



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

A NEW BRETTON WOODS:

The International System in Historical Perspective

THIRD INTERIM REPORT



24 JUNE 2022

A NEW BRETTON WOODS:

The International System in Historical Perspective

The first two evidence sessions organised by the Commission dealt with the future contours of the global economic order, in light of current developments. The third panel instead focused on the past. Over the last century there have been several 'moments' in the which redesign of the international economic order was at stake. This session provides a historical overview of those previous efforts to reform global economic governance and to establish whether they provide any insights for today's policy makers. The challenge for the Commissioners lies not only in coming up with the right policies and institutional designs, but also in identifying the issues and formulating the norms and politics required for a stable and effective international economic order.

THE NEED TO RELEARN THE RELEVANCE OF GLOBAL COOPERATION

Prof MacMillan opened the session by outlining early attempts to construct an international order came to pass and their lessons which remain relevant today. The point of departure for this account is that international orders are usually produced by crises, pulling countries into efforts to create economic stability. This effort to create stability is at the heart of global cooperation and institution-building. There have been various attempts to create stability, and these have revealed different organising principles required for it: primarily, hegemony and a shared ideology.

Until the 19th century, these attempts were regional. It was only the crucial global developments that happened thereafter that necessitated, and therefore made possible, a global economic order. These include: the industrial revolution, and the attendant transformation of trade, finance, and communications; the spread of liberal economic ideas; the emergence of truly global problems, such as pandemics; and the increased destructive power of war. The last development in particular was crucial. The increase in productive and technological capabilities led to an increase in the destructive capacity of major conflicts, and therefore to a greater need to find solutions that would render the international system stable. The 19th century context obliged leaders to think about the creation of global governance frameworks, culminating into the mass disillusionment following two world wars.

Prof MacMillan highlighted two important lessons of that period. Firstly, the domestic political effects of the Great Depression: extremism, polarisation and the assumption to power of illiberal forces. These greatly impeded attempts to create a more stable international order. Secondly, the international economic crisis had wide-reaching implications: tariffs, the drawing back of trade, and the increasing self-help character of the system for developing nations. The attempts to cooperate after the Second World War were more successful, due to the full support and heft of the United States under Roosevelt and his successors. This gave way to the Bretton Woods system and the United Nations, even though these were shaped by US interests. However, if the world is to avoid another global conflict, an inclusive international order is needed, one which harbours liberal values and develops both poor and rich countries in ways that produce economic security. Current leaders seem to have forgotten why it is important to have these

organisations in the first place, and have become used to the current post-Cold War order. However, we are facing similar or even greater challenges than countries did in 1919 or 1944. In the absence of a renewed sense of urgency for global cooperation and economic security, conflict will become more likely.

GLOBAL COOPERATION REQUIRES INCLUSION AND CLEAR MANDATES

In this context, Prof Woods stressed that the current geopolitical polarisation is making cooperation harder, while heightening confrontation between great powers and leading to a new non-alignment movement. This is at a time in which cooperation is needed for three acute reasons: debt, famine, and energy. There is looming famine in the developing world, not because there is a shortage of agricultural products but because of the failure to globally coordinate the distribution of existing stocks. Similarly, there is a debt crisis because cooperation on mechanisms to restructure sovereign debt has remained wanting.

Prof Woods stressed the need to bring all involved countries into one forum in which they could agree on an absolute minimum of rules. These 'forums', whatever institutional forms they take, need to fulfil three purposes: to act as a forum for discussion and not conflict, to build clear rules, and to provide methods to monitor those rules. A clear mandate allows for assurances and manages the mutual expectations of member states, which in turn would make coordination easier and the failure of collective action less likely. What the mandates of these institutions need to be re-clarified around are the economic needs of the majority of the world's countries, particularly with respect to the three priorities noted above. The balance sheets of major institutions, which have a record of behaving in a pro-cyclical manner, should be used to extend loans against the cycle instead.

The other key issue for cooperation is inclusion. Prof Woods noted that these nominally technocratic organisations are actually driven by geo-economic parameters. The question of who leads these organisations and who gets to make decisions within them is crucial. The fact that key institutions such as the World Bank and the International Monetary Fund (IMF) are staffed and controlled by the United States and also by European countries alienates other nations in the international community, making cooperation even harder.

On this matter, Prof Mitter highlights the role of China in determining the future of global cooperation. The voices of the 'Global South' – including that of what would come to be modern China – were heard at the time of the Bretton Woods negotiation but have been largely forgotten since then. This includes the Chinese view of the Bretton Woods system at its conception and of the international system it gave way to. This view was dominated by need for 'defence'; a principle which has largely motivated the different regimes since that time. China was pulled into a different economic model and, on the basis of its alignment, was excluded from some aspects of the global economic system. Prof Mitter notes that this experience exists in the living memory of the Chinese leadership; their engagement in the process of global cooperation will be crucial, and will be informed by considerations of 'defence' and 'self-reliance' which might be antagonistic to a more cooperative international system.

INSTITUTIONAL MANDATES RISK BEING OUTGROWN BY PROBLEMS

Prof Velasco, however, cautioned expectations of global cooperation even yielding stability. The problems currently faced are largely political in nature, informed in large part by domestic politics. It is therefore crucial that political reforms and local economic policies are not disregarded, and that international institutions are not tasked with solving problems that don't originate at the international level. By extension, it is important to define the remit of these institutions and to have an assessment of how well they have been doing these tasks during the Bretton Woods era.

Among those tasks, Prof Velasco highlighted four key ones that were of concern to the designers of the Bretton Woods system. Firstly, the need for the international coordination of macro policies, which entailed both the avoidance of beggar-thy-neighbour policies: frequent currency devaluations and the establishment of a Lender of Last Resort function – in the form of the IMF. Secondly, the need to mobilise private capital for developmental goals, which the World Bank was tasked with by means of its own guarantees and lending capacities. Thirdly, the provision of global public goods. Finally, the spread of knowledge – chiefly in the form of best practices on economic policy

Prof Velasco concluded that the existing institutions have only fared moderately well, and will not improve in future. This is due to the fact that the global economy has changed in ways that make meeting these objectives much harder, especially the size of capital flow relative to the financial firing power of these institutions. Additionally, most of the economy has shifted geographically, while the institutions are governed by the North Atlantic with little input from larger economies. Lastly, there are new large threats to the survival of the international system: global pandemics and climate change. If the scope and the mandate of the international institutions are not changed, then these problems will remain unaddressed. In the absence of the ability to address these problems, these institutions risk becoming irrelevant to the countries that need them most. ■

PARTICIPANTS


Margaret MacMillan	Engelsberg Chair in History and International Affairs, LSE IDEAS Professor of History, University of Toronto Emeritus Professor of International History, University of Oxford
Ngaire Woods	Professor of Global Economic Governance, and Dean of the Blavatnik School of Government, University of Oxford
Rana Mitter	Professor of the History and Politics of Modern China, University of Oxford
Andrés Velasco	Professor, Dean of School of Public Policy London School of Economics and Political Science
Chris Alden	Director at LSE IDEAS, Professor of International Relations London School of Economics and Political Science
Stephen Paduano	Executive Director, LSE Global Economics Governance Commission
Dominik Leusder	Research Director, LSE Global Economics Governance Commission
Julia Ryng	Programme Manager, LSE Global Economics Governance Commission
Adam Shaw	Deputy Director, LSE Global Economics Governance Commission


LSE Global Economic Governance Commission

The LSE Global Economic Governance Commission is a forum for debating and redesigning global economic governance.


COVID-19 has presented the world with a new Bretton Woods moment. It has exposed the fragilities of the global monetary order and the dislocations in the global trading system. With economic damages rising and tax revenues falling, it has presented a new crisis for global development and demonstrated the overdue need for global tax coordination. As states have struggled to band together to overcome their shared challenges, it has made clear the difficult road ahead for the global climate agenda.

To steer the much-needed transformation of the rules, practices, and institutions of the global economy, The London School of Economics and Political Science and LSE IDEAS have convened the LSE Global Economic Governance Commission. The Commission brings together leading academics and policymakers around five core domains of global economic governance: monetary policy, trade policy, development policy, tax policy, and climate policy. The Commission hosts public and closed-door panels, lectures, and workshops on all matters relating to global economic governance. Event details are announced online by LSE and LSE IDEAS.

 +44(0)2078494918

 ideas@lse.ac.uk

 lse.ac.uk/ideas

 @lseideas

 [lseideas](https://www.facebook.com/lseideas)