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Review by **William Glenn Gray**, Purdue University

The logic animating Michael De Groot's well-researched article can be laid out as follows. First, international monetary relations function as a system. Second, sovereign states (and not anonymous forces such as 'global capital') set the parameters for this system. Third, the United States is only one center of gravity in the system, albeit the most significant one. Therefore the dissolution of the Bretton Woods system in the early 1970s is not exclusively an American story. Decisions made by other states, mainly European ones, contributed to the breakdown of fixed exchange rates.

In prior decades, scholars tended to focus on the behavior of the Nixon administration alone: the 'Nixon shock,' President Richard Nixon's August 1971 decision to suspend the convertibility of dollars into gold, was treated as an adequate explanation for the end of Bretton Woods.[1] When the most powerful player suspends the rules, isn't the game over? The difficulty with this unilateral interpretation is that the Nixon administration did not flip over the game board; it merely rattled the pieces around so that it could continue playing from a better position. The Smithsonian Conference of December 1971 reset exchange rates and restarted the game—without, admittedly, reinstating gold convertibility. The final collapse of fixed exchange rates came later, in 1973, and this time it was not just the United States that stopped playing. Japan and the European states had tired of the game and walked away, letting their currencies float.

Understanding why and how other countries lost faith in Bretton Woods is therefore an essential element in explaining the system's demise—and the origins of the monetary world we still inhabit. The present reviewer has also explored this problem, focusing specifically on the interaction between the United States and West

[1] Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca: Cornell University Press, 1983). For a more recent treatment, Daniel Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (New York: Oxford University Press, 2015).

Germany from 1969-1973.[2] De Groot offers a more expansive view in his *International Journal* article, adding perspectives from the United Kingdom and the Netherlands to supplement the better-known U.S. and German angles. It is a splendid example of how multi-archival research can be drawn together into a complex international narrative. The exposition of Dutch decision-making is particularly welcome.

De Groot structures his argument in the form of three case studies: fall 1969 (West Germany), spring 1971 (West Germany and the Netherlands), and summer 1972 (the United Kingdom). In each case the country in question was confronted with an unmanageable inflow or outflow of 'hot money' and opted to float its currency, which—in De Groot's reading—weakened the overall structure of fixed exchange rates. The chronology of events is solid and the writing vividly opinionated—indicating, to a large extent, disapproval. Contemporary sources claiming that the pound sterling did not *have* to float in 1972 are cited here. In the 1971 case study, the author strongly hints that Germany and the Netherlands should have followed French advice and advertised their resolute determination to hold exchange rates steady.

Leaving aside the plausibility of these narrower counterfactuals: De Groot's more significant counterfactual claim, one not fully explored in this article, appears to be that the Bretton Woods system might have held together had Europeans not undermined its tenets by resorting too often to temporary floats. It is a provocative thesis, one that cannot fully persuade in such a brief article. Deeper analysis of the horizon of expectations in London, Tokyo, Amsterdam, and Frankfurt might substantiate the article's claims. Regardless of how one judges the functioning of the floating system—which has prevailed for nearly twice as long (1973-2019) as the original system of fixed rates (1944-1973, though major European currencies were not convertible until 1958)—it is certainly worth considering how the fixed-rate system might have been maintained.

Where one might critically probe De Groot's argument is in considering the expectations of currency speculators in the early 1970s. Did the practice of floating reward speculators, and did decisions to float "encourage speculators that betting on future parity changes could be profitable" (294)? There are grounds for skepticism on two counts. First, speculation was a feature of the international monetary system long before floats were commonly practiced – as seen in the repeated attacks against sterling in the 1960s. Governments might display firm and credible intentions not to change parities, and that could sometimes hold speculators at bay; but in cases where exchange rates were widely considered to be misaligned, speculators had ample incentive to keep trying. The exchange rate system was never "sacrosanct" (295); Bretton Woods made provisions for parity changes from the start. The crucial weak point lay in how to manage parity adjustments gracefully when they became necessary—without alerting the money traders.

Second, De Groot suggests that decisions to float provided satisfaction to the speculators, thereby introducing a keen motivation to unleash further attacks. This is debatable, though the question merits further research. During a rush of 'hot money,' speculators appeared to bank on immediate payoffs when governments acted to devalue (or revalue) their currencies. When governments opted to float instead, this removed the tantalizing prospect of an instant cash-out. Some speculators may have played a long enough game to realize substantial returns as the market rate floated in the desired direction; but in the near term, floating almost always worked

[2] William Glenn Gray, "Floating the System: Germany, the United States, and the Breakdown of Bretton Woods, 1969-1973," *Diplomatic History* 31:2 (2007): 295-323.

to quell the rapid flows of 'hot money,' suggesting that it acted as a deterrent to speculators. In that sense, temporary floats restored stability.

Intuitively, it makes sense to posit some relationship between the separate currency floats of 1969, 1971, and 1972 and the onset of generalized floating in 1973. However, that still does not mean that those prior decisions *caused* a breakdown in the sense of rendering the system unworkable. One might just as readily treat the 1973 decision as yet another improvised attempt to resolve the same underlying issues that had plagued Bretton Woods since the introduction of full convertibility in 1958. [3] To be sure, the accumulation of positive experiences during the floats of the early 1970s likely did condition governments and markets to a world of freely floating exchange rates. German policy makers concluded that floating was preferable to other alternatives—such as tightening capital controls. As De Groot notes, the U.S. Treasury under George Shultz (who served from June 1972 to May 1974) took a similar view. Why did Western leaders come to assign greater priority to the free flow of capital than to the maintenance of fixed exchange rates? This may be the foundational question linking the demise of Bretton Woods to the origins of financial globalization. De Groot is in an excellent position to address this problem as he revises his accomplished dissertation from the University of Virginia, which—in addition to its analysis of Western decision-making – also takes account of the view from Moscow.[4] International historians will have cause to look forward to the publication of this ambitious multi-archival study.

William Glenn Gray is an associate professor at Purdue University in West Lafayette, Indiana. He is the author of *Germany's Cold War* (University of North Carolina Press, 2003) and numerous articles and book chapters on German foreign relations. His second monograph, *Trading Power*, is nearly complete; it documents how West Germany came to forsake military aspirations and wield the levers of economic influence in the 1960s and 1970s. A project exploring German capitalism and the Global South is under way, with special emphasis on human rights in the Brazilian dictatorship.

[3] Francis J. Gavin argues that the system was unworkable from the start. *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971* (Chapel Hill: University of North Carolina Press, 2004).

[4] Michael De Groot, "Disruption: Economic Globalization and the New World Order of the 1970s" (Ph.D. Diss., University of Virginia, 2018).