Michael Dooley and Peter Garber
"Is It 1958 or 1968? Three Notes on the Longevity of the Revived Bretton Woods System"
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This paper examines the durability of what we have elsewhere called the Revived Bretton Woods system. We show that the recent behavior of long-term interest rates is consistent with market expectations that the system will last for a considerable period. We also show that emerging economies with chronic current account surpluses have not experienced the financial crises that many have predicted will trigger the system's breakdown. Unusually long episodes of current account surpluses and reserve accumulations have been followed by real depreciation and capital gains on reserves, with little or no disruption of economic activity. We argue that, under the original Bretton Woods system, the definition of the balance of payments considered relevant was based on the assumption that collateral, not trust, supports international capital flows. We view the current system as likewise supported by collateral, in the form of goods already produced and delivered to the United States.

JEL codes: F32, F33, N20