

4.1 Post-war Settlement and the

Bretton Woods Institutions Economists and politicians drew two key lessons from inter-war economic experiences. First, an industrial society based on mass production cannot be sustained without mass consumption. But to ensure mass consumption, there was a need for high and stable incomes. Incomes could not be stable if employment was unstable. Thus stable incomes also required steady, full employment. But markets alone could not guarantee full employment. Therefore governments would have to step in to minimise Hitler's attempt to invade Russia was a turning point in the war. The Making of a Global World Briefly summarise the two lessons learnt by economists and politicians from the inter-war economic experience? Discuss fluctuations of price, output and employment. Economic stability could be ensured only through the intervention of the government. The second lesson related to a country's economic links with the outside world. The goal of full employment could only be achieved if governments had power to control flows of goods, capital and labour. Thus in brief, the main aim of the post-war international economic system was to preserve economic stability and full employment in the industrial world. Its framework was agreed upon at the United Nations Monetary and Financial Conference held in July 1944 at Bretton Woods in New Hampshire, USA. The Bretton Woods conference established the International Monetary Fund (IMF) to deal with external surpluses and deficits of its member nations. The International Bank for Reconstruction and Development (popularly known as the World Bank) was set up to finance post-war reconstruction. The IMF and the World Bank are referred to as the Bretton Woods institutions or sometimes the Bretton Woods twins. The post-war international economic system is also often described as the Bretton Woods system. The IMF and the World Bank commenced financial operations in 1947. Decision-making in these institutions is controlled by the Western industrial powers. The US has an effective right of veto over key IMF and World Bank decisions. The international monetary system is the system linking national currencies and monetary system. The Bretton Woods system was based on fixed exchange rates. In this system, national currencies, for example the Indian rupee, were pegged to the dollar at a fixed exchange rate. The dollar itself was anchored to gold at a fixed price of \$35 per ounce of gold.