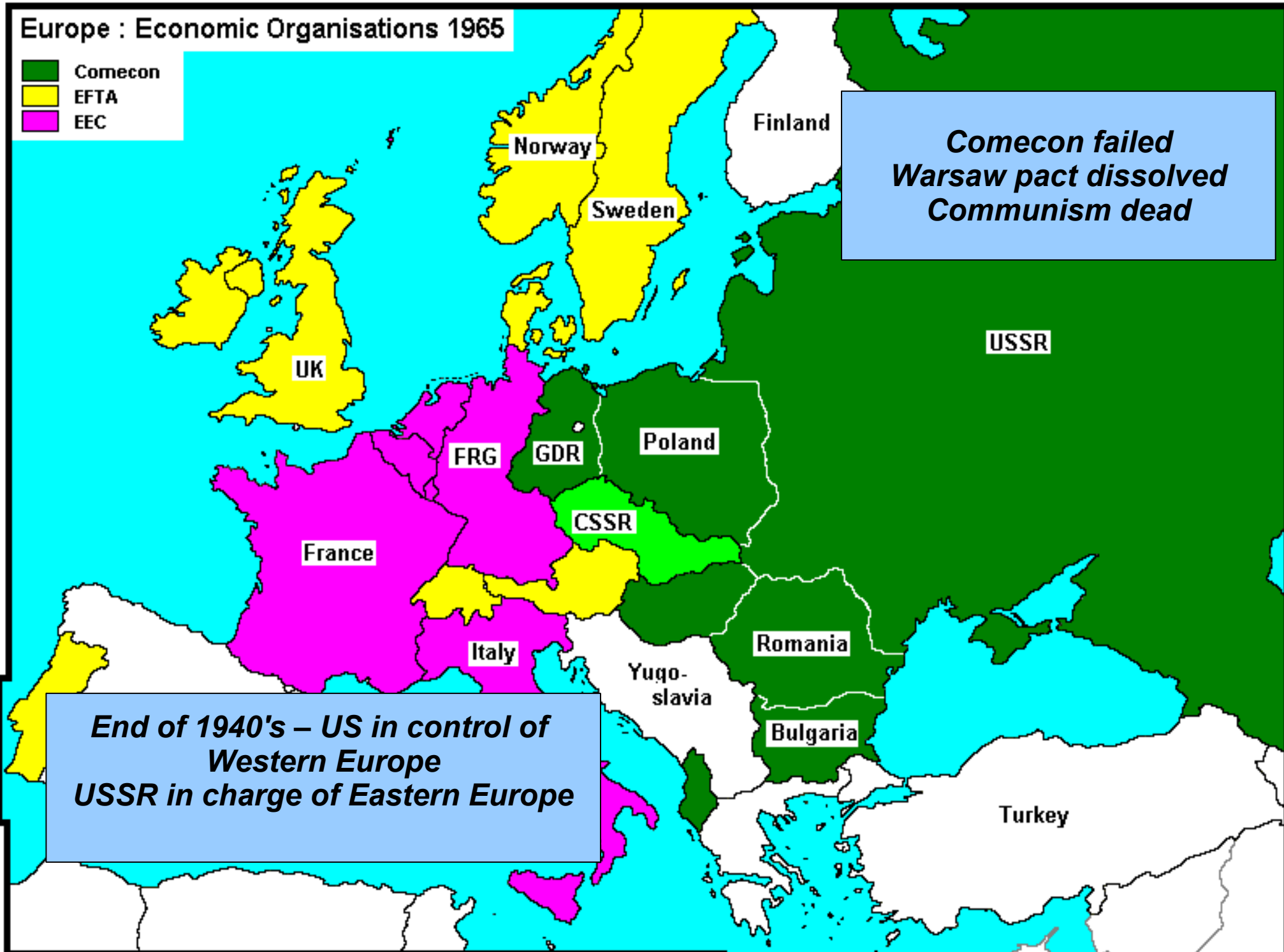
*Russia (and hence
Eastern Europe
refused Marshall Plan*

*Comecon
(specialised trade)
killed 20m*

*Poland
Czechoslovakia
Hungary
Bulgaria
Romania*

Europe : Economic Organisations 1965

-  Comecon
-  EFTA
-  EEC



*Comecon failed
Warsaw pact dissolved
Communism dead*

*End of 1940's – US in control of
Western Europe
USSR in charge of Eastern Europe*

the gold standard



The Gold Standard 1870-1914

- origin in the use of gold coins as a medium of exchange, unit of account, and store of value.

The Resumption Act (1819) first true gold standard.

No more restrictions on the export of gold coins and bullion from Britain.

The U.S. Gold Standard Act of 1900 institutionalized the dollar-gold link.

The Inter-war Years, 1918-1939

- ♦ ***With WWI in 1914, the gold standard was suspended.***
 - ***The inter-war years were marked by severe economic instability.***
 - ***The reparation payments led to episodes of hyperinflation in Europe.***

The Inter-war Years, 1918-1939

- ♦ ***International Economic Disintegration***
 - ***The Great Depression.***
 - ***Major economic harm due to restrictions on international trade and payments.***
 - ***Beggar-thy-neighbour (currency value) policies provoked foreign retaliation and led to the disintegration of the world economy.***
 - ***All countries' situations could have been bettered through international cooperation***

The Bretton Woods System and the International Monetary Fund

International Monetary Fund (IMF)

1944, 44 countries met in Bretton Woods - system of fixed exchange rates.

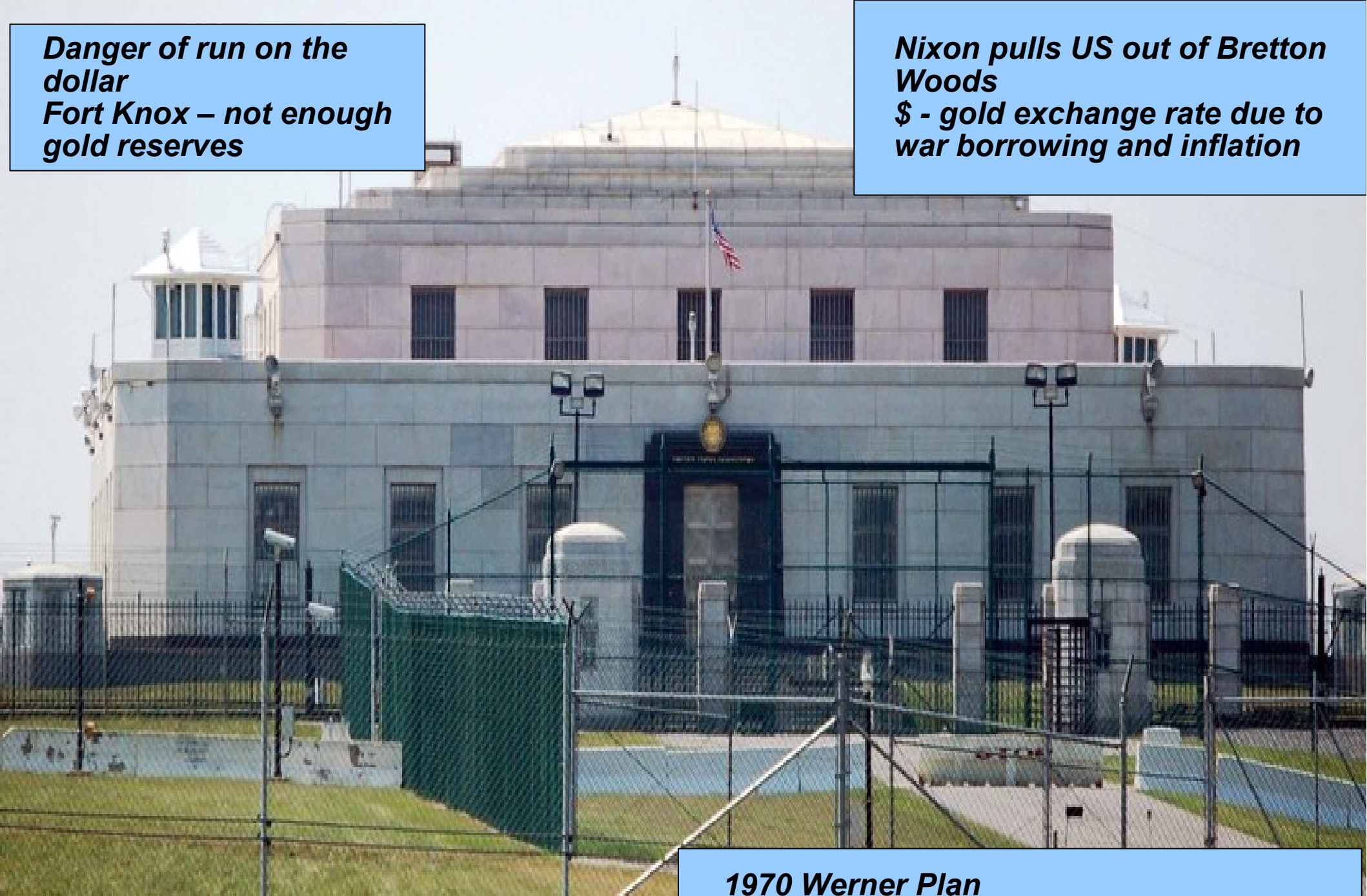
All currencies had fixed exchange rates against the U.S. dollar and an unvarying dollar price of gold (\$35 an ounce).

It intended to provide lending to countries with current account deficits.

It called for currency convertibility.

***Danger of run on the dollar
Fort Knox – not enough gold reserves***

***Nixon pulls US out of Bretton Woods
\$ - gold exchange rate due to war borrowing and inflation***



***Europe suddenly has no reference point
But has the ECU used for the CAP***

***1970 Werner Plan
to create a European currency
using a ERM Exchange Rate Mechanism
to avoid nationalist deflation***

Euro: early efforts

1972 - UK (had intended to join Euro) falls out of the ERM snake (and again in 1983) Denmark and Ireland follow suit

1973 Italy falls out, 1974 France falls out and EMU abandoned

Basically failed due to lack of harmonised macroeconomic policy (need similar IR, inflation and debt and deficit levels)

Leads to Maastricht criteria to ensure macro-economic harmonisation

**National gold reserves
and reserve currencies
to ECB**

European Central Bank

**Price stability:
avoid inflation
(how?)**

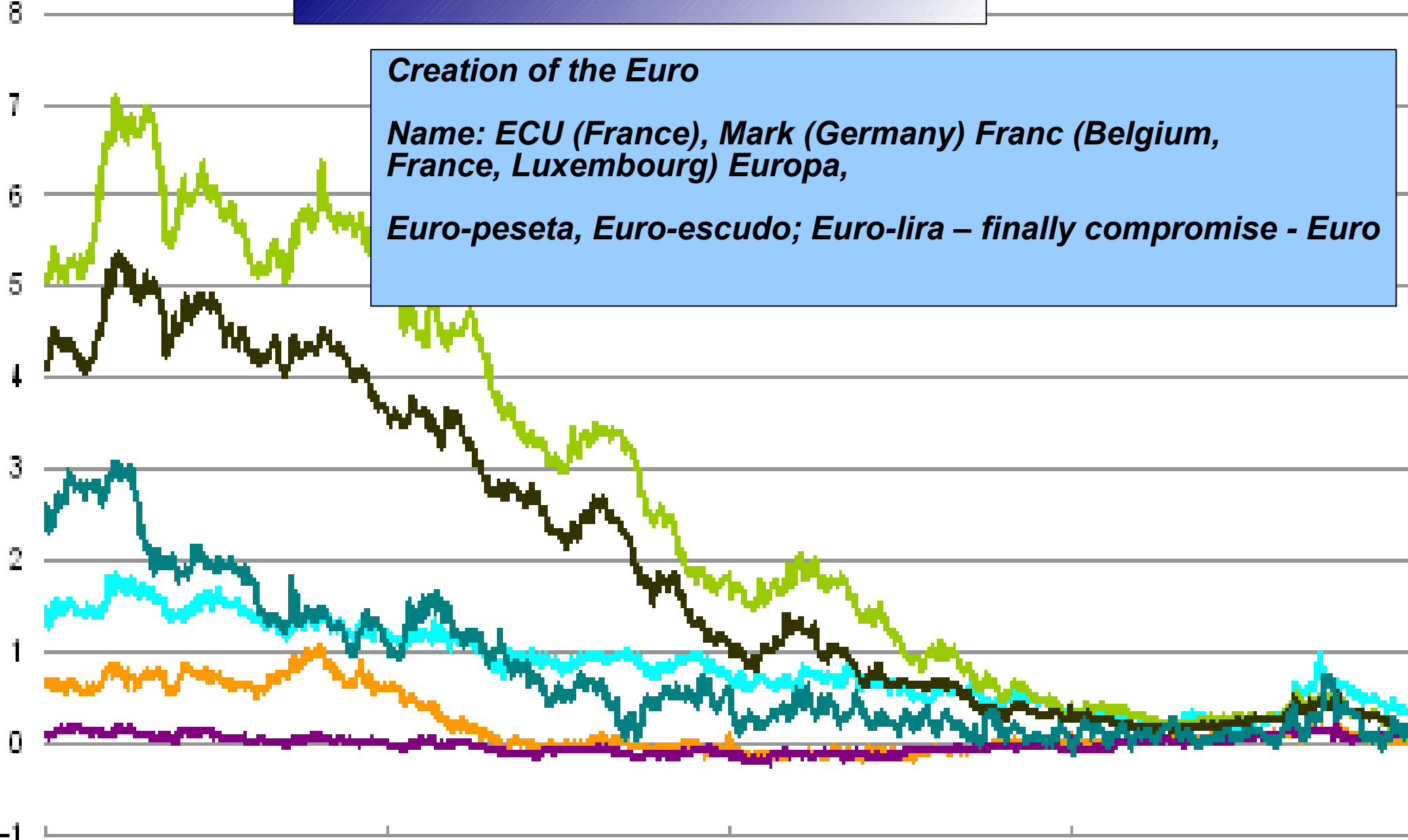
**Currency value
(effecting trade
competitiveness)**

NB Comparison with US Federal Bank

Selected EMS currencies vs Deutschmark

Creation of the Euro

Name: ECU (France), Mark (Germany) Franc (Belgium, France, Luxembourg) Europa, Euro-peseta, Euro-escudo; Euro-lira – finally compromise - Euro



Denmark France Netherlands Italy Spain Finland

The euro banknotes



Size: 120 x 62 mm
Colour: Grey



Size: 127 x 67 mm
Colour: Red



Size: 133 x 72 mm
Colour: Blue



Size: 140 x 77 mm
Colour: Orange



Size: 147 x 82 mm
Colour: Green



Size: 153 x 82 mm
Colour: Yellow-brown



Size: 160 x 82 mm
Colour: Purple

Virtual Euros: 1999. Coins and banknotes: 2002



**Euro
Coins**

**Maastricht criteria
Pre-Euro**

**Interest rate
Inflation
Debt
Deficit
ERM**



**Debt
Deficit**

**Stability and Growth Pact
Post-euro**

Advantages of joining the Euro

- ♦ ***Increases competition and reduces prices for consumers***
- ♦ ***Eliminates transaction costs***
- ♦ ***Avoids speculation***
- ♦ ***Greater transparency for consumers***
- ♦ ***Use of Euro as a reserve currency***
- ♦ ***Greater power in international monetary negotiations***
- ♦ ***Provides competition to the dollar which post BW had enjoyed world-wide privileged position***
- ♦ ***Symbol of EU identity***

Criticisms

x 3,5

- ♦ *UK – no need for Euro – joined the EEC, not the EU*
- ♦ *Euro is a sign of Europe the UK doesn't want*
- ♦ *No strong economic argument for Euro – benefits calculated at around 1% GDP*
- ♦ *Monetary policy cannot satisfy all members at the same time*
- ♦ *UK economic cycle not the same as the EU (getting closer)*
- ♦ *ECB only interested in inflation control and not employment and growth (can't change mandate since it's part of the Nice Treaty)*

x 3,5

x

Questions

What gave the \$ its influence after WW2?

What was created at Bretton Woods?

Why did the USA quit the \$-gold rate?

What are the convergence (Maastricht) criteria?

What happens if you fail the Stability and Growth Pact?

Will there be further world currency groups?

What has happened to the SP after the recent crisis?