

**“A Somewhat Awful Procedure”:
Otmar Emminger, the West German Bundesbank, and the Final Days of
Bretton Woods (1968-1973)**

Mark Gyourko
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Department of History
Columbia University
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Seminar Advisor: Elisheva Carlebach
Second Reader: Volker Berghahn

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Introduction

On May 5, 1971, Otmar Emminger admonished his fellow members of the Bundesbank executive council with an idea many were loath to acknowledge: “it doesn’t matter what we think about it, but what world finance, the currency markets, and foreign business think about it.”¹ A week later, West Germany succumbed to the forces Emminger identified, and it became the first major country to leave the Bretton Woods exchange rate system. The system had mandated the ‘fix’ of exchange rates between the U.S. dollar and other currencies at a specific rate. The West German central bank—the Bundesbank—defied a quarter century of American preeminence in international finance and ceased to support the fix of the West German Deutschmark (DM) to the dollar. Instead, the market forces of supply and demand would be allowed to determine the exchange rate between the two currencies, without intervention by the Bundesbank. This process was colloquially referred to as allowing the DM to ‘float.’

West Germany and the Bundesbank were major participants in a revolution of international finance during the crises of the late 1960s and early 1970s. However, the internal politics of the Bundesbank are an undertheorized aspect of the broader evolution in West German policy. In particular, following Bundesbank Vice President Otmar Emminger through the period illuminates the institutional history of the most significant policy shift (floating), years before it was viewed favorably in the broader West German Federal Government. This wonky episode and the self-mythologizing histories it spawned reveal contingencies in the early years of global financialization and the endless process of making and unmaking at the core of seemingly static conceptions of international economic ‘order.’

Emminger’s May 1971 reference to the influence of “world finance” on West German policymaking alluded to the key factor undermining the Bretton Woods exchange rate system:

¹ Otmar Emminger. Vermerk, 5/5/71. Historisches Archiv der Deutschen Bundesbank, B330 6158/1.

inflation in the United States. Bretton Woods undervalued the DM, which meant that the Bundesbank was frequently forced to buy large quantities of U.S. dollars for the exclusive purpose of maintaining the fix. Such interventions were a harmless practice in small doses, but at sufficient scale they necessitated the Bundesbank increasing the supply of DM far beyond what it would have liked, just for the DM to be used on purchases of increasingly worthless dollars. This also increased the risk of inflation in West Germany; once the U.S. created the conditions for its own inflation, the West Germans were almost fated to experience the same later, if the fix was to be maintained. Emminger believed that abandoning the fix was the solution to the problem for West Germany because the market could determine the relative values of the two currencies without a predetermined price.

The obligation to maintain that predetermined exchange rate was a major factor in several currency crises, most seriously in 1971. That May, following an unprecedented volume of speculative capital flows into Germany, the Bundesbank and Federal Government agreed to cease support for the fix and indefinitely, though not permanently, float the DM. In August, President Nixon took the United States off the gold standard in the face of a balance of payments crisis. Although the major Western economies attempted to create a slightly more flexible version of the fixed rate system that December, it failed within 15 months, and by the spring of 1973 the DM was floating alongside several other European currencies.

This thesis contributes to several existing spheres of literature regarding the Bundesbank, inflation, and transatlantic monetary affairs in the 1970s. The first is a group of scholars who have located the consequences of Western policy responses to 1970s inflation in the subsequent trends toward financialization and inequality. In particular, Wolfgang Streeck and Adam Tooze have focused on the profound impact of anti-inflationary politics in the '70s on the conduct of democratic capitalism in the decades since. Streeck argues that the '70s marked the beginning of

the end for relatively harmonious midcentury relationship between democracy and capitalism. As growth declined, capitalism was exposed as an economic model with significant flaws, as evidenced by inflation, massive state indebtedness, and the subsequent shift of that debt load onto private balance sheets via austerity programs and the expanded volume of credit cards, student loans, and home mortgages. Streeck argues that democratic control of this system has become impossible, and that capitalist societies will stagnate as they eat their own institutions alive. Tooze and Stefan Eich agree that the responses of the 1970s represent a massive transfer of wealth and social power to the owners of financial capital, but Tooze has criticized Streeck for identifying a compelling but abstract logic of capitalist crisis that endorses a fatalist outlook from the perspective of democracy, without empirical evidence thereto. Eich and Tooze instead view inflation as a distributional conflict between labor and capital (and they argue that many 1970s policymakers did the same), which implies that pro-capital policies both then and now are choices to which labor's political representatives have assented because they have accepted neoliberal premises about economic theory as inevitable. I answer Tooze's call to "critically evaluat[e] the evidence and theoretical arguments that underpin our views of the recent past" via primary source examination of how Bundesbank officials understood the international economic conditions of the early 1970s, why they pushed for the policy responses that they did, and how those unelected bureaucrats interfaced with the democratic representatives of the West German people.²

² Stefan Eich and Adam Tooze. "The Great Inflation," in *Vorgeschichte Der Gegenwart. Dimensionen Des Strukturbruchs Nach Dem Boom*, (Göttingen: Vandenhoeck & Ruprecht, 2015), 28; Wolfgang Streeck. "The Crises of Democratic Capitalism", *New Left Review* 71, September–October 2011, 6; Adam Tooze, "A General Logic of Crisis," *London Review of Books*, January 5, 2017, <https://www.lrb.co.uk/the-paper/v39/n01/adam-tooze/a-general-logic-of-crisis> (accessed April 1, 2020). Tooze has similarly criticized intellectual histories of neoliberalism that, "are still not engaging with the actual mechanisms of power and production" and instead insists that historians must "[refuse] neoliberalism's deliberately elevated level of discourse" as embodied by broad theoretical questions of economics. Adam Tooze. "Neoliberalism's World Order," *Dissent Magazine*, Summer 2018, <https://www.dissentmagazine.org/article/neoliberalism-world-order-review-quinn-slobodian-globalists> (accessed February 5, 2020).

Second is the literature on the collapse of the Bretton Woods exchange rate system specifically. Anglosphere historians and economists generally argue that the system collapsed when Richard Nixon suspended the convertibility of the U.S. dollar to gold. Moreover, they argue that two prior U.S. decisions exacerbated the country's unsustainable balance of payments: Lyndon Johnson's choice to deficit-fund the Vietnam War and Nixon's appointment of a Federal Reserve chair (Arthur Burns) who supported loose monetary policy even after the threat of inflation had become palpable to many central bankers.³ However, other historians like Michael De Groot have recently argued that Bretton Woods histories should look instead to Western Europe, where decisions by West Germany, the Netherlands, and Britain to float their currencies made the fixed rates impossible to defend on at a system-wide level.⁴ This thesis splits the difference, endorsing De Groot's view that the German decision to float four months prior to the 'Nixon shock' exemplified a monetary order in terminal decline, while emphasizing that the Bundesbank officials who supported the float in many cases justified the decision by claiming American recklessness was an emergency that had left West Germany with no alternative.

Yet economic histories of this period frequently accept the premise of exigency with respect to these systemic changes in international finance in favor of liberalization and financialization (floating, most notably). In the Anglosphere, Ronald Reagan and Margaret Thatcher have been lionized as courageous executors of austerity, and Nixon's abandonment of the gold standard has also received plaudits.⁵ The West German experience with low inflation has yielded a similar mythology surrounding the country's central bankers.⁶ This premise is

³ See, e.g., Barry Eichengreen. "When Currencies Collapse: Will We Replay the 1930s or the 1970s?" *Foreign Affairs* 91, no. 1 (2012), 125-7.

⁴ Michael De Groot. "Western Europe and the Collapse of Bretton Woods." *International Journal* 74, no. 2 (June 1, 2019): 282-300.

⁵ Eich and Tooze, "The Great Inflation", 9.

⁶ Simon Mee. *Central Bank Independence and the Legacy of the German Past*. (Cambridge: Cambridge University Press, 2019), 2-3.

frequently accepted in the German case because the history of Bundesbank independence has been told in largely econometric terms. These accounts are important because the Bank's leaders were mostly quantitative technocrats, but such histories often treat qualitative political questions about systemic organization as secondary to the quantitative analysis, even though the qualitative questions were demonstrably important to Bundesbank leaders at the time. The recent works of Fritz Scharpf and Benjamin Braun are two prime examples of this tendency in the historiography, with Scharpf going as far as claiming, "there is no point here in discussing the empirical and theoretical validity of [the Bundesbank's] assumptions" because by the 1970s they were so widely accepted that the relevant market actors all operated on the expectation they would be true.⁷ This is not an unreasonable starting point for an economics paper, but, as I will show, it both circumscribes the potential to historicize the situation and was explicitly at odds with the views of at least one extremely influential *Zentralbankrat* member (Emminger).

Finally, William Glenn Gray and Julian Germann have offered two useful approaches to viewing this period from a German institutional perspective. Both studies center on identifying a compelling theory of German economic strategy that persisted through the rest of the 1970s, but their outside-in approaches to the Bundesbank do not capture some crucial developments in the Bank's internal politics on the path to floating in 1973. Gray examines the international context of the crisis Germany faced as mediated by diplomats in Bonn and tells the story of how foreign pressures brought the Cabinet into "constellation" with the Bundesbank in favor of floating.⁸ Germann advances a conceptually similar argument, but his constellation is "the nexus between

⁷ Fritz W. Scharpf, "International Monetary Regimes and the German Model," MPIfG Discussion Paper (Max Planck Institute for the Study of Societies, 2018), 14; Benjamin Braun, "Governing the Future: The European Central Bank's Expectation Management during the Great Moderation," *Economy and Society* 44, no. 3 (July 3, 2015): 367–91.

⁸ William Glenn Gray, "Floating the System: Germany, the United States, and the Breakdown of Bretton Woods, 1969–1973," *Diplomatic History* 31, no. 2 (April 2007), 319.

state agency and capital accumulation.”⁹ For Germann, West German policy responded specifically to the interests of the private German export bloc, not the abstract primacy of globalized market forces. He argues that the decision to float in 1973 was the product of a paradox that vexed both the German authorities and the private economy: the massive inflows of foreign capital that resulted from the undervalued DM came specifically from countries that were major markets for German exports. The traditional German export surplus would no longer be tenable in a world where the U.S. was attempting to re-equilibrate its balance of payments. Because many of the direct depositors of dollars in the Bundesbank were the German companies who exported to the U.S., enforcing *ad hoc* capital controls would have been extremely politically unpopular, and floating the DM was the most effective way to regain control of the situation. Thus, the Cabinet’s perception of domestic private industry’s interests came into alignment with Emminger’s support of floating within the Bundesbank.¹⁰

Emminger is a bigger figure in Gray’s narrative than Germann’s, but both take his position for granted. My analysis centers on Emminger, whose ascent within the Bundesbank adumbrated major changes in the organization’s support for policies previously considered anathema. This inward orientation toward the Bundesbank enables me to explore an undertheorized aspect of the West German decision to float and illuminate several pieces of evidence that complicate Germann’s narrative in the vein for which Tooze advocates. First and foremost, centering the story on Emminger raises the questions of why such an influential *Zentralbankrat* member supported floating well before the Government bureaucrats and export industry representatives supported a revaluation of the DM. How did his influence manifest itself within the Bank’s internal bureaucratic politics? Moreover, Germann’s move to attribute agency

⁹ Julian Germann. “State-Led or Capital-Driven? The Fall of Bretton Woods and the German Currency Float Reconsidered.” *New Political Economy* 19, no. 5 (September 3, 2014), 769.

¹⁰ *Ibid.*

to Bank directors is a positive contribution to the historiography, but his minimization of the impact of foreign ‘hot money’ on the bankers’ consciousness both underappreciates an important part of the archival record and unintentionally subverts his own project.¹¹ The aforementioned understanding of the synergy between the export surplus and exchange rate instability was a relatively late development, and for much of the period this thesis explores (especially prior to May 1971), debates within the Bundesbank centered precisely on a fear of anonymous foreign speculators spawning a liquidity crisis that could not be managed with capital controls. Although the *Zentralbankrat* did appreciate the extent to which the West German export industries were unwitting agents in the foreign exchange crisis by 1973, an important component of testing our theories of economic understanding in the recent past is taking seriously the theories the actors themselves carried through the period. I aim to bridge that divide here using the figure of Emminger.

My project is to test the narrative that floating the DM was a specific and necessary response to the crisis of 1973 (which I term the ‘narrative of exigent liberalization’) against the archival record. Having extensively explored both Emminger’s personal papers and the records of the *Zentralbankrat* at the Historical Archives of the Bundesbank in Frankfurt, I ask: how does the narrative of exigent liberalization fare against internal bureaucratic experiences at the Bundesbank? I argue that although the Bundesbank responded to the crises of the early 1970s with the intent to establish unprecedented autonomy from both the Federal Government and the American-led international monetary system, its moves toward policy independence were just as much an extension of existing attitudes within the *Zentralbankrat* as a series of radical changes fated by exigent circumstances.

¹¹ Gray, 781-2.

Emminger pushed for a float of the DM years before his peers came around to the same view, and his opinion was not heeded as a matter of permanent policy in 1969 or 1971, when the German position in the fixed exchange rate system experienced challenges that appeared as categorically severe as the crisis which led to its final withdrawal in 1973. Even when floating became long-term policy in 1973, there was a difference of opinion among West German policymakers as to the specific justification for abandoning fixed rates.

This is not to say that nothing had changed during the period—quite the opposite, in fact. The end of the dollar fix was a watershed moment in international economic history and is duly regarded as a significant step toward the globalization of finance.¹² What this history instead questions is the way in which the story of this change in global order is told. The international monetary system was in disarray during the early 1970s, and the inflation that characterized the period was a catastrophe, but it is a mistake to assume that 1973 was fated to be the point of no return in West Germany and that the subsequently-pursued course of liberalization and austerity was the only way back to stability.

The coherent, historicized object ‘Bretton Woods’ looked very different to those within the Bundesbank during this time of change. The postwar international monetary system was constantly undermined by its own successes and reconstituted on the basis of its failures, so identifying this single change in form (even a significant one) as a moment of “collapse,” to use a term from the IMF’s official history, implies a misleading sense of drama and rupture from a previously stable past.¹³ This is nontrivial in light of the purpose of the Bretton Woods

¹² This project began as an engagement with intellectual histories of neoliberalism. I avoid using the term in the paper for a number of reasons, most significantly that the term has crept very far from the meaning which the original, self-identified neoliberals understood. That said, Quinn Slobodian’s conceptual frame in *Globalists*—neoliberals did not advocate for *laissez-faire* but instead sought to create a supernational system which encased markets and defended them from ‘politics’ (i.e., democracy and nationalism)—cast a strong shadow over my revised project. Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, Mass.: Harvard University Press, 2018).

¹³ International Monetary Fund, “About the IMF: History: The End of the Bretton Woods System (1972–81),” n.d., <https://www.imf.org/external/about/histend.htm> (accessed April 17, 2020).

Conference itself: to create an international economic order that could not be ground to a halt by the whims of self-interested nationalists, as the prewar order had. Because the gold standard and dollar fix were mere means to that end, their disappearances are as much evidence of the adaptive resilience of the Conference's initial intent as they are of the sclerotic failure of its specific proposal. Emminger's push within the Bundesbank for exchange rate liberalization and against capital controls is strong evidence thereof.

Chapter 1 traces the backstory of the West German position in the postwar exchange rate system and explores the Bundesbank's role in confronting balance of payments imbalances. Chapter 2 explores Emminger's advocacy of floating the DM as a response to the system's flaws between 1969 and 1971. Chapter 3 then illuminates how floating developed into a more mainstream position within the Bundesbank (and ultimately the Federal Government), culminating in the joint float of 1973. Concluding remarks follow Chapter 3.

Chapter 1: West Germany in Bretton Woods

The years immediately preceding the German exit from the Bretton Woods monetary system (and the system's subsequent collapse) in 1971 witnessed a major international monetary crisis that threatened the stability of the DM and, with it, the health of the entire West German economy. The crisis also begged broader questions about the sustainability of American monetary hegemony and the nature of alternatives to it. These systemic questions became increasingly urgent for the West German Government at a time of internal upheaval, as well. Willy Brandt became the first Chancellor from the Social Democratic Party in 1969, and Karl Klasen—a fellow SPD member—took charge of the Bundesbank the following year. Otmar Emminger concurrently rose to the Vice Presidency, a move reflective of his growing cachet within the *Zentralbankrat*. Although the Bundesbank was outwardly docile in the years leading up to the 1971 collapse of the fixed exchange rate system, a contingent within the *Zentralbankrat* expressed dismay throughout the period at the Bank's lack of power *vis a vis* both the Federal Government and international monetary system.

West Germany was a parliamentary federal republic. Although the country did have a ceremonial President, the Chancellor was the functional head of state. The parliament (Bundestag) contained three major parties during the 1960s and early 1970s: the center-right Christian Democratic Union (CDU/CSU), the center-left Social Democratic Party (SPD), and the classical liberal Free Democratic Party (FDP), with the first two significantly larger than the latter. In 1964 the neo-Nazi National Democratic Party (NPD) was founded, and although it never held seats in the Bundestag, the specter of a far-right resurgence loomed over German politics in the 1960s. Elections to the Bundestag were held at minimum every four years. The

period between 1957 and 1961 is the only one in which a party had an absolute majority and did not need to form a coalition to govern.¹⁴

The first Chancellors of West Germany were all members of the CDU. In 1963 Konrad Adenauer, the West German founding father, ceded the Chancellorship to Ludwig Erhard, the longtime Economics Minister. Although the CDU was able to maintain control of the government after the 1965 election by forming a coalition with the Free Democratic Party, the coalition collapsed the following year in the wake of the first postwar recession, and Erhard resigned the Chancellorship. The SPD saw the recession as an opportunity to push for government stimulus and social program spending. The SPD platform was spearheaded by Karl Schiller, a Keynesian economist who became the Economics Minister in a new grand coalition between the CDU and SPD under Chancellor Kurt Georg Kiesinger.¹⁵

These events took place near the end of the three-decade period after World War II colloquially referred to as the era of *Wirtschaftswunder* ('economic miracle') in West Germany. The miracle refers to generally high growth and low inflation. Reintegration into the world economy took several years, but the West German economy took off following the introduction of the DM in 1949. Once the Marshall Plan had enabled the rebuilding of the West German capital stock, industrial production exploded, and West Germany became a major producer of appliances and other durable goods. The DM was pegged to the dollar at a price that quickly became undervalued relative to market conditions. This gave West Germany an additional competitive advantage as an exporter because it meant that firms could undercut competitors in foreign markets without losing value relative to what they would have been selling for under a

¹⁴ Christopher S. Allen, "From Social Market to Meso-Corporatism: The Politics of West German Economic Policy," *German Studies Review* 13 (1990), 14-15.

¹⁵ *Ibid.*, 16. Keynesianism here refers to the economic philosophy encouraging the use of countercyclical government policy (e.g., spending increases during a recession, spending cuts when growth is already high) to smooth the extremes of the business cycle.

floating exchange rate.¹⁶ This meant, however, that the health of the economy was just as much in the Bundesbank's hands as it was the Federal Government's—inflation was generally low, but favorable international agreements facilitated the trend.

The Bundesbank emerged midway through the *Wirtschaftswunder*. Fearful of German rearmament as occurred after World War I, the occupying allies wanted to limit the speed at which the German financial system regained power, so they created the *Ländeszentralbank* system—a government bank initially under direct control of the occupiers. Crucially, following formal occupation the administration of the bank was devolved to affiliates in the individual German *Länder*.¹⁷ A central bank was created with headquarters in Frankfurt, but its executive committee was comprised of the regional bank heads appointed by *Land* governments—not the Chancellor, President, or other members of the Federal Government—and its founding documents codified independence from political interference.¹⁸

This management structure did not change until 1957 with the passage of the Bundesbank Act. The law created a new central bank led by federal appointees with the mandate to regulate the money supply and support the currency. In reference to the Bundesbank's mission, a former President once remarked, “price stability is not everything, but without price stability everything is nothing.”¹⁹ Although the statute's authors argued that the Bundesbank should be politically independent of the Government, they did not clarify whether the currency support mandate referred to the value of the DM within Germany or on the world market, objectives that were often pursued harmoniously but which came into tension at critical moments.²⁰ The

¹⁶ Germann, 771.

¹⁷ The equivalent to U.S. states under the German federal system.

¹⁸ Monika Dickhaus, “Fostering ‘The Bank That Rules Europe’: The Bank of England, the Allied Banking Commission, and the Bank Deutscher Länder, 1948-51,” *Contemporary European History* 7, no. 2 (1998): 163-5.

¹⁹ Deutsche Bundesbank. “55 Years Deutsche Bundesbank.” Deutsche Bundesbank Eurosystem. <https://www.bundesbank.de/en/tasks/topics/55-years-deutsche-bundesbank-662360> (accessed February 20, 2020).

²⁰ Robert L. Hetzel, “German Monetary History in the Second Half of the Twentieth Century: From the Deutsche Mark to the Euro,” 2002, 37-38.

Bundesbank's primary decision-making body was the *Zentralbankrat* ("central bank council")—a group of approximately twenty members of the Bank's directors (including the President and Vice President) and Presidents of the *Länderbank*, the descendants of the *Ländeszentralbank* which remained in existence as regional subordinates of the Bundesbank.

A mainstream historical narrative (espoused, e.g., by former European Central Bank President Mario Draghi) argues that Germany was traumatized by its experiences with severe inflation during the early Weimar and Nazi periods, which were the result of political interference in the operation of monetary policy. Seeing apolitical monetary policy as the key to maintaining low inflation and social stability, postwar Germany responded to its historical trauma by creating a Bundesbank independent of the elected government and supporting a strong mandate to protect price stability throughout the second half of the 20th century.²¹

However, valences in the politics of memory of the interwar period and their impacts on the subsequent conduct of German monetary policy complicate this "monetary mythology". For instance, during the hyperinflation of the early 1920s the Reichsbank was a private bank, not a government entity.²² Fierce debates over the merits of central bank independence in early postwar West Germany were ultimately resolved by transmutation into a dispute about the history of the prewar Reichsbank.²³ Although the mythology has become hegemonic in popular memory, this intellectual victory did not become final until the 1970s, when the SPD held power and a new generation led the Bundesbank (including Klasen and Emminger) with no personal connections to the Reichsbank.²⁴

The Bundesbank was led by a small group of men, whose individual personalities and philosophies clashed and compromised in ways that had an enormous impact on the course of

²¹ Mee, 3-5.

²² Ibid, 7.

²³ Ibid, 7-9.

²⁴ Ibid, 255.

West German policy. Karl Blessing had held the Bank's Presidency since 1958 but was replaced by Karl Klasen, who led the bank from 1970 to 1977. Klasen had not worked in the public sector for nearly 20 years before assuming the Bundesbank presidency. Immediately prior to entering the central bank, he served as the Chairman of Deutsche Bank, Germany's largest private investment bank.²⁵ A jurist by training, Klasen's background differed markedly from that of many other Bundesbank officials, who were often economists with long careers in government and academia, and this inclined him to disregard some customs of the prior leadership.

The international monetary system both empowered and circumscribed the Bundesbank leaders. Exchange rates—the price for trading one country's currency for another—were held at fixed rates relative to the U.S. dollar. If an imbalance in supply and demand pushed the market away from the fix, the central banks were obligated to intervene and either buy or sell excess currency to remove it from circulation. West Germany benefitted in the sense that its fix was conducive to export-driven manufacturing, but all participants practically surrendered their ability to control the inflation rate within their countries to the United States.²⁶

While the system did have the aforementioned thesis—the dollar fixed to gold and other currencies fixed to the dollar—'Bretton Woods' was not a concept that would have registered in the same way it does now with Bundesbank leaders in the late '60s. Anecdotally, a search of the Bundesbank's digitized archives contains only one document with the phrase "Bretton Woods" prior to 1984.²⁷ The postwar exchange rate system went through multiple iterations even before 1971, and West German authorities often saw the period as a series of recurring currency crises, not an era of halcyon stability. Indeed, one of Emminger's central claims during this period was

²⁵ Deutsche Bundesbank. "Dr Karl Klasen." Deutsche Bundesbank Eurosystem. <https://www.bundesbank.de/en/bundesbank/organisation/executive-board/dr-karl-klasens-666068> (accessed November 11, 2019).

²⁶ Germann, 775.

²⁷ Historisches Archiv der Deutschen Bundesbank. "Suche (search)." Deutsche Bundesbank Eurosystem. <http://bundesbank.fau-web.de/dosuche.FAU?sid=9C5AB1F31&dm=1&rpos=1> (accessed February 10, 2020).

that no form of permanent stability would be possible with the dollar fix as a foundational premise of the system. In his eyes West Germany was “the innocent pole of stability” at the whim of the dollar “shrouded in a cloud of suspicion.”²⁸

The instability in the 1960s was so severe that it is worth asking why an event such as the collapse of the London Gold Pool has not received the same level of *ex post facto* exigency narrative as the ‘Nixon shock’ or Bundesbank-led joint float. By the early 1960s, outstanding foreign liabilities against the U.S. treasury exceeded the value of the entire national gold reserve (which the Bretton Woods agreements required the U.S. to make accessible for dollars at a certain price). Part of the speculative international demand for dollars stemmed from a divergence in the market price of gold and that at which the U.S. guaranteed convertibility; when the market price rose above the official U.S. price, governments were able to engage in arbitrage by hoarding dollars to buy gold from the U.S. and then selling it at a higher price on the open market. Eight nations endeavored to shrink the gap by creating the London Gold Pool, a cartel which instituted a *de facto* price ceiling on the open market by putting national reserves up for sale. However, the scheme collapsed completely in 1967 following a run on the London gold market.²⁹ It is important to keep signs of fundamental systemic weakness prior to 1971 in the front of mind. What threshold was crossed in 1971 and 1973 that left no alternative to a float while the same couldn’t be said for 1967?

As the prospects for U.S. inflation increased with the escalation of the Vietnam War, DM-denominated assets became increasingly attractive to foreign speculators, which spawned intervention by West German authorities. The Bundesbank and the Federal Government had overlapping but distinct powers to intervene in currency crises. The Bank used balance sheet

²⁸ Zentralbankrat der Deutsche Bundesbank. Auszug aus dem Stenogram der 337. ZBR-Sitzung am 5.5.1971, 6158/1 337. ZBR-Sitzung, B330 ZBR Protokollen, Historisches Archiv der Deutschen Bundesbank, Frankfurt am Main, Hessen, Germany.

²⁹ Eichengreen. “When Currencies Collapse”, 124-5.

operations—buying and selling assets with one currency or another, printing more DM as needed—to manipulate the money supply and keep the exchange rate at the fix.³⁰ The Federal Government’s primary source of authority to intervene in the currency crises came from the *Außenwirtschaftsgesetz* (Foreign Trade Law). Article 23 of the Law (§ 23), enacted in the early 1960s, permitted the Government to restrict foreign capital imports if they threaten to increase domestic inflation or create a balance of payments crisis. The restrictions could take many forms, including a complete ban on capital imports or an interest payment ban on non-German deposits in German banks.³¹

It was clear to many in the Bundesbank that some reform of the international exchange rate system would be desirable in the long-run, but opposition domestically and abroad made *ad hoc* capital controls and Bundesbank absorption of extra dollars the path of least resistance in the short run. International payment imbalances were eminently solvable problems from a technical perspective because they were primarily coordination problems, but in practice this meant that certain countries would have to agree to constraints that relatively inhibited their growth or increased inflation while others seemingly got everything they wanted. Even within West Germany, a higher exchange rate with the dollar might calm the foreign exchange markets and curb inflation, but it would also harm manufacturers who had grown their businesses on the basis of an undervalued currency. The repeated attempts to resolve this problem—which Harold James describes as “the clash of national economic regulation with the logic of internationalism”—were implicit in most of the international economic drama of the 1970s.³²

³⁰ The biweekly meetings of the Central Bank Council—“ZBR-Sitzungs” as cited here—usually involved an overview of money market metrics, changes in the volume of domestic debt and foreign currencies owned by the Bundesbank, and the relation between these quantitative metrics and broader questions of domestic economic conditions and international monetary concerns. Historisches Archiv der Deutschen Bundesbank B330 „ZBR-Protokollen.“

³¹ Hans Hermann Francke and Michael Hudson. *Banking and Finance in West Germany (RLE Banking & Finance)*. Routledge, 2013, 106.

³² Harold James. *International Monetary Cooperation Since Bretton Woods*. (Washington, D.C.: International Monetary Fund, 1996), 207.

For instance, when large speculative flows into West Germany followed the May '68 protests in France, the Federal Government refused to consider a revaluation of the DM.³³ Members of the Bank were at odds with the Cabinet over how to respond to the currency speculation by late 1968. Blessing expressed disappointment in Chancellor Kiesinger's plan to impose an export tax as a means of controlling the foreign exchange flows. Blessing felt that an appreciation of the Mark with respect to the dollar would be the only action permanent enough to stop the speculation, but he acknowledged that Kiesinger supported the export tax precisely because he would be able to sell it politically as a temporary intervention. Several other Bundesbank board members agreed, noting that individual companies would likely devise methods of evading the tax and that much of the speculation did not derive directly from the balance of trade in the real economy. As such, the *Zentralbankrat* voted to send messages to the Kiesinger, Schiller, and Finance Minister Strauss expressing the Bank's formal disapproval of the tax plan and belief that it would be insufficient to resolve the currency crisis.³⁴

By the May 8, 1969 *Zentralbankrat* meeting, robust international demand and the unsustainably undervalued D-Mark left the Bundesbank increasingly worried about domestic inflation. Heinrich Irmeler, a longstanding director of the Bank, described an appreciation of the Mark as "imperative" in the wake of massive inflows following the resignation of Charles de Gaulle in France. Schiller, who sat in on the morning part of meeting as Irmeler offered his analysis, still had reservations about a unilateral appreciation but acknowledged that the export tax had not been sufficient to resolve the currency crisis.³⁵

Though many of the Bank's directors subsequently emphasized the need for the Chancellor to accept a revaluation, after Schiller left at lunchtime the mood paradoxically

³³ De Groot, 287-290.

³⁴ *Zentralbankrat*. 277. ZBR-Sitzung, 11/21/68. Historisches Archiv der Deutschen Bundesbank, B330 477/1.

³⁵ *Zentralbankrat*. 288. ZBR-Sitzung, 5/8/69. Historisches Archiv der Deutschen Bundesbank, B330 481/2.

tempered. The discussion shifted to a debate over whether the Government should close the channels of foreign exchange—imposing capital controls with the goal of halting speculative flows of foreign money into the country. Bernhard Benning, a director of the Bundesbank since its founding in 1957 and one of few remaining links to the Reichsbank era, argued that the Bank should not give Kiesinger a definitive recommendation either way because it could force the Chancellor's hand on the revaluation question.³⁶ Viewing its role very conservatively, the *Zentralbankrat* decided merely to inform the Cabinet how much foreign currency it would need to buy at the close of business and let the Chancellor make his own decision from there.³⁷ Thus, even as a crisis was rapidly emerging, the incumbent leadership of the Bundesbank was willing to risk the implementation of a policy it considered suboptimal in order to maintain a deferential stance toward the elected government. Kiesinger maintained his position, and the crisis deteriorated further during the summer of 1969.

³⁶ Mee, 103.

³⁷ *Zentralbankrat*. 288. ZBR-Sitzung.

Chapter 2: Emminger and the Unraveling

The prolific voice of Otmar Emminger became even more influential in 1969, and his personal ascent in the Bundesbank's bureaucracy marked a critical turning point in favor of currency liberalization within the Bank. Over the course of 1970 and early 1971 his belief that the Bundesbank's position within the international exchange rate system was structurally flawed gained increasing cache among his colleagues. In May 1971, his colleagues and the Chancellor agreed that floating—at least temporarily—was the correct response to an unsustainable onslaught of capital inflows into the Bundesbank.

Emminger had served as a director since the Bundesbank's founding, became Vice President of the Bank in 1970, and assumed the top job from 1977 to 1979. A career bureaucrat, he had diverse professional experiences, and his colorful personality yielded an extensive network of friends both within West Germany and abroad. Emminger served in Washington as the West German executive director of the IMF during the 1950s, an experience he later remembered as “one of the best times in my life.”³⁸ In Europe, he represented West Germany on the European Economic Community's Monetary Committee, an influential group of central bank governors and finance ministers from the Community's member states. Emminger frequently wrote the men he met in these capacities to debate pressing economic issues, respond to their publications, and organize informal forums for dialogue between central bankers, treasury officials, and academics.³⁹ Klasen enabled the further amplification of Emminger's voice by granting him control over the Bundesbank's press office. Emminger frequently participated in press availabilities during Klasen's presidency and used his position to control the flow of

³⁸ Otmar Emminger to Roman L. Horne, 12/20/60. Historisches Archiv der Deutschen Bundesbank, N/2 59.

³⁹ Otmar Emminger. Carbon copy of conference invitation in William Fellner to Emminger, 11/23/65. Historisches Archiv der Deutschen Bundesbank, N/2 67.

official documents outside of the Bundesbank. He served as a technocratic gatekeeper to back up the corporate Klasen.⁴⁰

Although Emminger was commended for his affable manner and acerbic wit, he also epitomized economics as the dismal science. Ironically, he demonstrated a long history of incredulity and skepticism about the possibility for international monetary agreements and interventions to improve the world economy. His 1934 doctoral dissertation at the University of



Figure 1: Otmar Emminger⁴¹

Munich was a scathing analysis of the British decision to go back on the gold standard in 1925, a decision which he claimed had harmed Britain and made neighboring countries dependent on

⁴⁰ Mee, 270-1. For press conferences, see, e.g., *Presse und Information: Bundesbankpräsident Dr. Klasen, Bundesbank-Vizepräsident Dr. Emminger und Bundesbankdirektor Dr. Irmeler (MdD) vor der Presse in der Mittagspause der ZBR-Sitzung am 4. Nov. 1970*, 11/4/70. Historisches Archiv der Deutschen Bundesbank, B330 5883/2.

⁴¹ Deutsche Bundesbank. “55 Years Deutsche Bundesbank.”

them to the point of “nearly complete impotence.”⁴² In correspondence with a director of the Banca d’Italia in the early ‘60s, Emminger expressed doubt that European integration would produce economic benefits in the aggregate or even benefit West Germany as the biggest player because “the decisive issues and influences are really the political considerations.”⁴³ Emminger carried his disinclination for politics-contra-economics *ad absurdum* in late 1966 when he declined a request from 90-year-old, moribund Konrad Adenauer—the dignified founding father of postwar West Germany—to speak at a conference at some point in November by claiming that he planned to be busy the entire month.⁴⁴

Emminger’s aversion to ‘politics’ must be understood through the lens of inflation. He showed a keen interest in the work of the Chicago School economist Milton Friedman during the 1960s, engaging in lengthy correspondence, for example, with senior Federal Reserve advisor Ralph Young about the veracity of Friedman’s theory that domestic inflation was exacerbated by the fixed exchange rate system leaving currencies over- and undervalued, as opposed to letting the market do all of the valuation work.⁴⁵

Emminger experienced his star-making moment in late September 1969. Chancellor Kiesinger’s Christian Democratic Union (CDU)—which had held the Chancellorship for the entirety of West German history—suffered a poor electoral result in a campaign dominated by coverage of the DM speculative crises.⁴⁶ Prior to the election, which figured to add an additional element of volatility to the capital markets, the *Zentralbankrat* advised the Chancellor to close the channels of foreign exchange. Emminger insisted that they should not be reopened until the winner of the election committed to changing the fix on the DM. Moreover, he encouraged the

⁴² Otmar Emminger. “Die Englischen Währungsexperimente Der Nachkriegszeit.” *Weltwirtschaftliches Archiv* 40 (1934): 274.

⁴³ Otmar Emminger to Paolo Baffi. 2/15/60. Historisches Archiv der Deutschen Bundesbank, N/2 59.

⁴⁴ Otmar Emminger to Konrad Adenauer. 10/20/66. Historisches Archiv der Deutschen Bundesbank, N/2 69.

⁴⁵ Ralph Young to Otmar Emminger. 11/4/66. Historisches Archiv der Deutschen Bundesbank, N/2 70.

⁴⁶ Gray, 302.

Government to play hardball with the IMF, whom he feared would reject the revaluation officially but offer no substantive resistance if the Bundesbank simply ignored its orders.⁴⁷

However, in the immediate aftermath of the election on Sunday, September 28, it was not yet clear that Kiesinger lacked the support to form a coalition government, so he allowed the markets to open the next morning anyway.⁴⁸ This only lasted the morning: the Bundesbank was forced to absorb over 7 billion DM worth of foreign capital before the markets were ordered shut around lunchtime. In a series of tense afternoon meetings, Emminger recounted his trip to the IMF in Washington over the weekend, and his theory was the same as it had been the week before the election—there was nothing the IMF would practically do to stop West Germany if it stopped supporting the existing fix.⁴⁹

Emminger's expertise appears to have held enormous gravity in the *Zentralbankrat* meetings both before and after the election—the meeting minutes indicate he held the floor for an extended period to start the meeting on both occasions. Moreover, he was brought to the cabinet meeting that afternoon by Kiesinger, who needed to make a decision quickly on what to do next. As the cabinet fiercely debated what the new fix should be, Emminger proposed an even more radical solution: for the time being, defend no fixed rate at all.⁵⁰ Due to his political constraints, Kiesinger found this option extremely attractive—the uncertain value would deter speculators and the expressly temporary nature of the float would enable him to pick a new fixed rate without ruffling feathers if he formed a cabinet.

Kiesinger ultimately lost the power struggle, and Willy Brandt became the first Chancellor from the Social Democratic Party (SPD). Although Brandt's Government quickly moved to establish a new fixed rate, the three-week experiment in floating was largely a success

⁴⁷ Zentralbankrat. 297. ZBR-Sitzung, 9/25/69. Historisches Archiv der Deutschen Bundesbank, B330 5871/2.

⁴⁸ Gray, 302.

⁴⁹ Zentralbankrat. 298. ZBR-Sitzung, 10/2/69. Historisches Archiv der Deutschen Bundesbank, B330 5871/3.

⁵⁰ Ibid.

from the perspective of Emminger and the Bundesbank—the speculative flows were halted.⁵¹

Emminger was rewarded with a promotion to the Bank’s Vice Presidency two months later.

Emminger’s view that the Bundesbank’s position was structurally compromised by the fixed exchange rate system became increasingly popular within the *Zentralbankrat* in the months leading up to May 1971, and his colleagues also harbored suspicion that the left-leaning Brandt Government would not hold a hard line against inflation. The Government opposed revaluing the DM on the grounds that it would harm exporters, and it instead believed that currency controls would be sufficient to limit inflows of capital. Mere weeks into Brandt’s Chancellorship, the *Zentralbankrat* voted overwhelmingly to send a letter to new Finance Minister Alex Möller explicitly opposing a proposed tax cut in light of the potential for inflation.⁵²

Klasen was worried by several simultaneous developments in 1970. First, there was a transatlantic trend toward declining interest rates, led by loose U.S. monetary policy under President Nixon’s Federal Reserve chairman, Arthur Burns. This was a concerning development from the perspective of many Bundesbank officials who feared the business cycle was at or past its peak and deeply distrusted the Nixon administration.⁵³

As the transatlantic exchange rate system experienced turbulence, European policymakers commenced their own work on a replacement system. The six members of the European Economic Community—Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany—had completed their customs union by the late 1960s and looked to push the European project forward into a new area: monetary policy. At a December 1969 meeting, the

⁵¹ Zentralbankrat. 300. ZBR-Sitzung, 10/23/69. Historisches Archiv der Deutschen Bundesbank, B330 5872/2.

⁵² Zentralbankrat. 304. ZBR-Sitzung, 12/18/69. Historisches Archiv der Deutschen Bundesbank, B330 5873/3.

⁵³ Otmar Emminger. “Auflockerung des Wechselkurssystems (sitzung der Zehnergruppe am 8. Juli in Paris)”, 7/12/70. Historisches Archiv der Deutschen Bundesbank, B330 5880/2.

EEC member states charged a committee led by Luxembourgish Prime Minister Pierre Werner with the task of writing a report to propose a path forward for Europe's currencies.⁵⁴

Economics Minister Karl Schiller updated the Bundesbank in May 1970 on the drafting of the Werner Plan and offered a candid assessment of its strengths and shortcomings in the eyes of the Government. Strikingly, Schiller acknowledged that the end goal of the Committee's work was the creation of a European common currency, a move "which would ensure the irrevocability of the [integration] process."⁵⁵ Beyond the theoretically troubling implications of a permanent monetary union for the Bundesbank's authority as the issuer of the West German currency, there were many practical issues with the plan, especially from the perspective of a German banker.

Cynics like Emminger were not convinced that a common currency would be sufficient to create a unified Europe as its proponents envisioned it. He argued that there was a critical sequencing question which was being tossed aside. A monetary union would not be efficacious unless national budgets were also brought under EEC control because individual countries could face political incentives to run large deficits without having a corresponding control over the money supply. He insisted that economic and fiscal policies needed to be "harmonized" between the member states before any type of shared monetary policy could be made to work.⁵⁶

This mapped onto a broader understanding (even among more hopeful participants) that there were fundamental differences between the interests of the EEC members in pursuing monetary union. West Germany in many ways stood alone among them. Historians have defined

⁵⁴ Emmanuel Mourlon-Druol. *A Europe Made of Money: The Emergence of the European Monetary System*. (Ithaca, United States: Cornell University Press, 2012), 23.

⁵⁵ Karl Schiller. "Zwischenbericht an Rat und Kommission über die Stufenweise Verwirklichung der Wirtschafts- und Währungsunion der Gemeinschaft," May 20, 1970, 5. Historisches Archiv der Deutschen Bundesbank, B330 5879/1.

⁵⁶ Zentralbankrat. 315. ZBR-Sitzung, 6/3/69. Historisches Archiv der Deutschen Bundesbank, B330 5879/1.

the two major camps as “monetarist” and “economist.”⁵⁷ The primary monetarists were France and Italy, which had typically run high deficits and experienced more inflation than Germany. They stood to benefit from a process that brought their less valuable currencies into line with Germany’s without being subjected to budget austerity beforehand. Conversely, the primary economist was Germany, which ran smaller deficits and experienced lower inflation, leaving it to benefit from a process that disciplined the big spenders into budget sustainability before bringing them in as partners in a single currency.⁵⁸ Regardless of the sequencing, the proposed creation of a monetary union begged profound questions about the compatibility of national sovereignty with the types of international agreements necessary to make the union operative.⁵⁹

Especially in the years prior to Brandt’s Chancellorship, the Bundesbank displayed remarkable concern for West Germany’s position in international economic agreements—probably more than the Government itself did.⁶⁰ However, Brandt changed that dynamic in two ways. First, his overarching approach to foreign affairs—commonly known as *Ostpolitik*—frankly acknowledged the defeat and division of Germany as steps toward a détente with the Soviet Union and their East German client state. This move away from the extreme Cold War tensions of the 1960s led him to personally invest more in the development of the European project (and in the bilateral relationship with France) than previous West German leaders had. The replacement of Charles de Gaulle as French President by Georges Pompidou earlier in 1969

⁵⁷ Dorothy Heisenberg. *The Mark of the Bundesbank: Germany’s Role in European Monetary Cooperation*. (Boulder, Colorado: Lynne Rienner Publishers, 1999), 24-25.

⁵⁸ Ibid. Readers familiar with American economic history should note that these “monetarists” are very different from “monetarism” as used in reference to the anti-inflationary, Chicago School theories of Milton Friedman that influenced the policies of the U.S. Federal Reserve under Paul Volcker.

⁵⁹ Peter Jay, the future British ambassador to the U.S., wrote at the time that monetary union, “is totally different in kind from, for example, a European airbus, a European defence policy or even a European economic community. It would go straight to the very roots of economic self-government.” Peter Jay, “Conditions for a European Common Currency,” *International Currency Review*, January 1970. Historisches Archiv der Deutschen Bundesbank, N/2 363 “Diskussion über die Errichtung einer Europäischen Währungsunion, 1969-73.”

⁶⁰ Heisenberg, 45.

gave Brandt a more willing partner, as well.⁶¹ At a meeting of the G10 shortly after the leadership changes, the French representatives explicitly voiced their desire to expand the privileges of all EEC countries as a bloc in shielding themselves from the whims of American policy.⁶² Second, as the first chancellor from the SPD, Brandt wanted to significantly increase federal social welfare spending and succeeded, distancing the Federal Government from the Bundesbank on the issue of inflation.⁶³

This multilevel realignment considerably widened the field of political possibility for participants on all sides and caused the resolution of short-term exchange rate crises to overlap with (but not entirely subsume) the longer-run problems of monetary organization in non-communist Europe. Especially given his experience at the IMF and on EEC drafting committees, Emminger understood this confluence of economic and monetary policy issues as a political dilemma that had the capacity to either enhance or limit the Bundesbank's power moving forward.

Emminger's case for floating the DM was made most powerfully in a May 5, 1971 speech to the *Zentralbankrat*. On that single day, the Bundesbank had taken in close to \$1 billion, and the Government elected to close the foreign exchange markets. The speech—whose transcript was preserved in its entirety at the Bundesbank Archive—is worth reading closely, as Emminger simultaneously proposed a radical justification for the policy change and framed his position to be read *ex post facto* in a way that leaves the reader believing there was no alternative to floating.⁶⁴

⁶¹ Carole Fink and Bernd Schaefer, "Ostpolitik and the World, 1969-1974: Introduction," in *Ostpolitik, 1969-1974: European and Global Responses* (Washington, D.C.: German Historical Institute and Cambridge University Press, 2009), 3-4.

⁶² Otmar Emminger. "Auflockerung des Wechselkurssystems (sitzung der Zehnergruppe am 8. Juli in Paris)", 7/12/70. Historisches Archiv der Deutschen Bundesbank, B330 5880/2.

⁶³ Gerard Braunthal. *The West German Social Democrats, 1969-1982: Profile Of A Party In Power* (New York: Routledge, 2019), 241.

⁶⁴ Emminger Vermerk, 5/5/71. Historisches Archiv der Deutschen Bundesbank, B330 6158/1.

Emminger supported a float as a means to discipline international speculators. Earlier in the meeting, President Klasen had argued that the ZBR shouldn't fret over the level of the Bank's short-term holdings of dollars. Emminger agreed but argued that the principle of repeated interventions posed a longer-term threat: credit policy had become permanently ineffectual because speculators now operated under the assumptions that a new currency crisis would come every few months and the Bundesbank would do what was needed to equal the imbalances out. For this reason, he bluntly stated, "§ 23 [capital controls] is not enough."⁶⁵

Would this mean the end of fixed rates? Not necessarily, Emminger argued, but the possibility was to be taken seriously. Because the world reserve currency, the dollar, had "been shrouded in a cloud of suspicion for some time now," the DM had assumed the unfortunate position of becoming "the antithesis of expectations." The international monetary system was on the brink of collapse, and as the "innocent pole of stability," West Germany was at the whim of "the financial world" with respect to the value of its currency, not "what we think about it."⁶⁶ The West Germans needed to strike back and force other countries to learn a lesson about controlling inflation, even if it amounted to, "a somewhat awful procedure."⁶⁷

He proposed a float for six to eight months, significantly longer than the emergency float after the 1969 election. But paradoxically, his aim with the float was *not* to leave the DM to meet whatever conditions the market threw at it. In fact, he advocated for the *Zentralbankrat* to maintain an active position in the dollar-DM market. He was concerned instead with perception: the *Zentralbankrat* could have an internal target for where it wanted the exchange rate to land, but that target needed to remain completely secret from the public. The only way to short-circuit

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Ibid

the cycle of speculative expectations was to deprive the markets of any substantive expectation as to how the Bundesbank would act.⁶⁸

The *Zentralbankrat* voted against Emminger and recommended the institution of capital controls while maintaining the fixed rate. Ultimately, the decision rested in Chancellor Brandt's hands, and the conflicting valences of European integration complicated his decision; Brandt was decidedly pro-European, but it was not obvious which option was most consonant with a Europhilic disposition. On the one hand, Klasen had opposed the float on the grounds that it would represent Germany staking out on its own and abandoning months of negotiations over a European monetary union. But within the cabinet, Schiller opposed an invocation of § 23 and pushed instead of a liberalization.⁶⁹ Schiller was the primary figure for the SPD's economic policy both during its time as a coalition partner under Kiesinger and during the early years of Brandt's Chancellorship. Schiller had a largely Keynesian philosophy and, like Emminger, was primarily concerned with stabilizing the value of the DM on the international market, not with whatever consequences that might have on domestic inflation.⁷⁰

Schiller convinced Brandt that imposing capital controls would damage monetary conditions within Europe and instead argued that Germany should propose a 'joint' float of European currencies to the EEC: at various values relative to each other, the European currencies should move in parallel relative to the dollar. Although the Dutch supported the German proposal, the French were outraged at the German attempt to pre-empt prior negotiations on

⁶⁸ Ibid.

⁶⁹ Gray, 309-311.

⁷⁰ Christopher S. Allen, "From Social Market to Meso-Corporatism: The Politics of West German Economic Policy," *German Studies Review* 13 (1990), 15-17. In a legendary speech to the German parliament prior to the 1969 elections, Schiller accused the Bundesbank of having "toppled" Kiesinger's predecessor (Ludwig Erhard) due to extremely anti-inflationary monetary policy in 1966. Mee, 247-8.

reducing the existing margins between European currencies. This proposal having been stymied, Brandt decided not to support the fix when the markets re-opened on May 10. The DM floated.⁷¹

Schiller subsequently engaged in a bureaucratic power play, elevating himself to replace Möller as Minister of Finance while retaining the Economics Ministry, but at the Bundesbank the float was a significant victory for Emminger over his superior, Klasen.⁷² At least temporarily, West Germany had withdrawn from the Bretton Woods exchange system, but whether the Bundesbank could use this change to maintain a more permanent degree of policy autonomy remained to be seen.

⁷¹ Gray, 309-311.

⁷² Schiller became popularly known as the “Super Minister” in this dual-role. Gray, 311.

Chapter 3: Temporary Break or New Normal?

The West German withdrawal from the fixed exchange rate system in the spring of 1971 foreshadowed a broader disintegration of the global monetary regime. In the face of an imminent balance of payments crisis, the United States unilaterally suspended the convertibility of dollars into gold that August, in what became known as the ‘Nixon Shock.’ Although the DM was floating for the time, Schiller’s failed gambit at the EEC demonstrated that the appetite for total currency liberalization was still quite limited outside of Germany, and work began to create a replacement system for the old fixed rate. Chancellor Brandt similarly viewed the occasion as an opportunity to boost his conception of the European project, along with domestic social programs that were an integral part of his identity as the first West German Chancellor from the center-left party. Ultimately, however, the story of the 22 months after May 1971 is best understood as a triumph of Emminger’s camp at the Bundesbank. The float of 1971 was the first in a series of escalating policy actions that remade the international monetary system with much more independent input from the Bundesbank.

A chaotic press conference in the aftermath of the U.S. suspension of convertibility demonstrated the fraught international situation Germany in which Germany found itself. Klasen diagnosed the American decision as an attempt to correct its balance of payments deficit, which would clearly harm the German export industry. He similarly acknowledged that the Bundesbank’s policy decisions were of limited importance in the wake of significant American strategic shifts like this.⁷³ The domestic economy was suddenly in a new predicament, and Klasen argued, “it is crucial for maintaining competitiveness that the German economy

⁷³ At the *Zentralbankrat* meeting beforehand, the council circulated the full text of a report by the U.S. Congress’s Joint Economic Committee on the American balance of payments situation, in which several Senators argued that the U.S. was incapable of reducing the trade deficit absent a massive revaluation of the overvalued dollar. Joint Economic Committee. “Action Now to Strengthen the U.S. Dollar” (United States Congress Joint Economic Committee, August 7, 1971) in *Historisches Archiv der Deutschen Bundesbank*, B330 6162.

henceforth practice very ironclad price and wage discipline.”⁷⁴ He explicitly encouraged businesses not to raise prices and for wage negotiations with labor unions to occur in the context of the international monetary turmoil. Emminger, who joined Klasen in front of the press, obliquely agreed with one reporter’s premise that it would be difficult to re-establish the German-American exchange rate relationship as it previously existed. He acknowledged the continued centrality of the dollar to international finance but demurred when asked about the nature of West Germany’s path forward if there was not a shared vision with European partners like France.⁷⁵

Internationally, the visions of Brandt and Emminger were in near-constant conflict. Brandt believed in a European project centered on Franco-German cooperation, while Emminger wanted to move away entirely from the problems the fixed rate system had created for West Germany. German businesses already felt the consequences of the float by the autumn of 1971. As Klasen noted during a ZBR discussion with Schiller, the DM’s appreciation that resulted from the float considerably harmed export-driven businesses, many of whom had also raised wages previously in anticipation of inflation. Although Bundesbank director Irmeler argued that further deflationary measures could be taken (e.g., in the form of a “wage cut”) to return businesses to profitability, many ZBR members (and even Schiller himself) were content to let the business cycle come down on its own.⁷⁶

West Germany actively participated in attempts to replace the prior fixed rate scheme, but its own internal deliberations suggest that the new system may have been doomed from the start. With the G10 nations set to meet in Washington in mid-December 1971, the *Zentralbankrat*

⁷⁴ Zentralbankrat. “Presse und Information: Bundesbankpräsident Dr. Klassen, Vizepräsident Dr. Emminger vor der Presse nach der ZBR-Sitzung am 18. August 1971.” 8/18/71. Historisches Archiv der Deutschen Bundesbank, B330 6162.

⁷⁵ Ibid.

⁷⁶ Zentralbankrat. 350. ZBR-Sitzung, 10/25/71. Historisches Archiv der Deutschen Bundesbank, B330 6165/1.

convened earlier in the month—first on its own and then in the presence of Schiller—to discuss preparations for the conference. Schiller worried that unchecked movement in the exchange rate leading up to the conference would weaken West Germany’s negotiating position vis-à-vis both the United States and other European states. As such, he advocated a use of expansionary credit policy mechanisms (e.g., reducing the minimum reserve requirement for German banks) to push the value of the DM in the opposite direction. Although Emminger also supported a temporary intervention for the month December—on the condition that it not entail defending an explicit rate—Schiller faced strong opposition from Klasen, Gleske, and Irmeler. Klasen worried more about the impact of credit loosening on domestic inflation, but the latter two argued that Schiller’s proposal would not even achieve its proximate aim. Gleske and Irmeler argued that speculators anticipated West German support for a specific exchange rate in a matter of weeks, so the *de facto* gambling that resulted could not be curbed by decreasing domestic interest rates; to believe the contrary was to commit a category error.⁷⁷ Whatever the merits of Schiller’s proposal or Emminger’s middle path, the ease with which the broader policy debate was subsumed by questions more psychological than economic speaks volumes about the prospects for the Washington conference.

Nevertheless, the G10 nations came to an agreement at the Smithsonian Institute on December 18, 1971 that created the ‘snake in the tunnel’ – a fixed rate scheme in which each currency was allowed to move within a certain percentage distance from the fix. Klasen and Emminger participated in the negotiations, and the agreement set the German-American exchange rate at 3.2225 DM per dollar, with a 2.25% margin for movement. The *Zentralbankrat* overwhelmingly considered the valuation to be a positive outcome in the context of German inflation, but the fundamental danger of the international monetary situation had not been

⁷⁷ Zentralbankrat. 353. ZBR-Sitzung, 12/8/71. Historisches Archiv der Deutschen Bundesbank, B330 6166/2.

resolved. As Irmeler keenly noted, for the world system to rebalance, the U.S. needed to engage in contractionary policies that the Nixon administration would find unpalatable due to the unemployment which would likely result, and the creditor states like West Germany needed to engage in expansionary policies that would lead to catastrophic inflation. Resetting exchange rate fixes did very little to change this. Although the *Zentralbankrat* did entertain such proposals, the U.S. quickly tacked further in the opposite direction during 1972.⁷⁸

By the middle of 1972, a new currency crisis emerged, and it spawned significant conflict within the Cabinet. Schiller understood the German-American connection articulated by Irmeler and was aligned with ZBR members like Emminger on floating (despite his origins as a Keynesian) as a means of shifting the German economy away from an export-driven model that was manifestly unsustainable. To Schiller's mind, the exchange rate crises and vulnerability to American inflation were direct consequences of the success of export businesses.⁷⁹

This disposition brought Schiller into conflict not just with other Cabinet members, but also with Klasen and most of the *Zentralbankrat*, save Emminger. In late June 1972, Klasen led a *Zentralbankrat* vote in favor of liquidity restrictions that especially discriminated against foreign holdings in German banks.⁸⁰ Keen to prevent a repeat of the previous spring's float, he also supported an invocation of § 23 and threatened to resign while sitting in a Cabinet meeting if his proposals were not adopted. Schiller reciprocated in-kind, but Klasen won the stare down, and Schiller resigned shortly thereafter.⁸¹

Chancellor Brandt was facing an election in the fall and opposed a float out of fear that a further upward valuation of the DM (whether supported by Emminger's or Schiller's

⁷⁸ Zentralbankrat. 354. ZBR-Sitzung, 12/22/71. Historisches Archiv der Deutschen Bundesbank, B330 6167/1.

⁷⁹ Germann, 779-80.

⁸⁰ Zentralbankrat. 366. ZBR-Sitzung, 6/29/72. Historisches Archiv der Deutschen Bundesbank, B330 6172/1.

⁸¹ Peter A. Johnson. *The Government of Money: Monetarism in Germany and the United States*. (Ithaca, N.Y. and London: Cornell University Press, 1998), 77-78.

justification) would cause a recession. But Brandt understood that the alignment of his interest with those of the *Zentralbankrat* in the case of floating was more an exception than the rule. The nonchalant attitude toward inflation at the core of his short-term re-election strategy was clearly at odds with the beliefs of many *Zentralbankrat* hardliners, and he also perceived a danger in getting into a public spat with Bundesbank leaders before the election. He thus replaced Schiller with Defense Minister Helmut Schmidt, a personal friend of Klasen's who did not view economics as distinct from politics in the way Schiller did.⁸² Owing to his background in international affairs and the SPD, Schmidt envisioned monetary policy as a tool of foreign policy and was less concerned with the domestic implications of inflation, as a result.⁸³

This personnel shift was ironically a critical external factor for Emminger's later consolidation within the Bundesbank. Although Schiller's Keynesian disposition had often been at odds with *Zentralbankrat* inflation hawks in the past, his belief in countercyclical policy should have made him one of the Bundesbank's strongest allies within Brandt's SPD cabinet. Klasen's victory in their June 1972 dispute helped to project an aura of power from the Bundesbank, but Schiller's resignation led to his replacement by a minister who was on the record downplaying the consequences of inflation and a leftward lurch by the Brandt Government.⁸⁴ Thus, Klasen's attempt to exercise the Bank's autonomy in a fight with the Cabinet substantively backfired and increased the rift between the *Zentralbankrat* and the Government, but the larger bureaucratic consequence was that the Bundesbank became the entity responsible for inflation control after the Cabinet eschewed the duty.⁸⁵

⁸² Johnson, 78.

⁸³ Gray, 319.

⁸⁴ Schmidt claimed, "5 percent inflation is better than 5 percent unemployment," while serving as Defense Minister, in Johnson, 78.

⁸⁵ *Ibid*, 79.

Schmidt's reprioritization of the Finance Ministry should not be mistaken for ignorance of the monetary dangers facing West Germany, however. In fact, he was deeply concerned that the instability of the DM undermined the credibility of the German commitment to a strengthened EEC as he and Brandt envisioned it. As such, he encouraged the *Zentralbankrat* to use its own credit policy tools to backstop the DM and restore confidence to the market, a request which sat uneasily next to his own insistence that government spending cuts were out of the question in the fight against inflation.⁸⁶ All the while, the systemic causes of this payments imbalance had not been resolved.

By February 1973, massive inflows to the Bundesbank had reopened the debate over the viability of a fixed rate system, this time with the strange twist that Klasen was in the hospital and not present for *Zentralbankrat* meetings.⁸⁷ Massive inflows to the Bundesbank necessitated large interventions to maintain the exchange rate, and Klasen's office had asked the Cabinet for a temporary suspension of the obligation to intervene. Buying more than \$1 billion per day, the Bundesbank could not credibly fight inflation while simultaneously defending the interest rate. Schmidt, now exclusively the Finance Minister, understood the crisis from the standpoint of his foreign policy agenda. To Schmidt, imposing complete capital controls would undermine the German negotiating position in the context of the EEC, but a unilateral float would abandon the French in a similarly damaging way.⁸⁸ Although Schmidt and Emminger were at odds during the period, Brandt's Government did communicate to the U.S. that the EEC countries would not bail out America again as they had in December 1971.⁸⁹

⁸⁶ *Zentralbankrat*. 371. ZBR-Sitzung, 9/21/72. Historisches Archiv der Deutschen Bundesbank, B330 6175/1. The format of this meeting summary is noteworthy—usually the Bundesbank directors were identified by name in voicing their opinions within *Zentralbankrat* meetings, but when challenging Schmidt here they were referred to as “member of the Central Bank Council.”

⁸⁷ Johnson, 82.

⁸⁸ *Zentralbankrat*. 382. ZBR-Sitzung, 2/15/73. Historisches Archiv der Deutschen Bundesbank, B330 6703/1.

⁸⁹ Gray, 320.

Amidst the tension, Emminger's longstanding support for floating appeared prescient. Bundesbank leaders admonished Schmidt's secretary repeatedly to come to terms with the insufficiency of "administrative controls" moving forward.⁹⁰ On February 6, 1973, the *Zentralbankrat* voted to ask the Government to indefinitely suspend the fixed rate, a request that the Government rejected in part by insinuating that Emminger was engaging in a sort of *coup* to push through policies that did not have the support of the *Zentralbankrat* and that Klasen disliked, while he was in the hospital.⁹¹

The official record of three early February *Zentralbankrat* meetings diverges wildly from secondary characterizations of the period which incorporate Cabinet documents, however. On the Bundesbank side, Emminger's name was almost completely absent from the meeting summaries despite being the top ranking official in attendance, and Klasen's views were described in detail despite his absence. Yet substantively, Emminger's views littered the summaries via previously skeptical *Zentralbankrat* members voicing support for floating. Irmeler, as well, appears to have rearticulated his belief from fifteen months earlier that the core problem of imbalances in the international monetary system could not be resolved by tinkering with bureaucratic rules and instead necessitated a float.⁹² Thus, it is likely that Emminger was concerned by the perception that he was undermining Klasen's authority and wanted to tread lightly in official channels while lobbying the Cabinet more forcefully behind the scenes.

Ultimately, Emminger's vision triumphed once a version of it became compatible with Schmidt and Brandt's foreign policy objectives. Although their tactful diplomacy yielded a slight revaluation by the Americans in early February, by early March speculative flows had once

⁹⁰ Ibid.

⁹¹ Johnson, 82.

⁹² *Zentralbankrat*. 380. ZBR-Sitzung, 2/1/73. Historisches Archiv der Deutschen Bundesbank, B330 6702/1; 381. ZBR-Sitzung, 2/7/73. Historisches Archiv der Deutschen Bundesbank, B330 6702/2; 382. ZBR-Sitzung, 2/15/73. Historisches Archiv der Deutschen Bundesbank, B330 6703/1.

again imposed the cost of potentially significant inflation as a condition of maintaining the exchange rate. Armed with the threat that West Germany had been left no alternative but to unilaterally float, the two were able to strongarm most of their European partners into joining a joint float in mid-March. Emminger regarded the outcome favorably on the grounds that it created a European bloc in which the DM was the dominant currency without artificially constraining the Bundesbank's flexibility.⁹³

The joint float of 1973 was thus a triumph for Emminger's longstanding advocacy. The change significantly reduced the asymmetric speculative pressure on the Bundesbank that was depriving West Germany of control over its inflation rate, and it managed to do so without ceding monetary policy flexibility to a less spendthrift European country like France. Emminger also understood the shift in the same vein of rebalancing away from exports that Schiller had.⁹⁴ Above all, it amounted to a declaration of autonomy by the Bundesbank—autonomy both from arbitrary legal obligations to support a predetermined value of the DM and from the caprice of American policymakers.

⁹³ Zentralbankrat. 384. ZBR-Sitzung, 3/13/73. Historisches Archiv der Deutschen Bundesbank, B330 6704/1.

⁹⁴ Germann, 783.

Conclusion

The story of Otmar Emminger and the Bundesbank during the late 1960s and early 1970s radiates a strong sense of *déjà vu* at times: balance of payments crises required intolerable inflationary intervention, temporary relief came in the form of exchange rate liberalization, and the liberalization was subsequently abandoned due to the reverence for fixed exchange rates. One interpretation of this pattern is to stress the inevitability of the path ultimately taken (i.e., in the face of the inflationary crisis of the 1970s, there was no alternative to floating and the abandonment of state intervention in the market). But the narrative presented here should encourage historians to consider precisely the opposite: if a seemingly irrational monetary system was resuscitated so many times and ultimately replaced by a new vision that came into being only after multiple, distinct justifications for it had been advanced by policymakers, we should emphasize the considerable degree of contingency in the era's developments.

Capitalism in the Atlantic world of the 1960s was not a stable ship halted by sudden crisis in 1971. Instability in the international exchange rate system had been the norm, not an exception, and the bureaucratic momentum behind proposed policy responses to the turmoil had been building concurrently. West Germany left the fixed exchange rate system in 1971, rejoined a watered-down version of it later that year, and saw it collapse again in 1973. With the benefit of hindsight, Emminger's advocacy of floating can seem like an obviously necessary measure in response to an emergency, but both the balance of payments crisis and Emminger's advocacy of floating had been brewing for some time. It is not obvious why the Federal Government submitted to the program of floating specifically in March 1973, as compared to several other points during which nothing structural was changed. The Bundesbank's consolidation of power stemmed just as much from an extension of existing ideas within the Bank as from new principles applied to unprecedented circumstances.

Ultimately, this story should encourage a re-appraisal of both Bretton Woods and the policy frameworks which succeeded it. The fixed exchange rate system which has become synonymous with the term 'Bretton Woods' was fundamentally flawed long before 1971 or 1973; its demise came through a slow disintegration, not a sudden collapse, contrary to the Nixon-centric histories of the period. Similarly, the bumbling and somewhat anticlimactic end of fixed rates should cast doubt on claims that the move to a new system necessitated particular responses in the form of austerity or broader liberalization – the West German decision to move on from fixed rates specifically in 1973 was as much a convenient choice as it was the only alternative.

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Appendix: Monetary Policy Primer

Different countries have different types of money (**currencies**). People and businesses can buy a certain amount of one currency with another currency for some price (the **exchange rate**).

- Some currencies are more valuable than others. **Expectations** of inflation can affect value: if there will be inflation in the future, money today could be worthless tomorrow.

Currencies are usually issued by **central banks**, which are government-affiliated banks in charge of managing the national **money supply** and preventing banking crises.

- In general, expanding the money supply causes economic growth and **inflation**. Shrinking it causes recession and **deflation**.

Exchange rate systems: **floating** vs. **fixed/pegged**

- Floating (current world system): the exchange rate is wherever supply meets demand in the market. Central banks can indirectly intervene but have limited control.
- Fixed/pegged (Bretton Woods): there is exactly one ('fixed') legal exchange rate between two currencies (e.g., 3 francs per dollar), and it is pre-set. If the market diverges from this exchange rate, central banks are required to intervene in the currency market to get back to the pre-approved rate.
 - Bretton Woods-specific: every currency was 'fixed' against the U.S. dollar, and the U.S. dollar was fixed against gold. Thus, each currency was indirectly fixed to gold, with the U.S. government as an extremely powerful intermediary (e.g., if the fix was 4 DM for \$1 and \$100 for an ounce of gold, you could get an ounce of gold for 400DM from the U.S. government).