For decades we have referred to Bretton Woods in the sense of "during the Bretton Woods period" and "after the demise of Bretton Woods" so we now blink when we hear powerful people suggesting a new meeting, like that at Bretton Woods in 1944, of superpowers to structure a new monetary system. The big meeting (G-20) will take place in Washington in mid-November, although there has already been a heavyweight meeting between European and Asian powers. We expect lines are already being drawn.

> *"The weakest element of the Bretton Woods regime was money. [...] Keynes had suggested creating an international currency, but even he had felt the need to tie it to gold."*
>
> *"These fears seemed to be confirmed three months later at the inaugural meeting of the IMF Board of Governors where the Americans insisted on the headquarters of the Fund being located in their own political power centre, Washington DC (Harrod, 1951)."*
>
> *"The IMF [...] was used more as a tool of American financial power than as a manager of the public good of stability."*
>
> *- Money and International Politics by Erik Holm*

The term Bretton Woods today means a (former) monetary system rather than a sleepy resort in New Hampshire. Essentially the Bretton Woods system called for convertible currencies with fixed exchange rates against the US dollar, with the dollar itself being convertible into gold at $35 per ounce. The US had the luxury of having the dollar as the world's reserve currency, but also the obligation to maintain a reasonable amount of gold backing for the dollar. A little discipline, or that was the idea. The system was very successful until the US and others abdicated on the discipline part of the deal. As one former Treasury Secretary famously put it later, "It may be our currency, but it's your problem."

The International Monetary Fund (IMF) was created at (more or less) the same time as the Bretton Woods Monetary Agreement. The IMF, sort of a global bank, was created to stimulate growth and to stabilize economic excesses. Countries that signed up contributed half gold and half their own currency to subscribe for shares and sixty years ago the US had clear dominance. See Holm above. Since then the IMF has been seen as something of a US pawn and has lost influence. Its principal asset is a hundred million ounce position in gold (but we don't know where these ounces are; we don't think the IMF has its own vault). Observers are currently suggesting the IMF be revitalized as part of a new system, but we doubt it. At a minimum this would require a recapitalization, major changes in ownership (power), a reconsideration of the role of gold and, possibly, a relocation of the Head Office well away from the US.

As always, people keep hoping for some magic wand to solve our problems. But this is no 1944. Then there was only one major power in the world, the US, perhaps accounting for half the world's GNP, and they, in conjunction with the Brits, carried the day. At the time other countries could sign up for Bretton Woods and the IMF or not, but they had no real input. Today there are many powerful interests besides the US, such as Europe, China, Japan, Russia, India, Brazil (the

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Other Powers), who have real clout, who hold the US responsible for much of the current mess, and who are no longer willing to have their destinies determined in Washington or New York.

We were around when Bretton Woods (the agreement) was blown up in the late 1960s and early 1970s. The US didn't like the gold discipline and gambled that it could make the dollar the reserve currency of the world. And it succeeded, probably better than it ever dreamed. Central Bank holdings of dollars have expanded from billions to trillions and floating rates have been the rule during the forty year post-Bretton Woods era. Now, however, the current mess is producing one devaluation after another, the flip side of repudiating Bretton Woods.

So even the US now appears to want a new system, maybe with fixed exchange rates. But to get the US and the Other Powers together will be like herding cats. We are sure currency baskets will be proposed, but without discipline there can be no confidence in anything. When a currency like Sterling, once the proudest and strongest in the world, faces an abyss, it's time, it's past time, for policy makers to wake up.

Gold is always the uninvited guest at any monetary gathering and we are sure the November meeting will be no different. As part of the programme to enhance the dollar's image as the reserve currency, Western Central Banks have relentlessly sold, deprecated and otherwise trashed gold in a forty year effort to demonetize it. Yet, love it or hate it, there it is, still part of most Central Bank portfolios. And still, for hundreds of millions of people, the only real money. Sophisticated people say gold is the only money that is not somebody else's liability, while poor people see gold as an asset of last resort, as a means to buy rice when currencies melt down.

Sure, a monetary standard should be comprised of a basket consisting of gold, copper, bread, beer, oil et cetera, but this could not function as a store of value, as a medium of exchange or as a canary in a coal mine. So, in our view, kicking and screaming, Central Banks will reconsider gold, imperfect as it is, and the process of remonetization will begin. If in fact this happens, at a minimum Central Bank sales will stop and that alone would be very bullish for the gold price.

Government opposition to gold is bewildering. The US has far more gold than any other country, is a major world producer, is a huge manufacturer of the heavy equipment used by mines the world over and, as a nation, the US could use the goodwill that high gold prices would generate in Africa and Latin America. Even so, US antipathy towards gold is ongoing. Bizarre. It took the US four years of great depression to reflate the system with gold in the 1930s; we hope matters move more quickly this time at the big meetings coming up.

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Toronto, Ontario
October 29, 2008