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
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)


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

UK banks’ return on equity


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

<table>
<thead>
<tr>
<th>Period</th>
<th>World GDP (annual average %)</th>
<th>World inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Standard (1870-1913)</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Interwar period (1925-39)</td>
<td>1.2</td>
<td>0</td>
</tr>
<tr>
<td>Bretton Woods (1948-72)</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Current (1973-2008)</td>
<td>1.8</td>
<td>4.8</td>
</tr>
</tbody>
</table>
# Bretton Woods compared (II)

<table>
<thead>
<tr>
<th>Period</th>
<th>National downturns (share of period)</th>
<th>Banking crises (per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Standard (1870-1913)</td>
<td>19</td>
<td>1.3</td>
</tr>
<tr>
<td>Interwar period (1925-39)</td>
<td>27</td>
<td>2.1</td>
</tr>
<tr>
<td>Bretton Woods (1948-72)</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>Current (1973-2008)</td>
<td>13</td>
<td>2.6</td>
</tr>
</tbody>
</table>
Bretton Woods compared (III)

<table>
<thead>
<tr>
<th>Period</th>
<th>External defaults (no per year)</th>
<th>Current account imbalances (surplus + deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Standard (1870-1913)</td>
<td>0.9</td>
<td>2.4</td>
</tr>
<tr>
<td>Interwar period (1925-39)</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Bretton Woods (1948-72)</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Current (1973-2008)</td>
<td>1.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>
D-Day
V1 attacks
Economic collapse
Money and War
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)

White

Chechulin
US dollar and Bretton Woods
(received wisdom version)

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

3. “gold-convertible” $\rightarrow$ “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*

Edward Bernstein oral history, The Southern Historical Collection, The Louis Round Wilson Special Collections Library, UNC-Chapel Hill
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
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.

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