

A New Bretton Woods

The International System in Historical Perspective

THIRD INTERIM REPORT

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 meant to provide a historical overview of these 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 lay 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 the how the some of the early attempt to construct an international order came to pass and which lessons from those attempts remain relevant today. **The point of departure for this account is that international orders are usually produced by crises that pull 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 changes that happened thereafter that necessitated, and therefore made possible, a global economic order. These include of course 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 change in particular was crucial. The increase in productive and technological capacities lead 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. This culminated in the disillusionment of the world wars.

Prof MacMillan highlighted two important lessons of that period. Firstly, the domestic political effects of the Great Depression, which lead to extremism and polarisation and indeed the assumption to power of illiberal forces. This greatly impeded the attempts to create a more stable international order. Secondly, the economic crisis also had international implication: tariffs, the drawing back of trade, and the increasing self-help character of the system for developing nation. **If the world is to avoid another conflict, we needed an order that is inclusive and that attempts to share liberal values and develop both poor and rich countries in ways that produces economic security.** The attempts to cooperate after the 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, current leaders tend to forget why it was important to have these organisations and have gotten used to the current post-Cold War order but are facing similar or even greater challenges than countries did in 1919 or 1944. **In the absence of a renewed sense urgency regarding the need global cooperation to ensure 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 the heightening confrontation between great powers and leading to a new non-alignment movement. This is at a time in which cooperation was needed for **three very important and acute reasons: debt, famine, energy.** There is looming famine in the developing world, not because there is a shortage of agricultural products, but because there is a failure to globally coordinate the distribution of the existing stocks. Similarly, there is a debt crisis because cooperation on mechanism 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 two purposes: they need to act as a forum for discussion and not conflict, and they need to build clear rules and provide methods to monitor those rules. **A clear mandate with clear rules allows for assurances and manage the mutual expectations of member states, which in turn would make coordination easier and collective action failure 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, with particularly with respect to the three priorities noted above (debt, famine, energy).** The balance sheets of major institutions, which have 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 geoeconomic parameters. The question of who leads these organisations and who gets to make decisions within them is crucial. **The fact that key institutions like the World Banks and the International Monetary Fund (IMF) are staffed and controlled by the United States and European countries, alienates other countries in the international community and makes cooperation even harder.**

On this matter, **Prof Mitter** highlights the role of China in determining the future of global cooperation. The voices of what is now referred to as ‘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’.** This principle is a very large part of what has 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

that engagement 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 on the possibilities of global cooperation even yielding stability. The problems currently faced are largely political in nature, and a lot of politics may be 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 such as frequent currency devaluations and the establishment of a Lender of Last Resort function in the form of the IMF. Secondly, **the need mobilising private capital for developmental goals**, which the World Bank was tasked with by means of its own guarantees and lending capacities. Thirdly, **was the provision of global public goods**, and fourthly the **spread of knowledge, chiefly in the form of best practices on economic policy**

Prof Velasco concluded that the existing institutions have only fared reasonably well and will fair less well in the future. **This is due to the fact that the global economy has changed in ways that make meeting these objectives much harder.** The main way the world has changed is 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. And lastly, there are now large threats to the survival of the international system that were not as large at the time, namely the threat of global pandemics, and of climate change. **If the scope and the mandate of the international institutions is**

not changed, then these problems will remain unaddressed. And in the absence of the ability to address these problems, these institutions risk becoming irrelevant to the countries that need them most.

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