

LSE100 public lecture and prizegiving

The Summit: the biggest battle of the Second World War fought behind closed doors

Ed Conway

Economics Editor of Sky News

Professor Paul Kelly

Chair, LSE

Suggested hashtag for Twitter users: **#LSE100**

LSE events



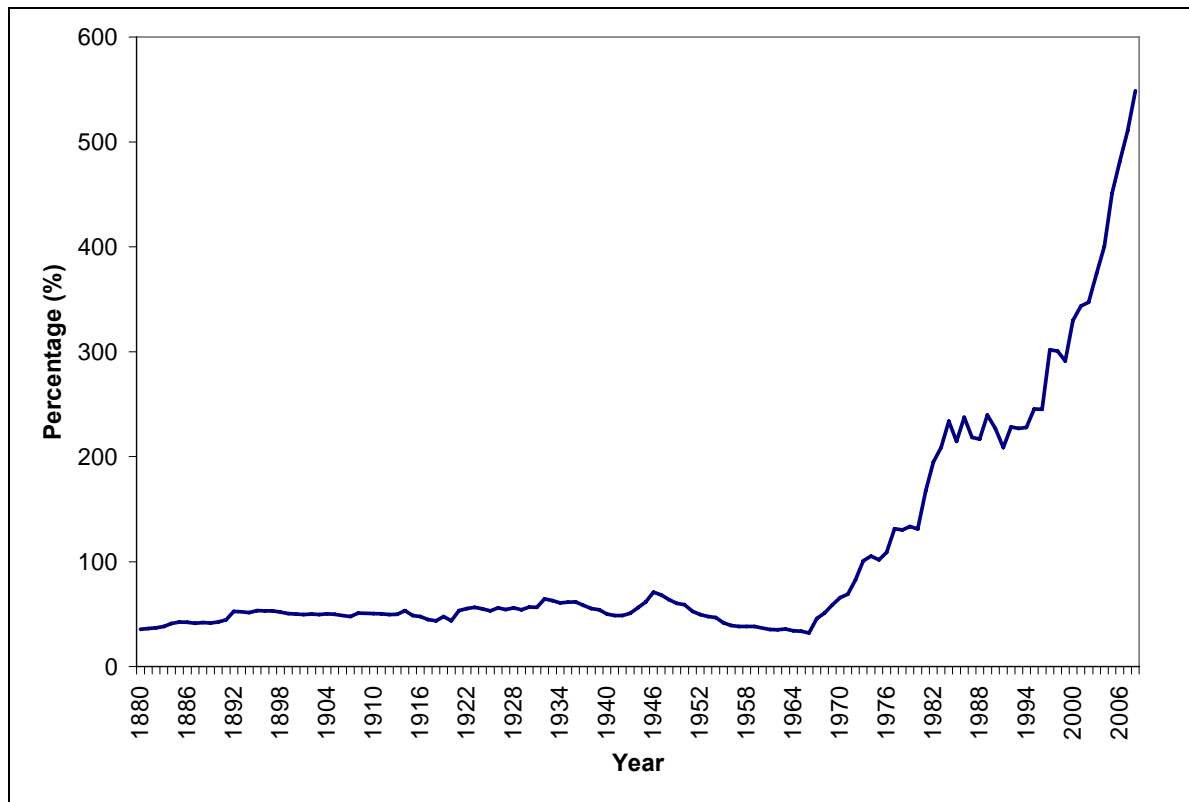
The Summit and the decline and fall of internationalism

Ed Conway

LSE 100 lecture

October 15 2014

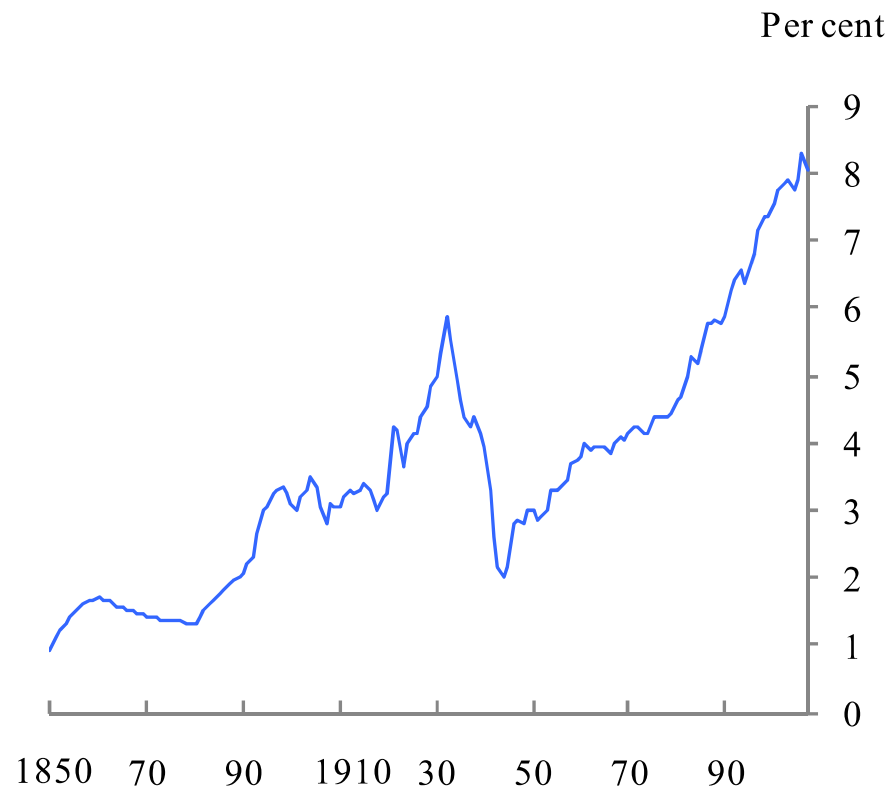
Size of UK banking sector (bank assets as % of GDP)



Source: Sheppard, D. K (1971) and Bank of England.

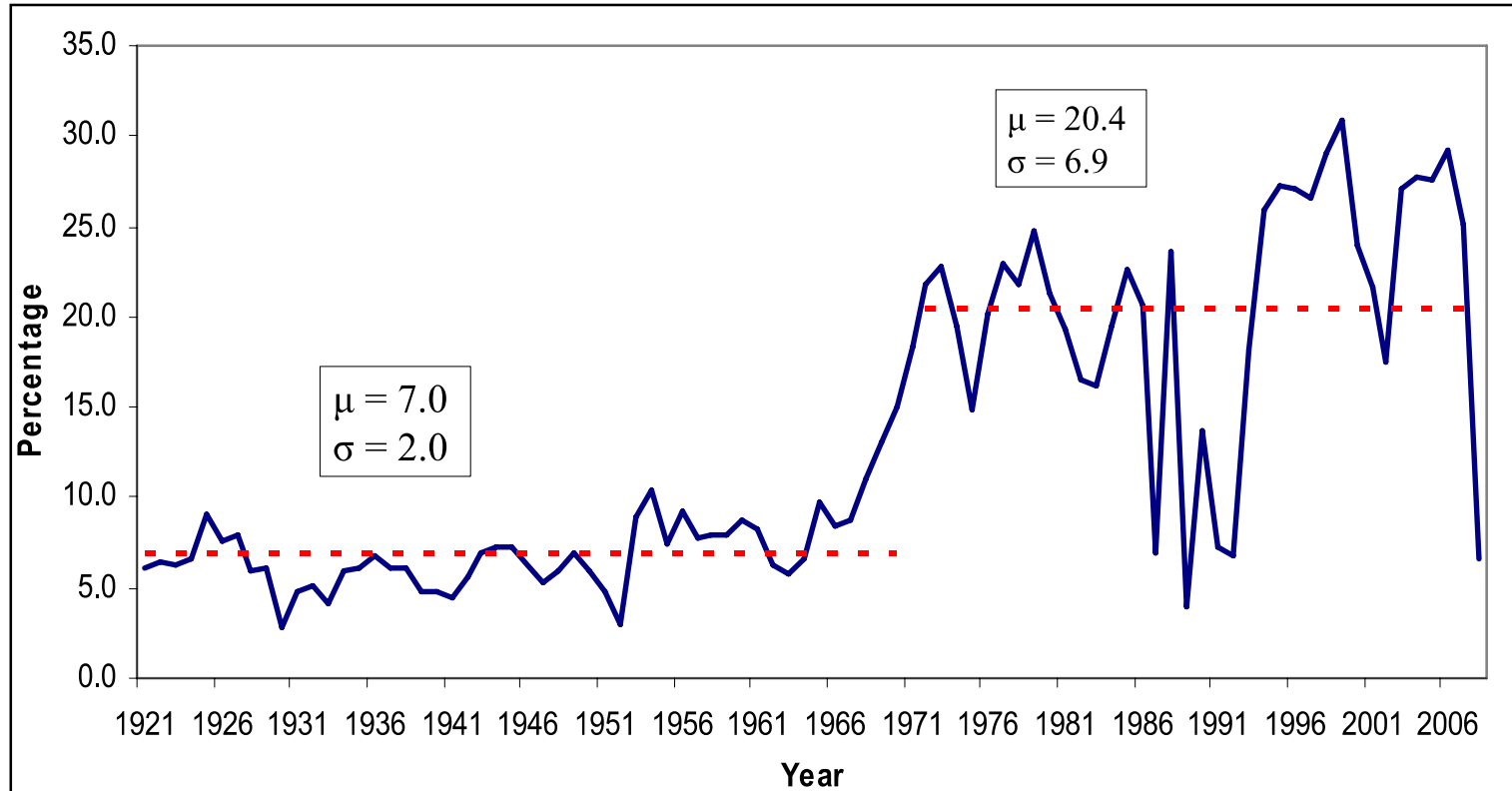
Note: The definition of UK banking sector assets used in the series is broader after 1966, but using a narrower definition throughout gives the same growth profile.

Share of financial industry in US GDP



Source: Philippon(2008).

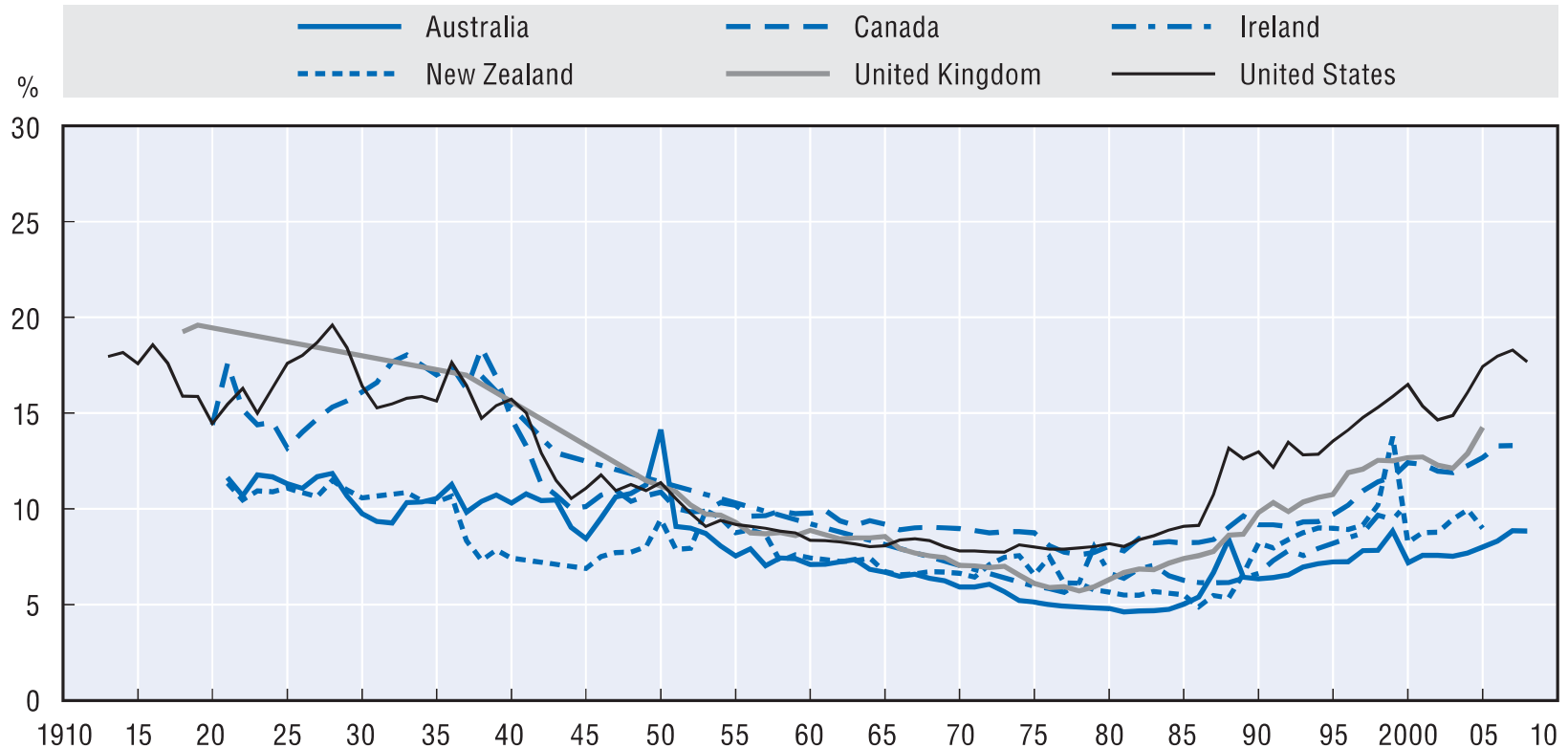
UK banks' return on equity



Source: Capie, F. and Billings, M (2004), BBA and Bank of England calculations.

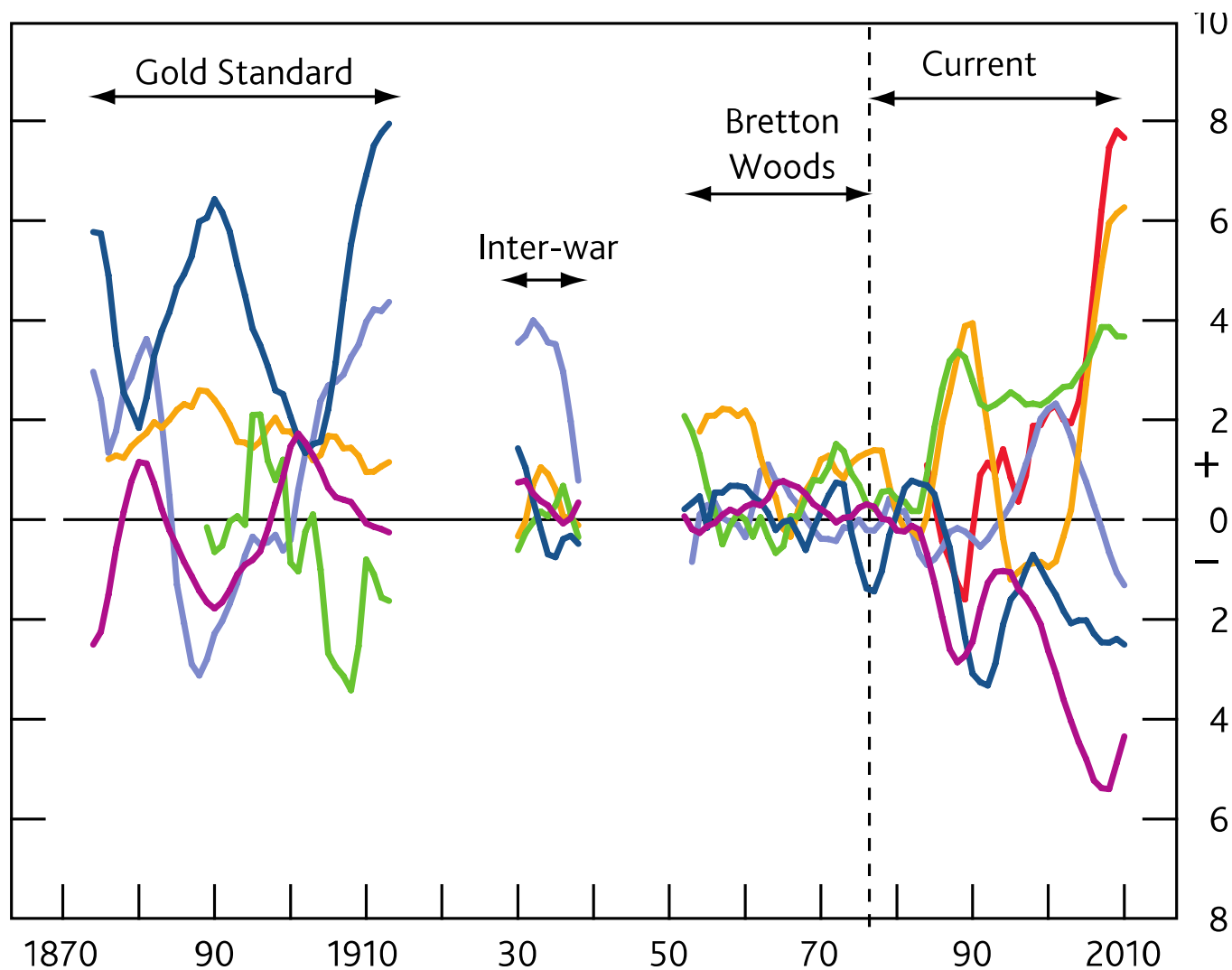
Note: There is a definitional change in the sample in 1967. The latter period has a slightly larger sample of banks and returns on equity are calculated somewhat differently, including being pre-tax.

Inequality – top 1% income share 1910-2008



Source: Alvaredo et al. (2011). Country delegate information: Australia (2000-2008) and Canada (1970-2007).

Current account (im)balances



Bretton Woods compared (I)

	World GDP (annual average %)	World inflation
Gold Standard (1870-1913)	1.3	0.6
Interwar period (1925-39)	1.2	0
Bretton Woods (1948-72)	2.8	3.3
Current (1973-2008)	1.8	4.8

Bretton Woods compared (II)

	National downturns (share of period)	Banking crises (per year)
Gold Standard (1870-1913)	19	1.3
Interwar period (1925-39)	27	2.1
Bretton Woods (1948-72)	4	0.1
Current (1973-2008)	13	2.6

Bretton Woods compared (III)

	External defaults (no per year)	Current account imbalances (surplus + deficit)
Gold Standard (1870-1913)	0.9	2.4
Interwar period (1925-39)	1.5	1.2
Bretton Woods (1948-72)	0.7	0.8
Current (1973-2008)	1.3	2.2

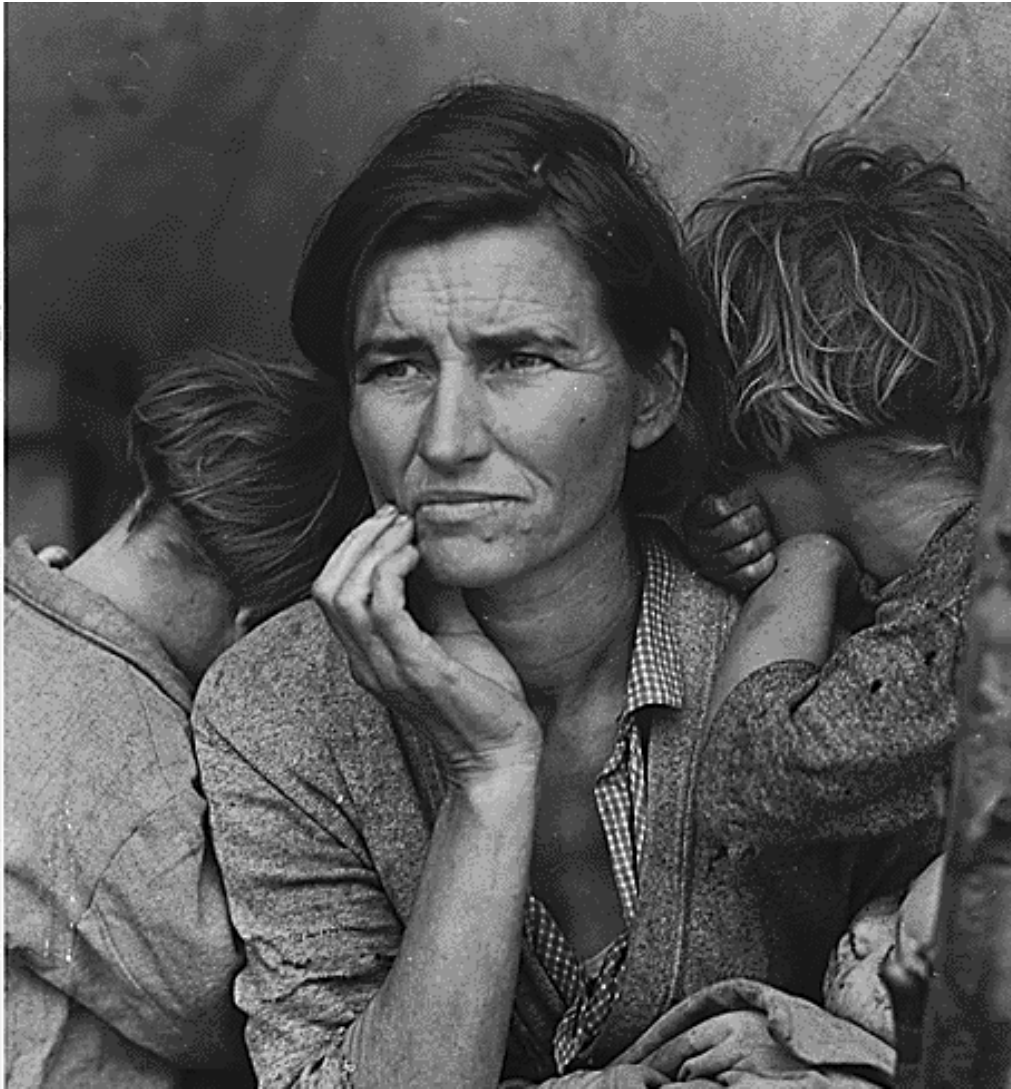
D-Day



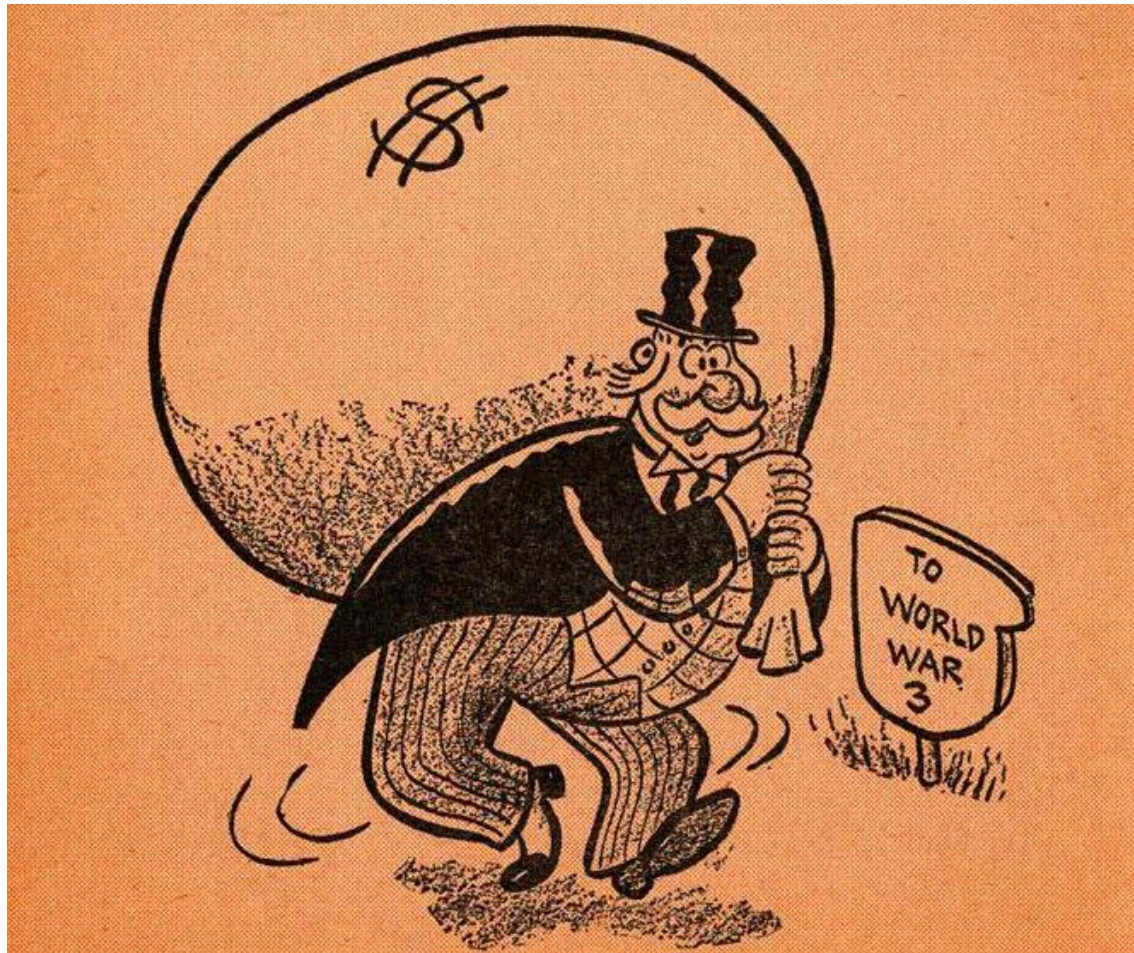
V1 attacks



Economic collapse



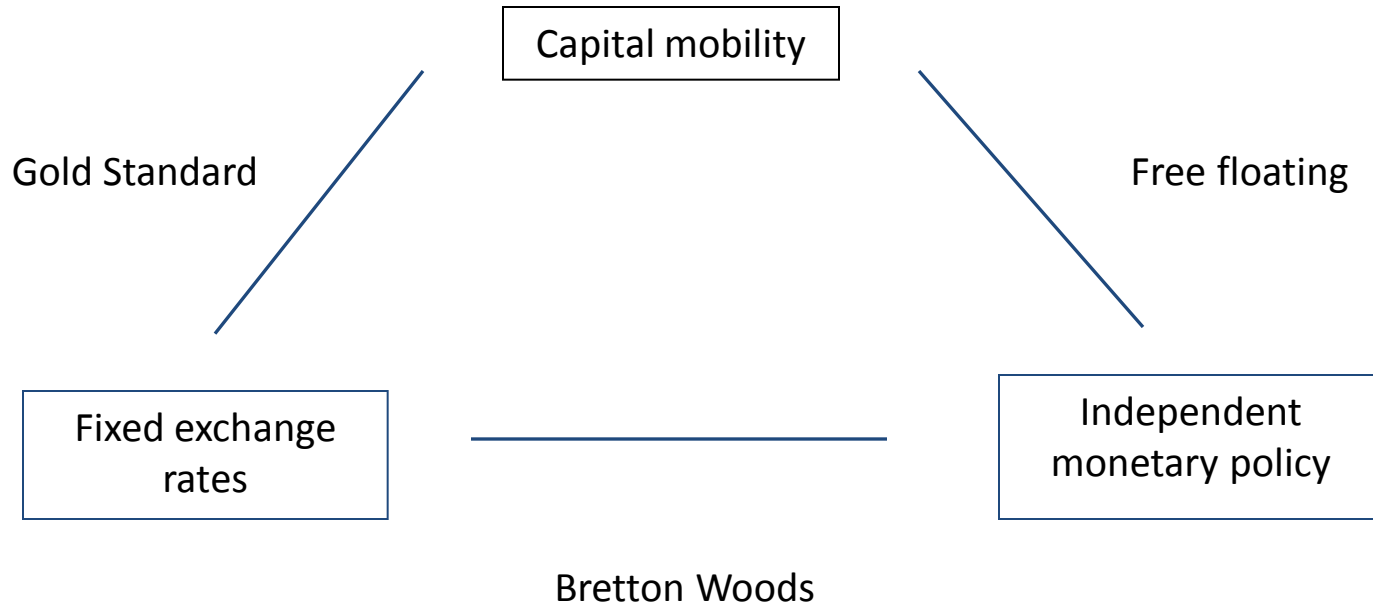
Money and War



White and Keynes

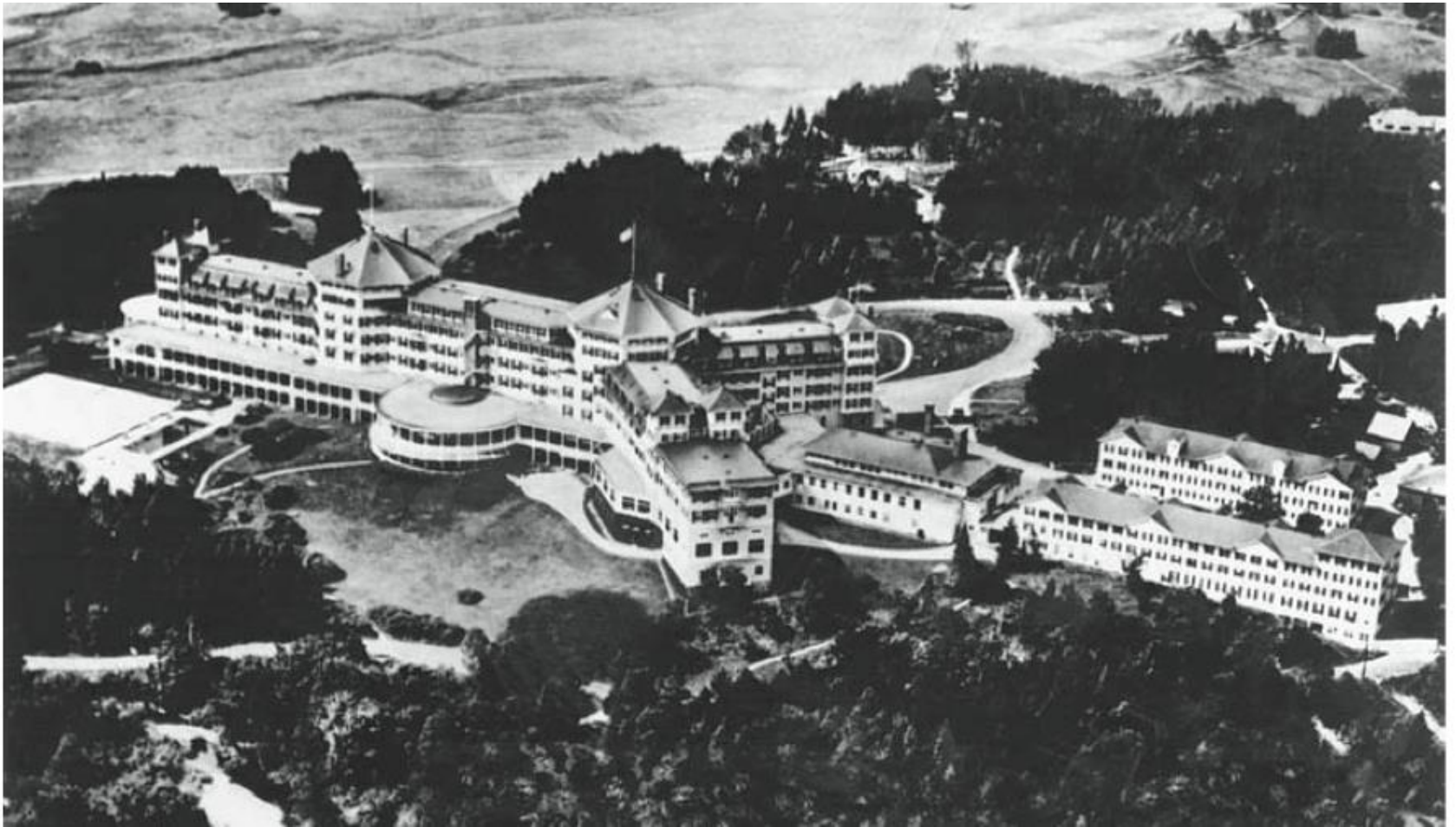


The international macroeconomic policy trilemma



Pick two, any two

Mount Washington Hotel



A world at war



Body language



China's Kung



France's France



The corridors of power



The late nights



Behind the scenes



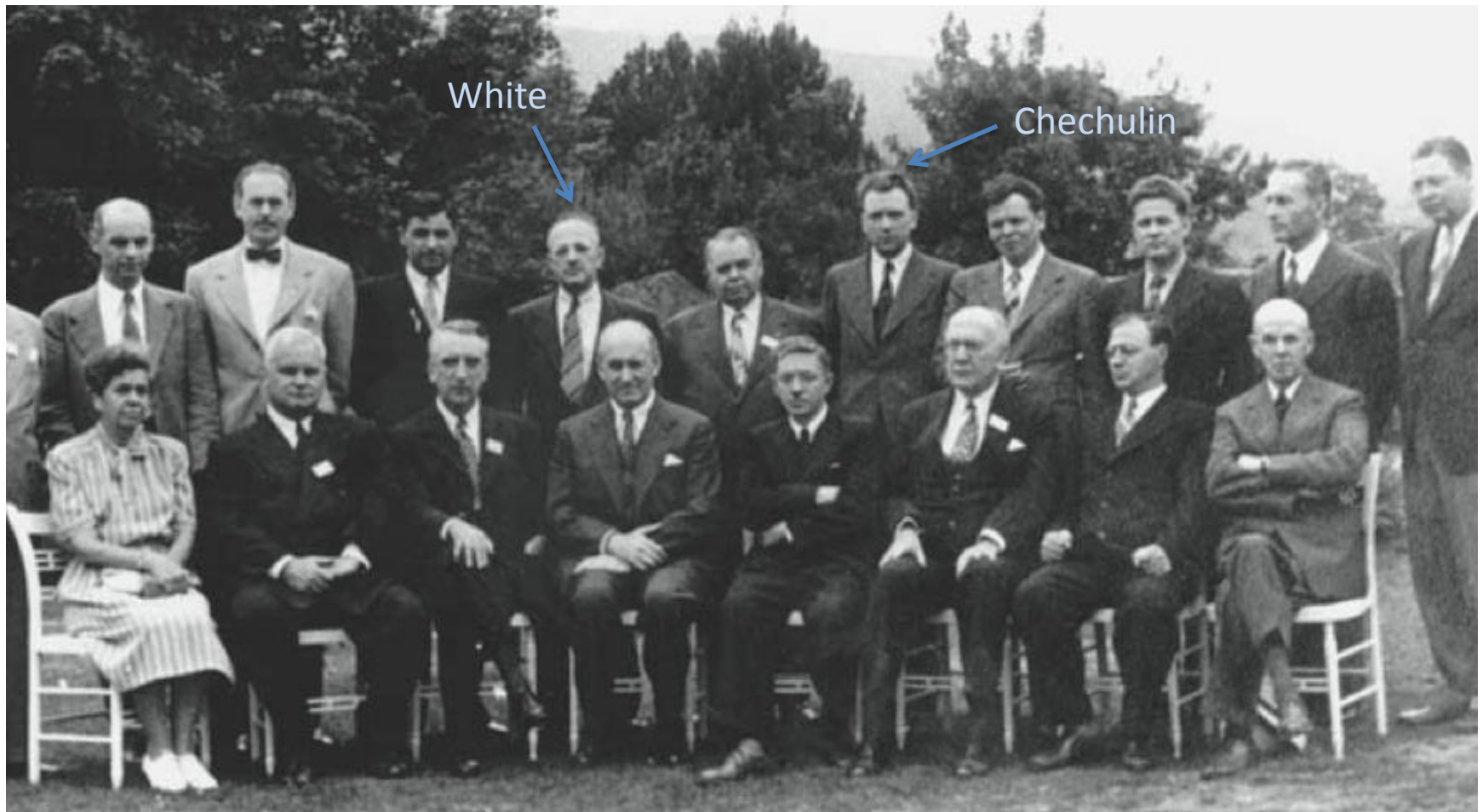
Keynes's heart



The Russians



The Russians (II)



US dollar and Bretton Woods *(received wisdom version)*

1. “Gold-convertible currency” inserted into Articles
2. Today “we either fish or cut bait”

after the two Commission meetings. The Commission meeting this afternoon is extremely important. That is where we either fish or cut bait on most of these things. There

3. “gold-convertible” → “gold and US dollars”
4. Changes implemented in late-night drafting sessions

US dollar and Bretton Woods *(what really happened)*

1. “Gold convertible” had been in draft articles for months
2. Americans preferred calculated vagueness, “Cherokee”

Bernstein: Oh, yes, we made some changes. But we certainly didn't change the substance of our plan.

S.B.: You didn't rewrite the whole thing.

Bernstein: We didn't take the Cherokee out! [laughter]
It stayed in Cherokee. Keynes had the strange notion that

US dollar and Bretton Woods *(what really happened)* (cont...)

3. An Indian raised the matter.

A Briton suggested inserting dollar

4. Briton kept pushing for the change in late-night session and following day

5. White never mentioned the issue again

INDIA: Before this Commission makes its decision on fixing the date, I think it is high time that the U.S.A. Delegation give us a definition of gold and gold convertible exchange. We have discussed this proposal and the several other proposals - Those words "gold" and "convertible exchange" are subject to definition and I don't know if the U.S. Delegation is now prepared to give us a definition of gold and convertible exchange as used in this provision.

DR. WHITE: Delegation from India has requested a definition of gold and convertible exchange as used in this provision.

UNITED KINGDOM: The question was addressed to the U.S. but I think that it is not in any way their fault that the furnishing of this definition has been so long delayed. I would like to propose an amendment to the text which is before us, according to which the criteria of payment of official gold subscription should be expressed as official holdings of gold and United States dollars. That involves a change on page 3 of the new document, section 3(b) and also involves a change on the following page in section 4(a). I don't know if I need say anything further in connection with the explanation of the change except that the concept of gold convertible exchange is a difficult one to give an exact definition to and our own feeling is that the balance of advantage so far as the payment of additional subscription goes. This has nothing to do with the recapture provision which occurs when the Fund is functioning in the later stage but so far as the gold element in the original subscription goes the balance of advantage is on the side of the country being the country holding all gold and United States dollars and nothing else.

Bretton Woods transcripts, IMF Archives

Lessons from Bretton Woods

1. Similarities between Keynes and White's positions more important than differences
2. Conference was more chaotic than is often remembered
3. Success of Bretton Woods was largely thanks to use of "Cherokee"

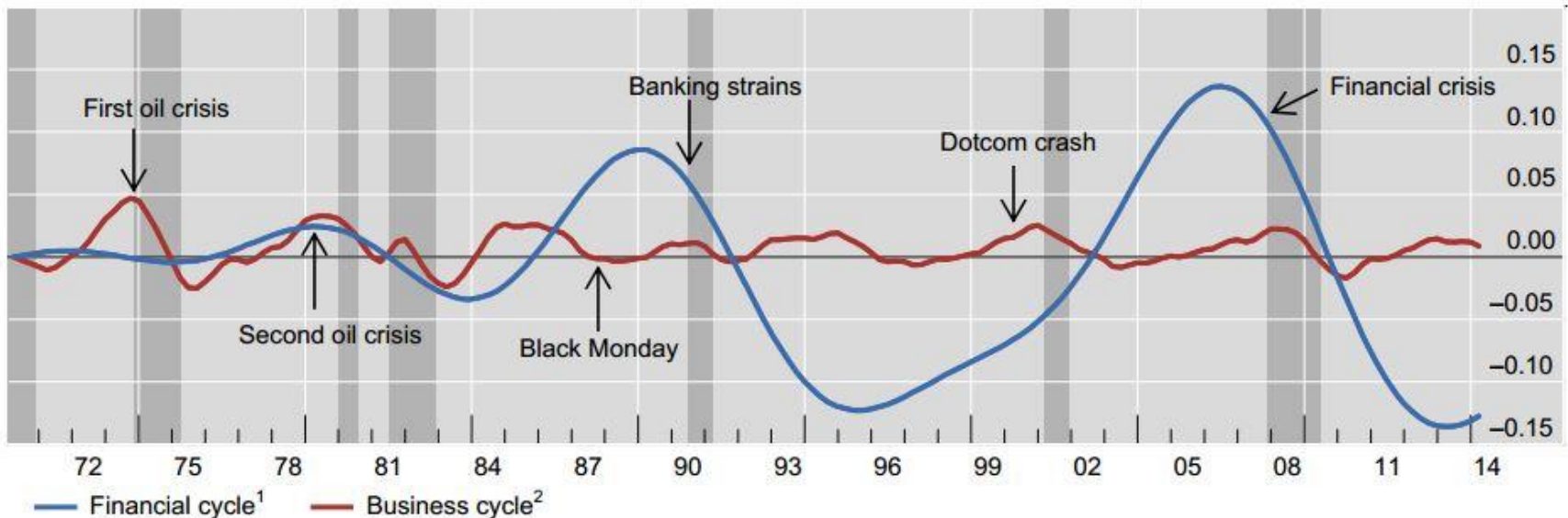
Lessons from the recent financial crisis

1. Decision-making during crises is easier than implementation during “peacetime”
2. International institutions tend to do less well in the face of chronic weakness
3. Internationalism is in secular decline

The next crisis?

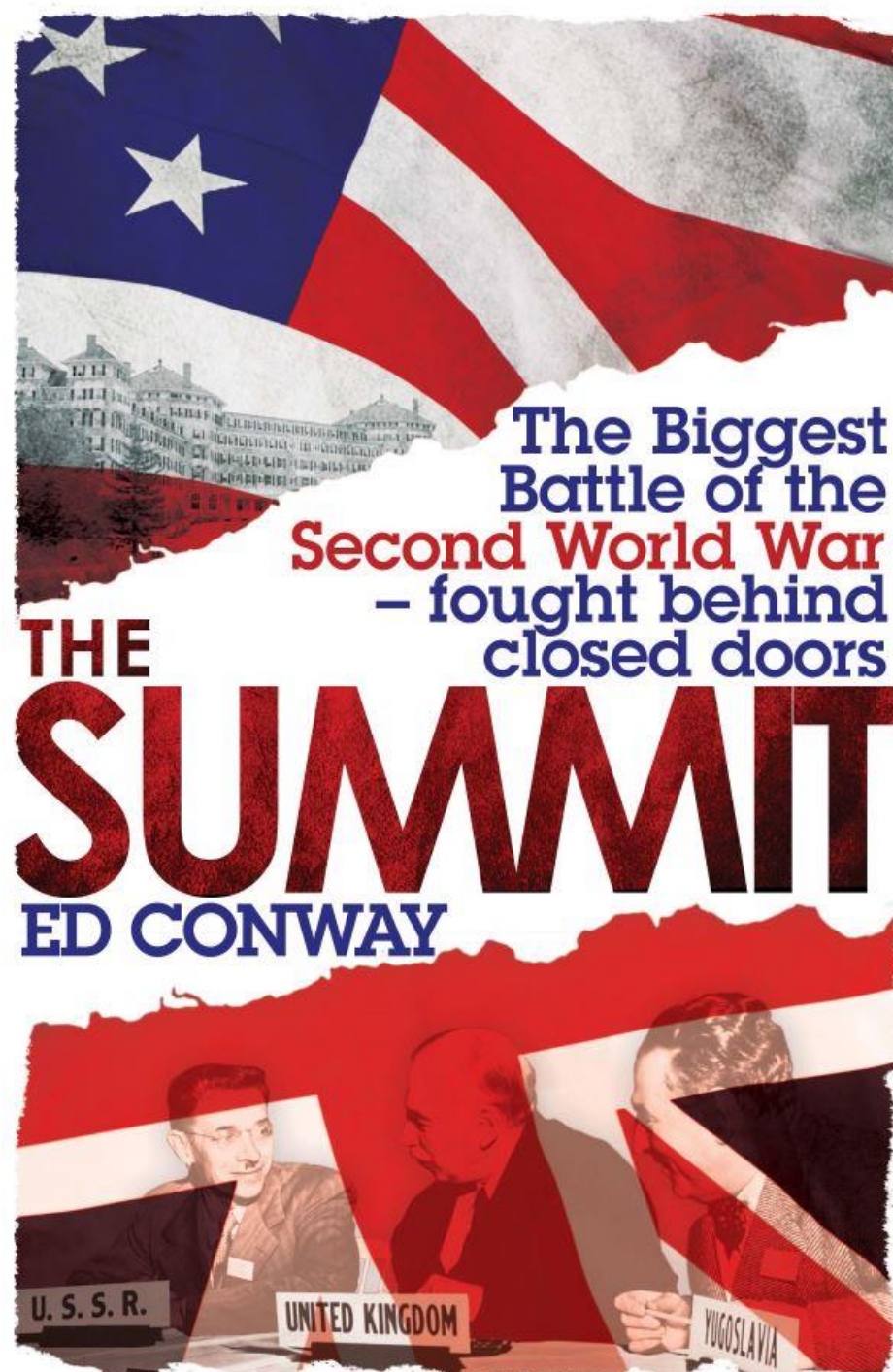
The financial and business cycles in the United States

Graph 1



¹ The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices. ² The business cycle as measured by a frequency-based (bandpass) filter capturing fluctuations in real GDP over a period from one to eight years.

Source: update of Drehmann et al (2012).



The Biggest
Battle of the
Second World War
– fought behind
closed doors

THE SUMMIT

ED CONWAY



LSE100 public lecture and prizegiving

The Summit: the biggest battle of the Second World War fought behind closed doors

Ed Conway

Economics Editor of Sky News

Professor Paul Kelly

Chair, LSE

Suggested hashtag for Twitter users: **#LSE100**

LSE events

