50 years since the end of the Bretton Woods monetary system

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Fifty years ago, on the evening of Sunday, August 15, 1971, President Richard Nixon went on national television to announce that henceforth the US would no longer honour the agreement it had made at the Bretton Woods, New Hampshire, conference of July 1944 to redeem US dollars for gold at the rate of $35 per ounce.

The decision to close the gold window shattered the international monetary system which, together with the Marshall Plan of 1948 and the General Agreement on Tariffs and Trade of 1950, had been a key foundation of the postwar capitalist boom.

Capitalism emerged from the Second World War discredited on every front. Its economy, driven by the profit motive, had created untold misery for hundreds of millions of people in the Great Depression of the 1930s. Two imperialist world wars, fought for colonies and resources, had produced unspeakable barbarism, such as the Holocaust. The Second World War concluded with the dropping of two atomic bombs on Japan by the US. The ruling classes of Europe had ripped off the mask of "democracy" as they collaborated with the fascist regime of Nazi Germany.

When the heads of the soon-to-be-victorious powers gathered at Bretton Woods, as the war drew to a close—largely as a result of the heroic sacrifices of the armies of the Soviet Union—they were acutely aware that any return to prewar economic conditions would spark social revolution not only in Europe but potentially in the US as well.

At the end of the war, the economies of the combatants lay in ruins, except for the United States, which had undergone a rapid expansion. It now turned out more than 50 percent of the world's industrial production and held more than 75 percent of the world's gold stocks.

The basis of the Bretton Woods monetary system, under which the dollar became the global currency, backed by gold, was that the economic strength of US capitalism would provide the foundation for the reconstruction of postwar capitalism. But none of these plans could be put into effect without the restoration of the bourgeois political order, under conditions of developing revolutionary ferment.

The mouthpiece of British imperialism, *The Economist*, noted at the end of 1945 that the defeat of the Nazi regime and the end of its "New Order" had "imparted a great revolutionary momentum to Europe. It had stimulated all the vague and confused but nevertheless radical and socialist impulses of the masses. Significantly, every program with which the various Resistance groups throughout Europe emerged from the Underground contained demands for nationalisation of the banks and large-scale industries; and these programs bore the signatures of Christian Democrats as well as Socialists and Communists."

Such had been the integration of the European bourgeoisie into the structure of the Nazi "New Order" that it had become completely discredited, prompting *The Economist* to note that whereas the maxim of French socialism during the 19th century had been "property is theft," it was now "property is collaboration."

In revolutionary conditions, time is always of the essence. The decisive factor in providing the bourgeoisie with the time first to contain the postwar "revolutionary momentum" and then derail it was the role played by the Stalinist Communist parties, with the assistance of social democracy.

At the wartime conferences of the "Big Three"—the US, Britain and the Soviet Union—at Tehran, Yalta and Potsdam, the Moscow Stalinists agreed to the suppression of revolution in the West in return for imperialist recognition of Soviet spheres of influence in Eastern Europe. Carrying out this agreement, the Stalinist parties blocked the revolutionary upsurge of the working class, above all, in Italy and France, where they entered capitalist governments.

With the stabilisation of bourgeois political rule, the postwar economic arrangements created the framework for the longest boom in the history of global capitalism, generated by an upturn in the rate of profit resulting from the extension of the more productive methods of American capitalism to the other advanced capitalist countries.

But contrary to the illusions so assiduously promoted during this period, that somehow capitalism could now be regulated through Keynesian demand management and other forms of state intervention, its contradictions had not been overcome but only temporarily suppressed. Moreover, the very development of the boom was to bring them to the surface once again.

Even as the Bretton Woods monetary system was becoming fully operational at the end of the 1950s, when full currency convertibility was restored, the contradictions within it started to emerge and were pointed out in an analysis published by the Belgian-American economist Robert Triffin.

What became known as the Triffin paradox was the following: The functioning of the world economy, its need for international liquidity, depended on a continuous outflow of dollars from the US, and the greater the expansion of the world economy, the greater this dollar pool had to be.

But this growth, so necessary for the expansion of trade and investment, meant that the ability of the US to redeem these dollars for gold at the rate of $35 per ounce was undermined.

To some extent, this divergence could be managed so long as the US maintained a large balance of trade surplus. But that too was being undermined by the very development of the postwar boom. The economic revival of the advanced economies, particularly Germany and Japan, which the US had promoted in order to provide an outlet for its own industrial production, undermined the position of US capitalism within the global market.

This was reflected in a sharp decline in the US balance of trade surplus. It fell from $6.8 billion in 1964 to just $600 million in 1968, before moving to a deficit of $2.71 billion in 1971. Gold and foreign reserves fell, and by 1971 they were $13.91 billion, compared to US liabilities of $67.81 billion.

In the preceding years, attempts had been made to maintain the system, but they proved to be of no avail, and after a top-level weekend meeting at

Camp David, Nixon announced the cutting of the Gordian knot.

The ending of dollar-gold convertibility meant that paper currency no longer had a foundation in real value. Consequently, inflation rapidly ensued in the 1970s, as the value of the dollar in international currency markets declined.

There was another process at work. In the final analysis, the boom had been sustained not by the measures of capitalist governments but by an upswing in the 1950s and 1960s in the rate of profit. But from the middle to late 1960s, it began to decline in line with the analysis made by Marx of this lawful tendency.

The capitalist class responded with a stepped-up offensive against the working class to increase the rate of exploitation. But this produced only a growing upsurge of the working class, whose strength and militancy had increased as a result of the postwar boom.

Nixon's decision on the dollar was accompanied by the declaration of a wage limit of 5.5 percent. It failed. Inflation fueled the development of militant wages struggles in the US and around the world. In 1974, the British miners strike brought down the Heath Tory government. In Australia, 1974 saw the biggest strike wave since 1919 and the largest wage rises in history.

This period was one of intense political turmoil: the resignation of Nixon in 1974 as a result of Watergate, the downfall of the Greek junta in 1974, and the end of the Salazar regime in Portugal, which had come to power in the 1930s, to name but some examples.

The upsurge of the working class in the US was not quelled by the recession of 1974–75—to that point the deepest since the 1930s—nor even by the subsequent stagflation, the combination of high unemployment and rising prices. In 1977–78, US miners defied the anti-strike Taft-Hartley Act invoked by the Carter government, and in 1979 the British working class was embroiled in a winter of discontent against the Callaghan Labour government.

By the end of the 1970s it had become clear to ruling circles in the US that it was impossible to overcome falling profit rates and counter the militancy of the working class within the industrial and political framework of the postwar period, and nothing less than a complete restructuring of the US economy and class relations was necessary.

This was the significance of the appointment of Paul Volcker as the head of the Federal Reserve in 1979 by Democratic President Jimmy Carter.

Volcker's essential mandate was to carry out a purge of the American economy, coupled with an offensive against the working class. The vehicle for this was the raising of US interest rates to historically unprecedented levels. They reached 20 percent at one point in the early 1980s.

This program, resulting in the destruction of whole swaths of US industry, was conducted under the banner of a war against inflation. That war was above all directed against the working class, as Volcker himself acknowledged when he said that the mass sacking of the air traffic controllers by Reagan in August 1981 and the smashing of their union, PATCO, was of crucial assistance in the fight against inflation.

The smashing of the air traffic controllers union, the starting point of an offensive that was to continue relentlessly over the next decade, was made possible only by the collaboration of the trade union bureaucracy. In the crucial PATCO struggle, the leadership of the AFL-CIO told Reagan it would not raise a finger in opposition, a position it maintained in every conflict that followed.

The restructuring of the American economy involved two main components. In the first place, it drove forward the reconstruction of American industry on a global basis, forcing the development of new technologies and management methods to take advantage of the cheaper sources of labour available internationally, initially in places such as Mexico and East Asia and then extending further.

A second aspect was the increasingly prominent role of finance capital in the American economy as a source of profit accumulation. This involved to an ever-increasing degree the accumulation of profit through so-called financial engineering, that is, the use of parasitic financial methods rather than the previous road of profit accumulation via investment in the underlying economy.

Beginning under the Reagan administration, this rising mode of profit accumulation reached a crucial turning point in the stock market crash of October 1987, when the Dow recorded its largest one-day fall in history of more than 22 percent.

The intervention of the Federal Reserve into the crisis signaled the alignment of the central financial arm of the capitalist state with the new mode of profit accumulation. Responding to the stock market collapse, newly installed Fed Chair Alan Greenspan issued the following statement: "The Federal Reserve, consistent with its responsibilities as the Nation's central bank, affirmed today its readiness to support the economic and financial system."

It was brief, but its implications were far reaching. Previously, the policy of the Fed had been, in the words of its longtime postwar chair, William McChesney Martin Jr., to take away the punchbowl as the party was getting underway. Now it was to pour in more vodka.

The new orientation was elaborated by Greenspan in the years that followed. He insisted that the task of the Fed was not to prevent the formation of financial bubbles but to clean up the mess when they burst through the supply of ultra-cheap money to allow the speculation to expand still further.

The period since 1987 has seen a series of financial crises, each one more serious than the last, followed by further injections of money by the central bank: from the Mexican bond crisis of 1992, to the dot.com crash of 2000–2001, the global financial crisis of 2008 and the market freeze of March 2020 at the onset of the coronavirus pandemic, which went to the very foundation of the American and global financial system, the $21 trillion US Treasury market.

In the latter crisis, the Fed expanded its asset holdings from $4 trillion to $8 trillion virtually overnight and at one point was pumping in money at the rate of a million dollars a second. It became the backstop for every area of the financial system.

These measures have now created a mountain of financial assets, that is, fictitious capital. The term "fictitious" means that these assets do not embody value in and of themselves. Rather, in the final analysis, they are a claim on both the present and future surplus value to be extracted from the working class in course of capitalist production.

Herein lies the objective origin and driving force of the homicidal drive to reopen the economy by every capitalist government, even as the COVID-19 pandemic continues to spread death. Any measures that would impede the vampire-like demands of finance capital—meaningful measures to halt the pandemic, such as a lockdown of nonessential production with full compensation to those affected, combined with the closure of schools—are ruled out.

The entire society and its fundamental needs are subordinated to the demands of the financial oligarchy. "Let the bodies pile high," as British Prime Minister Boris Johnson declared, so that the flow of surplus value is sustained and the stock market can continue its rise.

The question that arises at the end of this historical review is: Where does this now leave us? The past is but prologue. What are the implications of the crisis at the very centre of the global financial system 50 years after the ending of the Bretton Woods system?

The answer is to be found only by considering the fundamental issues rooted in the very DNA of the commodity capitalist economy. The necessity for a material base of the monetary system in the form of gold arises from the very nature of commodity production. Money is not a technical device that was invented at some point in time to overcome the difficulties encountered in barter, and which can be constantly reinvented as circumstances change.

It is rooted in the commodity, the cell-form of capitalism. The value of each commodity is determined by the amount of homogeneous abstract human labour it contains. But this abstract social labour is not perceptible to the senses. Twist and turn a commodity as much as one likes, not an atom of value can be discerned. The commodity reveals the value embodied in it only when it stands in relation to another commodity.

The equation x Commodity A = y Commodity B is the germ of the money form, in which the value of Commodity A is represented by the bodily material form of Commodity B. The development of the commodity exchange system proceeds until one commodity, historically gold, becomes the universal representative of the value of the world of commodities.

When Nixon confronted the crisis of the Bretton Woods system, the only way he could have retained the existing monetary order was to crash the economy, winding back the growth that had taken place over the preceding quarter-century. Fearing the economic and revolutionary consequences of such a move, he sought to dodge the law of value and initiated the fiat currency system—paper dollars not backed by gold—which has been in place for the past 50 years.

This has led many, including some who consider themselves Marxists, to conclude that Marx's analysis of the centrality of gold to the value system has been refuted by events, that it may have applied in the 19th century or even up to 1971 but no longer because of the massive expansion of credit.

But closer consideration reveals that the law of value that Nixon attempted to push aside 50 years ago is reasserting itself. Marx did not discount the role of credit in the money system. He explained that the expansion of credit was the way "capitalist production constantly strives to overcome this metallic barrier [gold], which is both a material and imaginary barrier to wealth and its movement, while time and again breaking its head on it."

Credit, he wrote, constantly usurps the role of gold as the basis of the value system, and "enlightened economics looks down on gold and silver with the utmost disdain." That is, until confidence in the credit system is shaken, as inevitably takes place.

Gold performs a vital function as the ultimate measure and store of value. This role cannot perpetually be replaced by credit and paper money. Enormous amounts of fiat money can be created by the press of a computer button. But the capitalist state, the central bank cannot conjure up value out of thin air. It can be created only by the labour of the working class.

It is acknowledged, even by bourgeois economists who maintain that Marx's analysis has no relevance to the present day, that there are limits to the expansion of fiat money, that if it is expanded too greatly, it will no longer be socially acceptable as a measure and store of value. But this very acknowledgement indicates that lurking in the background there is a question of what the ultimate store of value is. Thrown out the front door, the value question comes back in through the windows.

Meanwhile, the continued expansion of fiat currency results in the development of the most fantastic expedients as the attempt is made to turn money into more money by means of speculation. The stock market continues to rise to record highs amid death and social devastation, while new forms of speculation are developed in the form of bitcoin, dogecoin and a myriad of other cryptocurrencies.

Then there are non-fungible tokens, NFTs, images that are stored, with a supposed valuation sometimes running into millions of dollars. There are meme stocks, generally based on companies whose business model has reached a dead-end, but whose market valuation is boosted through the number of "likes" they receive on social media platforms. And earlier this year there was the case of the New Jersey restaurant Hometown International, which had a market capitalisation of $100 million with sales of just over $37,000 in two years. As one comment put it, "the pastrami must be wonderful."

This craziness, in which the monetary worth of so-called assets with no intrinsic value can leap into the stratosphere, recalls nothing so much as the saying: "Those whom the gods wish to destroy they first make mad."

Bourgeois analysis gets itself into all kinds of tangles when it confronts the crucial question of value. In a comment published in the *New York Times* during the March 2020 crisis, the economic historian Adam Tooze wrote: "As panic has swept through financial markets in the past two weeks investors have begun seeking safety in cash—above all, in dollars. The American economy itself may look weak, but the dollar is still the most universally accepted means of payment and a store of value."

This is, in essence, a circular argument. The dollar is sought out as a means of payment because it is a store of value, and it is a store of value because it is the universally accepted means of payment.

Fifty years on from the demise of the Bretton Wood system, we are approaching another decisive turning point in the death agony of capitalism and the crisis of value that erupted in 1971. There are two major developments that terrify the central banks as they pump out ever greater quantities of fiat money in order to sustain the mass of fictitious capital that their actions have created.

The first is the fear that inflation will rise, and this will produce major struggles by the working class that can rapidly assume ever more powerful forms, including a direct clash with the state itself, sparking a crisis of confidence throughout the entire financial system. This is not a matter of speculation but of the most recent historical record. The eruption of wildcat strikes and walkouts by workers in March 2020 and the fear that this would extend was a significant factor in the market meltdown that month.

More than 160 years ago, amid a speculative orgy in France that preceded the 1848 revolution, Marx noted that any serious development of the class struggle calls into question the confidence, based on a belief in the supposed permanence of the capitalist system, on which the entire credit system rests.

This is the real concern of those, like former Treasury Secretary Lawrence Summers, who have warned that the stimulus packages of the Biden administration, combined with the actions of the Fed, can have dire inflationary consequences. That is, inflation can propel an eruption of class struggle under conditions where the entire financial system has time and again revealed its extreme fragility, going back to 1971.

The second fear is that the price of gold, the only stable store of value within the capitalist economy, will rapidly rise, leading to a collapse of confidence in the US dollar and setting off another crisis.

Over the past year and more, the price of every asset has been rising as a result of the expansion of fiat money, with the sole exception of gold. This points to intervention in the gold market from the highest levels, aimed at keeping its price down lest a significant rise set off a dollar crisis.

The Fed and other central banks keep their operations in the gold market behind closed doors, but as long ago as July 1998 in testimony before Congress, Fed Chair Alan Greenspan admitted that "central banks stand ready to lease gold in increasing quantities should the price rise."

Leased gold forms the basis of futures contracts based on sell orders that depress the market. In August 2020, the price of gold rose to a record high of $2,067. Since then, its price has been kept to a range around $1,800.

But the more the Fed pumps out fiat money, the more the value question arises, even drawing the attention of financial journalists.

Financial Times editorial board member Rana Foroohar noted that the policies of the Biden administration depend on low interest rates and "the power of the dollar to enable US borrowing." But, she continued, should "the current paradigm break quickly and unexpectedly both the dollar and any dollar-based assets could be rapidly devalued."

Another FT columnist, Gillian Tett, noted in a recent comment that the crisis to which Nixon responded 50 years ago raised a "bigger question that always stalks finance: what is the basis on which money commands value and trust?"

Since 1971, global debt has inexorably expanded and is now three times the size of the global economy. This will not be repaid by growth, she wrote, but sooner or later "will probably cause a direct or indirect restructuring or a social or financial implosion."

Or, to put it another way, as Marx did, the law of value asserts itself in the same way as the law of gravity does when a house collapses around our ears.

No one has a crystal ball that can predict exactly when and in what form this will take place. But two things are certain: first, that it is inevitable, because the crisis of value is rooted in the very cell-form of capitalism, the commodity; and, second, that it will bring an historic eruption of the class struggle, in which the contradictions of the capitalist mode of production are always fought out.

There is already a growing resurgence of the working class, after decades of suppression by the trade union bureaucracy, under conditions of a deepening economic crisis, for which the bourgeoisie is making its preparations. That is why in the US and around the world, it is making frantic efforts to totally integrate the trade unions into the apparatus of a corporate state, to better serve as the policeman for the suppression of the working class, while at the same the bourgeoisie seeks to organise a fascist movement.

The working class must now organise its struggle through the development of its own organisations, rank-and-file committees, to develop the struggle for its independent interests against the trade union bureaucracy and its backer, the capitalist state.

Above all, the crucial task is the building of the revolutionary party to lead the working class in the struggles now developing to take political power into its own hands. This must be done to ensure that the crisis of capitalism, already seen in the social murder policy pursued in response to the pandemic, is resolved through the establishment of socialism—a society in which the productive forces, developed by the labour of billions of workers, are utilised to meet human need, not profit.