The Cantillon Institute Working Paper Series: The Long Record Working Paper No. 1 H.E. Martyn 2026

The Bretton Woods Lesson: What the 1971 Collapse Actually Produced and What the Stablecoin Architecture Is Doing to That Advantage Now

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Abstract

Most contemporary analysis of dollar hegemony begins in 1971, treating the closure of the gold window as a rupture from which the dollar system improbably recovered. The historical record does not support this reading. The Bretton Woods conference of July 1944 created not merely a fixed exchange rate mechanism but an institutional architecture that positioned the dollar as the singular reference point for global monetary organization. The Nixon shock of August 15, 1971 dissolved the gold peg; it did not dissolve the architecture. What followed was the transformation of dollar hegemony from a system constrained by gold convertibility into one unconstrained by any external anchor, and therefore structurally more powerful rather than weaker. The "exorbitant privilege" identified by French Finance Minister Valéry Giscard d'Estaing in 1965 became, after 1971, permanent rather than conditionally maintained. The stablecoin legislation now advancing through the United States Congress, principally the GENIUS Act of 2025, proposes to extend dollar denomination into private programmable payment infrastructure at global scale. The structural parallel with 1971 is precise: in both cases, an institutional constraint on dollar issuance is dissolved while dollar denomination is retained and extended. In 1971, that dissolution strengthened dollar hegemony in the short term while embedding the Triffin dilemma more deeply into the system's

architecture. The stablecoin layer is performing the same operation on a different substrate. The historical record is unambiguous about what the short-term gain and the long-term structural cost look like when they arrive together.

Introduction

The forty-four nations that gathered at Bretton Woods, New Hampshire in July 1944 were not designing an international monetary system for peacetime in the abstract. They were designing one for a world in which the United States produced approximately 50 percent of global industrial output, held approximately 70 percent of the world's monetary gold reserves, and was the sole major economy whose productive capacity had expanded rather than contracted during the war years (Eichengreen, 1996, p. 93). The system they produced reflected those conditions with precision. It was not universally endorsed.

John Maynard Keynes, leading the British delegation, proposed an International Clearing Union with a synthetic reserve asset he called the bancor; a mechanism designed to distribute adjustment burden symmetrically across both surplus and deficit nations. Harry Dexter White, leading the American delegation, proposed dollar centrality. White won. Keynes returned to England, told his Cabinet colleagues that the agreement was "the best that could be extracted from the Americans," and died in April 1946 having correctly identified the structural asymmetry that would govern the next quarter century (Skidelsky, 2000, p. 414).

The Bretton Woods system operated for twenty-seven years. It collapsed, formally, on the evening of August 15, 1971, when President Nixon appeared on national television to announce the suspension of dollar convertibility into gold at the established rate of $35 per troy ounce. The conventional account treats this as a crisis of dollar confidence, a moment of American monetary retreat compelled by the balance of payments deterioration of the preceding decade. The conventional account is wrong on both counts. What Nixon dissolved was the constraint; he did not dissolve the privilege. The distinction matters with precision, because the same dissolution is being proposed again, in a different register and through a different mechanism, by the stablecoin architecture that Congress is now constructing into statute.

This paper follows the record. It does not argue from the present backward. It arrives at the present from the sequence of events that produced it, because only that sequence makes the current moment fully legible.

What Bretton Woods Actually Built

The standard description of Bretton Woods identifies a fixed exchange rate system in which member currencies were pegged to the dollar and the dollar was pegged to gold at $35 per troy ounce. This description is accurate. It is also incomplete. It identifies the mechanism while leaving the architecture unexamined.

What Bretton Woods built was an institutional substrate for dollar centrality that would survive the mechanism's dissolution. The International Monetary Fund, established at Bretton Woods with $8.8 billion in initial subscriptions of which the United States contributed 32 percent, created a framework in which dollar lending was the primary instrument of international monetary stabilisation (Bordo & Eichengreen, 1993, p. 11). The International Bank for Reconstruction and Development, established simultaneously, created a framework in which dollar-denominated development finance became the lingua franca of sovereign economic legitimacy. SWIFT, which would not be established until 1973, was the correspondent banking infrastructure that the Bretton Woods architecture made both necessary and possible; the payment messaging layer through which dollar-denominated transactions between financial institutions could be settled across jurisdictions.

None of these institutions required the gold peg to function. They required the dollar. The gold peg was a credibility mechanism for the transitional period; it provided assurance that the dollar's role as reserve currency was not simply an expression of American power but a commitment subject to external discipline. The constraint was the scaffold, not the building. Once the institutional architecture was sufficiently embedded, the scaffold became operationally unnecessary. The open question in 1971 was not whether to remove it but whether the removal would be understood for what it was.

Robert Triffin identified the structural problem in 1960, eleven years before it was resolved. His testimony before the Joint Economic Committee of Congress described what

would become known as the Triffin dilemma: a reserve currency issuer must supply the world with the liquidity it needs to conduct international trade and hold reserves, but supplying that liquidity requires running sustained current account deficits, and sustained deficits eventually undermine confidence in the reserve currency's value (Triffin, 1960, p. 87). Bretton Woods embedded this dilemma structurally. The gold peg was intended to be the brake; the mechanism that would force the United States to periodically tighten domestic conditions to preserve convertibility. In practice, successive administrations used the dollar's reserve status to finance simultaneously the Vietnam War and the Great Society domestic programmes, a combination that made sustained balance of payments surplus structurally impossible.

By August 1971, the United States held approximately $10.2 billion in gold reserves against approximately $67.8 billion in outstanding foreign dollar-denominated claims; a reserve coverage ratio of 15.1 percent, down from approximately 55 percent in 1960 (Gavin, 2004, p. 178). The gap between the gold peg's nominal operation and its practical impossibility had become a structural feature rather than a correctable imbalance. Nixon's closure of the gold window was not a policy choice in any meaningful analytical sense. It was a recognition of what the arithmetic had already determined.

The more consequential observation is this: the Bretton Woods architecture had been operational for twenty-seven years before 1971. Twenty-seven years of dollar-denominated multilateral lending. Twenty-seven years of dollar-cleared international trade. Twenty-seven years during which the dollar became the unit of account for global commodity markets, the preferred reserve asset of central banks, and the dominant currency of international debt issuance. The institutional depth accumulated over those twenty-seven years was not a product of the gold peg. The gold peg was the credibility mechanism that bought the time for that depth to accumulate. By 1971, the depth was sufficient. The mechanism was expendable.

What 1971 Actually Produced

Giscard d'Estaing coined the phrase "exorbitant privilege" in 1965, during the period when de Gaulle's France was systematically converting dollar reserves into gold as a deliberate act of political pressure on American monetary policy. The phrase identified a real and

measurable structural advantage: the United States could finance its balance of payments deficits by issuing the liability that the rest of the world needed to hold as an asset. No other sovereign had this capacity. Every other nation that ran sustained current account deficits faced eventual pressure from reserve depletion and currency depreciation. The United States could run deficits denominated in its own currency and export the adjustment burden to the creditor nations that held those liabilities.

What 1971 produced was the removal of the only mechanism through which other nations could impose discipline on this privilege. The gold peg, in its final operational years, was the instrument through which foreign central banks could theoretically demand settlement of dollar claims in gold, creating at least nominal pressure for American fiscal adjustment. After August 15, 1971, no such instrument existed. The dollar retained its reserve currency position not because it remained convertible into anything external but because the institutional infrastructure of the preceding twenty-seven years made any alternative prohibitively costly to construct.

The Smithsonian Agreement of December 1971 attempted to restore a modified fixed rate system, with the dollar formally devalued to $38 per ounce of gold and major trading partner currencies revalued against it. Nixon described the agreement as "the most significant monetary agreement in the history of the world." The agreement collapsed within fourteen months (James, 1996, p. 215). The Jamaica Accords of January 1976 formally ratified floating exchange rates and ended the Bretton Woods framework in its institutional sense.

In the interval between 1971 and 1976, the petrodollar architecture was constructed. The 1973 and 1974 negotiations conducted by Henry Kissinger with Saudi Arabian finance and petroleum ministers established that crude oil, the commodity whose price propagates through every other commodity price and every nation's import bill, would be denominated and settled in dollars exclusively. This arrangement required OPEC member states to hold dollar reserves for settlement; it required every oil-importing economy to acquire dollars regardless of its bilateral trade relationship with the United States; it created structural global dollar demand that was entirely independent of American institutional credibility or gold convertibility. The dollar's reserve currency status, after 1974, was not enforced by the Bretton Woods institutions. It was enforced by energy.

The dollar's share of global foreign exchange reserves stood at approximately 79 percent in 1977, two years after the Jamaica Accords formally ratified the post-Bretton Woods order (Eichengreen, 2011, p. 58). The privilege had not diminished with the removal of the constraint. It had been consolidated.

The lesson that 1971 taught, and that most contemporary analysis has not absorbed, is this: the removal of an institutional constraint on dollar issuance strengthened dollar hegemony in the short and medium term by eliminating the sole mechanism through which other nations could impose adjustment discipline on American monetary policy without American consent. The cost of that removal was not immediately visible. It was structural; embedded in a progressively deepening Triffin dilemma that required ever-larger dollar deficits to supply ever-larger global dollar demand, and that made the eventual adjustment, whenever it arrives, correspondingly larger in scale.

The Dollar's Structural Position at the Inflection Point

Fifty-four years after the Nixon shock, the dollar's reserve currency position has eroded at the margin. It has not eroded at the core. The IMF's Currency Composition of Official Foreign Exchange Reserves database for the fourth quarter of 2024 shows the dollar accounting for 57.4 percent of allocated global reserves; down from 71.5 percent in 2001 but within a stable band of 57 to 63 percent for the past decade (IMF, 2025, COFER Q4 2024). The euro accounts for 19.8 percent. The renminbi accounts for 2.2 percent, despite a decade of sustained Chinese institutional effort to expand its international monetary role. No alternative reserve currency has captured the structural position that a transition away from dollar centrality would require an alternative to occupy before the transition could be considered complete.

The dollar's structural advantages in 2025 are not primarily a function of American economic scale. The United States accounts for approximately 25 percent of global GDP at current exchange rates; down from approximately 40 percent in the late 1950s, reflecting the convergence of the intervening period (World Bank, 2024). The advantages are institutional. Dollar-denominated sovereign debt markets remain the deepest and most liquid in the world, with outstanding US Treasury securities totalling $28.9 trillion as of December 2024 (US Department of the Treasury, 2025). Dollar correspondent banking

relationships underpin the majority of international trade finance. SWIFT processes approximately 42 million messages daily, the bulk denominated in or settled against dollars (SWIFT, 2024). These structural positions were not built after 1971. They were built during the Bretton Woods period and survived the Nixon shock because the institutional substrate was sufficiently embedded to be self-sustaining.

The Triffin dilemma, however, has not been resolved. The United States current account deficit reached $1.133 trillion in 2024; a structural condition of the reserve currency role rather than a contingent policy failure (US Bureau of Economic Analysis, 2025). Net US foreign liabilities reached approximately $22.5 trillion as of the third quarter of 2024, representing the accumulated current account deficits of the post-Bretton Woods period expressed as a net international investment position (BEA, 2024). The exorbitant privilege continues to operate. The structural cost of operating it continues to accumulate.

This is the position from which the stablecoin architecture departs. Not from a dollar system in crisis but from a dollar system at the late stage of a structural accumulation that Triffin described in 1960 and that 1971 deepened rather than resolved.

The Stablecoin Architecture and the Structural Parallel

The GENIUS Act, passed by the United States Senate on June 17, 2025, defines a "payment stablecoin" as a digital asset denominated in a fixed nominal amount of United States dollars, redeemable on demand at face value, and backed on a one-for-one basis by high-quality liquid assets consisting primarily of United States Treasury securities with maturities of ninety days or less, Federal Reserve deposits, or insured bank deposits (GENIUS Act, S.1582, 119th Congress, Section 2). Permitted issuers include federally and state-chartered depository institutions; and, following a three-year transition period for digital asset service providers, non-bank entities meeting the Act's capitalization and reserve requirements.

The legislation's official framing positions it as dollar extension; a mechanism for carrying dollar denomination into programmable payment infrastructure and thereby reinforcing dollar hegemony in the digital monetary environment. This framing is not inaccurate. The stablecoin architecture does extend dollar denomination. The question the Bretton Woods

record poses is whether dollar extension and dollar hegemony are the same operation, and whether the institutional substrate required for the latter is preserved or thinned by the former.

The structural parallel with the post-1971 period is not analogical. It is precise. In both cases, the dollar's nominal role as the unit of denomination is preserved or extended while an institutional constraint on its issuance is dissolved. In 1971, the dissolved constraint was gold convertibility; the instrument that gave other nations at least nominal recourse against American monetary expansion. In 2025, the dissolved constraint is Federal Reserve intermediation; the mechanism through which dollar creation in the payment layer has historically been channelled through institutions subject to prudential supervision, reserve requirements, and the lender-of-last-resort relationship with the central bank.

The GENIUS Act permits non-bank private entities to issue dollar-denominated payment instruments backed by Treasury securities. These instruments are not Federal Reserve liabilities. They are not bank deposits covered by FDIC insurance up to the statutory limit. They are private dollar-denominated claims issued by entities whose regulatory obligations under the Act are reserve adequacy attestation and periodic examination; not the full prudential supervisory framework applied to depository institutions with access to the Federal Reserve's discount window (GENIUS Act, S.1582, Sections 4 and 7). The dollar remains the denomination. The Federal Reserve is no longer the issuer of the underlying instrument.

Treasury Secretary Scott Bessent testified before the Senate Banking Committee in February 2025 that stablecoin adoption could generate demand for an additional $2 trillion in United States Treasury securities over a five-year horizon; a projection that identifies the fiscal attractiveness of the architecture with precision (Senate Banking Committee, 2025). Stablecoin issuers hold Treasury reserves against their outstanding issuance. Demand growth for stablecoins is, structurally, demand growth for Treasury securities. The fiscal benefit to the United States government is direct, substantial, and operates through the same mechanism as the post-Bretton Woods reserve accumulation dynamic: the world acquires the dollar liability because it requires the instrument, and in acquiring it, finances American public debt.

The Bretton Woods system generated equivalent fiscal benefits through an equivalent mechanism. Foreign central banks accumulating dollar reserves were, structurally, buyers of American public debt without recourse to the political mechanisms that domestic debt purchasers possess. The United States could finance deficit expenditure, including its military programmes, by issuing the liability its creditors were structurally compelled to hold. The stablecoin architecture reproduces this mechanism in private hands, at global scale, through programmable infrastructure that operates increasingly outside the correspondent banking system and therefore outside the full supervisory perimeter of the Federal Reserve's existing framework.

The total stablecoin market capitalization stood at approximately $232 billion as of March 2025, with Tether's USDT accounting for approximately $143 billion and Circle's USDC accounting for approximately $57 billion (CoinGecko, 2025). These figures represent the current scale. The Treasury's own five-year projection implies a system operating at ten times the current scale within the window of a single presidential term. At that scale, the stablecoin payment layer is no longer an adjunct to the dollar system. It is a component of it, operating outside the institutional architecture that has historically made the dollar system resilient to liquidity stress.

The Institutional Substrate and Its Progressive Thinning

The argument that the stablecoin architecture strengthens dollar hegemony rests on the premise that dollar denomination and dollar institutional infrastructure are equivalent. The Bretton Woods record demonstrates they are not. The dollar's reserve currency status after 1971 did not derive solely from its role as a unit of denomination; it derived from the institutional depth of dollar-denominated markets, the liquidity and legal infrastructure of the Treasury securities market, the Federal Reserve's capacity to act as lender of last resort in dollar liquidity crises, and the multilateral institutional framework that Bretton Woods constructed and that 1971 did not destroy.

The 2008 financial crisis illustrated the lender-of-last-resort function with particular clarity. When dollar funding markets seized in September and October of that year, the Federal Reserve extended $585.3 billion in foreign currency swap lines to fourteen central banks, providing dollar liquidity to prevent global dollar funding markets from complete

dysfunction (Federal Reserve, 2010, p. 14). The intervention was effective because the Federal Reserve was the sole creator of dollar reserves and could expand its balance sheet without external constraint. No private institution has this capacity. No stablecoin issuer has this capacity. The GENIUS Act creates no equivalent mechanism for the private monetary layer it authorises.

The 2023 USDC episode illustrated what a confidence shock to a major stablecoin issuer produces under comparatively benign market conditions. Following Circle's disclosure on March 10, 2023 that $3.3 billion of its reserves were held at Silicon Valley Bank pending FDIC resolution, USDC traded at $0.87 on secondary markets; a 13 percent deviation from a par-value instrument whose stability is the sole basis for its utility as a payment medium (Circle, 2023; FDIC, 2023). The episode resolved not through the stablecoin architecture's own resilience mechanisms but through the FDIC's decision on March 13, 2023 to guarantee all Silicon Valley Bank deposits, including Circle's, in full. A public sector institution acting under emergency authority stabilised a private monetary instrument. The institutional backstop was external to the architecture. It was not guaranteed in advance. It was discretionary.

The Bretton Woods lesson is not that institutional constraints are preferable in all circumstances to their dissolution. Institutional frameworks contain their own rigidities and their own failure modes; the gold peg's rigidity was precisely what made its eventual removal inevitable. The lesson is that institutional constraints serve functions that are not immediately apparent until they are removed, and that those functions accumulate systemic value over the period of their operation that is not reproduced by the nominal extension of the instrument they constrained.

The dissolution of Federal Reserve intermediation in the stablecoin payment layer confers measurable short-term advantages: additional structural demand for Treasury securities, reduced friction in dollar-denominated cross-border payments, and the extension of dollar denomination into digital infrastructure that might otherwise develop in alternative currency frameworks. Each of these advantages is real. Each appeared in a different form in the analysis of the post-1971 period. The structural cost of the 1971 dissolution did not appear in 1972 or 1974 or 1980. It appeared progressively, embedded in the Triffin accumulation visible today in $22.5 trillion of net foreign liabilities and a $1.133 trillion annual current account deficit. The structural cost of dissolving Federal Reserve

intermediation in the payment layer will not appear in 2026 or 2028. It will appear in the circumstances under which the private monetary layer encounters a liquidity stress event of sufficient scale that the lender-of-last-resort question must be answered in real time; and in the question of whether the Federal Reserve's existing statutory authority and operational toolkit can provide that answer for a monetary layer it did not create and whose architecture it does not control.

Conclusion

The sequence from Bretton Woods to the Nixon shock to the petrodollar architecture to the current stablecoin legislation is not a sequence of crises and recoveries. It is a sequence of institutional decisions in which short-term structural advantages were pursued at the cost of long-term institutional depth, and in which the cost of each decision was deferred into the architecture of the decisions that followed rather than absorbed at the moment of choice.

Bretton Woods built an institutional substrate for dollar centrality that was more durable than the gold peg mechanism that provided its initial credibility. The Nixon shock dissolved the gold peg and left the institutional substrate intact; stronger, in the short term, because unconstrained. The petrodollar architecture reinforced the substrate through an energy mechanism that created structural global dollar demand without any corresponding institutional commitment by the United States to adjustment discipline. The GENIUS Act extends dollar denomination into programmable payment infrastructure while dissolving Federal Reserve intermediation as the institutional control point for dollar creation in the payment layer.

Each step in this sequence is individually defensible. Keynes identified the structural logic at Bretton Woods and lost to it. Triffin identified the structural consequence in 1960 and was vindicated in 1971. The Triffin dilemma, vindicated once, remains embedded in the architecture; deeper now than it was in 1971, because the global dollar overhang is larger and the adjustment mechanisms are fewer.

The exorbitant privilege does not derive from the word "dollar" appearing on a payment instrument. It derives from the depth of the institutional infrastructure standing behind

that word: the Treasury market's liquidity and legal infrastructure, the Federal Reserve's lender-of-last-resort capacity, the supervisory framework of the American financial system, and the multilateral institutional architecture that Bretton Woods constructed and that 1971 strained but did not break. The stablecoin architecture extends the denomination into new infrastructure while thinning the institutional substrate further. Whether the substrate can sustain that thinning is a question the historical record cannot answer directly, because the stablecoin layer represents a genuine institutional novelty operating at a scale and speed that has no precise historical precedent.

What the historical record can answer is the question of what has happened to reserve currency systems whose institutional foundations were progressively subordinated to the convenience of their nominal extension. The sterling precedent is the adjacent case. Between 1914 and 1976, the pound moved from reserve currency to managed float; a trajectory that took sixty-two years to complete and that was visible in its broad outlines within the first decade. That record is where this series turns next.

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