The Relevance of the Bretton Woods Conference for Our Times

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All historians are cautious about claims of the 'lessons of history' – at best we can identify the reasons for the success or failure of policies and help judge whether the institutional context is now so different as to make these outcomes irrelevant. History does not repeat itself, but mistakes may be repeated if the historical record is not understood.

In the case of the Bretton Woods conference, the historic context was clearly critical to the nature and outcome. The death throws of a painful global war, the shift of political and economic power robustly to the United States of America and the fear of a looming repeat of the interwar Great Depression were all instrumental in the 'success' of the Bretton Woods conference in formulating institutions that achieved acceptance by enough countries to make them function. The underlying premises of the conference were very different than today. The lessons of the interwar depression lay heavily on all participants; the danger of fluctuating exchange rates, the destabilising menace of open capital markets, the damaging nationalistic fervour exhibited in and prompted by discriminatory trade practices and the need for some shared governance of the international system to avoid a repeated fall into global conflict. In 1944, the key lessons were that exchange rates should be stable and that capital markets should be controlled to promote growth of international trade that would restore and ensure full employment. It was through international trade and long term investment that all states would have the best possible chance for full employment and economic growth; the two key policy priorities that would deliver a lasting relief from the armed conflict of the previous 30 years.

In 2007/8 the lessons of the interwar depression were again at the forefront of policy-makers' minds as they injected liquidity into national and global monetary systems to avoid damaging monetary contraction, and sought to keep open markets to avoid a spiralling downward of international trade. But unlike the 1940s, the commitment to open capital markets has not been effectively challenged and flexible exchange rates have been used to cushion the effects of quantitative easing. Where exchange rates were inflexible, such as in the Eurozone, the strain has led to a dramatic decline in growth. There were periodic resorts to capital controls to insulate against apparent spill-over effects among some emerging market economies, but China is the largest country adhering to the controlled exchange rate, capital controls, open trade markets and monetary policy independence that was the goal of the planners at Bretton Woods. This recipe has coincided with exceptionally rapid and sustained growth for China, but it is not a prescription for a global system that would be acceptable today.

Historical Context and Limitations of Summitry

The relevance of the Bretton Woods conference lies perhaps in the political economy of this historic summit and the unintended outcomes that arose from its weaknesses. It is easy to argue that the spirit of Bretton Woods was over almost before it began. Framed on the basis of Anglo-American dominant power, the IMF and IBRD failed to establish the legitimacy and transparency that would have allowed the system to function as planned. Of course the commitment to international cooperation was also interrupted by the Cold War, but the premise of pooling sovereignty by developing institutions of global governance and multilateral oversight did not survive much past 1945. By 1946 the USA sought to use its leverage over the UK (as the issuer of the 'other' global currency) to hasten convertibility and non-discrimination through the terms of the Anglo-American Loan Agreement, with disastrous results. The sterling crisis of the Summer of 1947 showed the world (and especially European states) the dangers of allowing convertibility of their currencies at pegged exchange rates. Western Europe quickly turned to regional solutions and the UK sought to develop the Sterling Area into a more supportive discriminatory group. Along with the European Payments Union, which was negotiated among governments in 1950, less politicised arrangements supported the international system of pegged exchange rates and limited the recourse to the IMF. The Bank for International Settlements 'Group Arrangements' of the 1960s and the system of bilateral swaps with the Federal Reserve Bank showed how central banks can be instrumental with effective practical solutions separate from the more public intergovernmental summitry. The IMF was left on the side-lines of the devaluation of 1949 and its lending in the 1950s and 1960s did not treat all borrowers consistently. The British, for example, borrowed frequently with little conditionality until 1976, while developing economy borrowers faced harsher terms. After losing much reputation following the sovereign debt crisis of the 1980s, the IMF has become a reinvigorated force in the new patchwork of institutional responses to the global financial crisis, but it faces ongoing challenges.

Asymmetric Global Governance:

The Bretton Woods Conference (and the smaller summits that preceded it) were designed to appear more inclusive than merely an Anglo-American conspiracy. Representatives from China, India, Egypt, Brazil, Mexico and others played important roles in the committees and sub-committees and they contributed amendments and alternatives to the proposals on the table. Primary product producers were particularly hard hit by the agricultural crisis of the inter-war years and the protectionism among richer countries that followed. At the Bretton Woods Conference, representatives of developing countries sought to renegotiate their global position and protect their interests by encouraging the American and European delegations to recognise their special circumstances and to build into the monetary institutions tools to promote their economic development, such as commodity price controls. These were left to the negotiations on trade that followed the Bretton Woods conference, but the International Trade Organisation proposals that were meant to complement the institutions governing the international monetary system foundered, partly because of the changed historic context in which they were negotiated. With the hot war ended and the Cold War looming, the growing assertiveness among primary product producing states eroded the fragile identification of common interest that had supported the Bretton Woods Conference. These countries exerted greater pressure during the ITO negotiations in the harsher environment of the post-1945 international political economy of the late 1940s. Ultimately the transient nature of the commitment of the USA and Europe to cooperative consensus was revealed in the failure to ratify the ITO, the subsequent deflation of the New International Economic Order of the 1970s and the long drawn out challenges in the GATT and WTO with respect to primary products trade in the 1980s. The problems of legitimacy and governance were left unresolved at the Bretton Woods Conference, partly because of the anticipation of an ITO to deal with the specific concerns of developing states. Since then, the incumbent powers have proved difficult to dislodge despite a dramatic change in the balance of the international economy. The global monetary system is now in another stage of realignment in which the governance structures developed at Bretton Woods are being challenged by rapidly growing emerging market economies.

The 'Major Points of Principle' at the Bretton Woods Conference were identified by Leo Rasminsky (Canada, Reporting Delegate for the commission that established the International Monetary Fund)

1. 'an exchange rate in its very nature is a two-ended thing, and...changes in exchange rates are therefore properly matters of international concern'.
2. 'peace and prosperity of all will be served by countries agreeing to avoid not only competitive devaluations of their currencies but also exchange restrictions on their current international transactions'
3. 'means must be found to increase the international liquidity of all countries, to give them assurance that their international balances of payments can be met without resorting either to deflationary measures which reduce real income and employment…or excessive tariffs and other import restrictions'

Are these principles still relevant today in an era of globalised capital markets?

1. Should states have complete sovereignty over their exchange rate? What does this mean for the benign neglect of the dollar, or the restrictions on convertibility of the RMB?
2. Current account convertibility is well established; but restricting capital flows continues to be a policy instrument for many countries. Has the risk of competitive devaluation disappeared?
3. What is the role of international currencies in providing international liquidity? Should countries seek to build up substantial owned reserves to protect against sudden stops?

Original Quota Distribution (Highly contested by China, France, Greece and Yugoslavia)

	$Usm	**%**	**Current %**	**Difference from 1944**
USA	2750	31.25	17.69	-13.56
UK	1300	14.77	4.51	-10.26
USSR	1200	13.64	2.5*	-11.14
China	550	6.25	4	-2.25
France	450	5.11	4.51	-0.60
India	400	4.55	2.44	-2.11
Canada	300	3.41	2.67	-0.74
Netherlands	275	3.13	2.17	-0.96
Belgium	225	2.56	1.93	-0.63
Australia	200	2.27	1.36	-0.91
Brazil	150	1.70	1.79	0.09

Czechoslovakia	125	1.42	0.42	-1.00
Poland	125	1.42	0.71	-0.71
South Africa	100	1.14	0.78	-0.36
Mexico	90	1.02	1.52	0.50
Yugoslavia	60	0.68		
Chile	50	0.57	0.36	-0.21
Colombia	50	0.57	0.33	-0.24
Cuba	50	0.57		
New Zealand	50	0.57	0.38	-0.19
Norway	50	0.57	0.79	0.22
Egypt	45	0.51	0.4	-0.11
Greece	40	0.45	0.46	0.01
Iran	25	0.28	0.63	0.35
Peru	25	0.28	0.27	-0.01
Philippines	15	0.17	0.43	0.26
Uruguay	15	0.17	0.13	-0.04
Venezuela	15	0.17	0.01	-0.16
Bolivia	10	0.11	0.07	-0.04
Luxembourg	10	0.11	0.18	0.07
Iraq	8	0.09	0.5	0.41
Ethiopia	6	0.07	0.06	-0.01
Costa Rica	5	0.06	0.07	0.01
Dominican Republic	5	0.06	0.09	0.03
Ecuador	5	0.06	0.15	0.09
Guatemala	5	0.06	0.09	0.03
Haiti	5	0.06	0.03	-0.03
El Salvador	2.5	0.03	0.07	0.04
Honduras	2.5	0.03	0.05	0.02
Nicaragua	2	0.02	0.05	0.03
Paraguay	2	0.02	0.04	0.02
Iceland	1	0.01	0.44	0.43
Liberia	0.5	0.01	0.05	0.04
Panama	0.5	0.01	0.09	0.08
TOTAL	8800	100	55.22	

*Russian Federation only

Note: Current % does not sum to 100 because of missing countries that are now included but were not represented at the Bretton Woods Conference. The table shows a redistribution from the USA and UK to towards these new states and the smaller share of China and India now than originally planned, despite the change in their share of global trade/output.