

Dialogue

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Bretton Woods Forever? The Endurance of the IMF and the World Bank

by Dr. André Broome

From today's vantage point the Bretton Woods Institutions appear to be permanent fixtures of the global economy, despite the rapidly shifting landscape of global economic governance. This is, perhaps, a surprising position for the International Monetary Fund (the Fund) and the World Bank (the Bank) to enjoy in 2015. Throughout their 71-year history both institutions, and especially the Fund, have been the target of repeated and severe challenges to their legitimacy. This has ranged from charges that they suffer from a serious democratic deficit, to claims that they serve as agents of neo-colonialism, to being blamed for policy mistakes that have impoverished the countries they are tasked with assisting. This chorus of global discontent, which sometimes grows stronger and sometimes weaker, is one of the few dependable features of both organisations' histories.

In the late 1960s when the Fund formalized its 'conditionality' guidelines for the first time, this was driven by trenchant criticisms from developing countries that it had been operating a double standard. Rich countries like the UK had an easy ride when Britain borrowed from the Fund in 1967, while developing country borrowers at the time were expected to meet strict conditions. During the 1970s some developing countries responded to the volatility in the global economy caused by the breakdown of the Bretton Woods international monetary system, the 1973 'oil shocks', and the policy vacuum as governments scrambled to resurrect new rules for a changing international monetary order to call for negotiations over a 'New International Economic Order' that might tilt the rules of the game more in favour of 'the South' rather than 'the North'. In the 1990s, the 'Fifty Years is Enough' campaign called for a radical overhaul in how the Fund and the Bank operated when they celebrated their 50th Anniversary celebrations in 1994. A few short years later, many observers around the globe called time on the Fund following the Asian financial crisis in 1997-8. Critics ranging from mainstream to heterodox

economists, politicians on both the Left and the Right of the partisan divide, and advocacy groups of all stripes argued that the Fund (and, to a lesser extent, the Bank) had to fundamentally change. Without a thorough transformation, critics contended, the Fund would face obscurity and irrelevance in a globalising world economy, especially one where the centre of gravity was fast shifting from 'the West' to 'the East' (or, at least, towards East Asia).

As recently as the summer of 2008 the Fund, in particular, appeared to be doomed to a slow decline. Many of its previous middle-income clients were now able to tap capital markets, commercial banks, and other sources of external finance rather than turning to the creaking machinery of the Fund, with its bothersome and heavy-handed 'Washington consensus' loan conditions. Powerful states such as the USA had set up rival institutions such as the Financial Stability Forum, which was established in 1999 and later reconfigured by the Group of Twenty into the Financial Stability Board in 2009. Even during the largest sovereign debt default in history by Argentina a few years earlier in 2001-02, when the Fund might be expected to be at its most powerful as a policy enforcer and crisis manager, it came across as surprisingly impotent in the face of stalling tactics used by the government, which played hardball to secure a far better deal from the Fund than observers' had expected. To top it off, faced with



increasingly tight budget constraints of its own, the Fund was forced to announce at the end of 2007 that it would lay off 15 percent of its staff the following year. Those few borrowers still interested in the Fund's assistance at this low point in its history were mostly 'Heavily Indebted Poor Countries'. The end, if not of the Fund itself then at least of the era in which the organisation could dictate terms and structural reforms across its developing country members, seemed nigh.

Only seven years since the collapse of Lehman Brothers Holdings Inc. sent global financial markets further into a tailspin and contributed to the onset of the Great Recession, it is easy to view the Global Financial Crisis as a case of the International Monetary Fund being 'saved by the bell'. Following a thirty-year period in which no Western country borrowed from the Fund after the UK in 1976 and Italy in 1977, a US\$2 billion loan for Iceland in November 2008 was followed over the next two years by new loans for nearly twenty countries totalling some US \$163 billion, in addition to sizeable precautionary loan arrangements to the tune of US\$50 billion for Mexico, US \$21.5 billion for Poland, and US\$11 billion for Colombia. The onset of the Eurozone debt crisis subsequently saw the organisation lend over €100 billion to Eurozone members as part of rescue packages coordinated by the 'Troika' of the Fund, the European Central Bank, and the European Commission. Because of the crisis the Fund was back in business; talk of its creeping irrelevance was forgotten, for the moment.

And yet larger questions about the Fund's role in a changing global order remain unanswered. Can the Fund continue to gradually pivot by degrees towards granting China and other rising economic powers a larger say in its governance and decision-making? Can these reforms in representation and procedure take place without corresponding shifts in the Fund's organisational culture, policy paradigm, and everyday practices? At what point will the fact that the US on its own can stall the Fund's formal attempts to adapt to a changing global order, as it has effectively done by not yet ratifying flagship governance reforms agreed in 2010, shift the calculation in favour of creating new global institutions rather than reforming existing ones? Perhaps this point has already passed. Many would argue that China's initiative to establish an Asian Infrastructure Investment Bank as well as the New Development Bank set up through the BRICS Summit process between Brazil, Russia, India, China, and South Africa means that the writing is already on the wall for both of the Bretton Woods Institutions. There are at least three reasons why this view might be wrong.

First, the legacy of the past plays a critical role in shaping the evolution of global economic governance. Large and powerful international organisations are 'sticky': they are hard to reform, but they may be even harder to abolish or replace. The fact that rising economic powers are pushing for greater 'voice' within the Fund and the Bank suggests they will remain important vehicles for international policy coordination, crisis management, and multilateral cooperation. Indeed, unless they are faced with a general consensus that they have failed in some unredeemable fashion on a catastrophic scale, such as the failure by the League of Nations to prevent growing international aggression during the 1930s, there is a strong status quo bias in favour of reforming international organisations rather than designing new ones from scratch. In large part, this is because of the heightened uncertainty that would be created by negotiations over new forms of global economic governance. Uncertainty is generally bad for business on Wall Street, Downing Street, and also 'Main Street'.

Second, both the Fund and the Bank remain extremely useful institutions for powerful governments and other transnational actors who have a strong interest in the continuation of their global roles. For example, while the hegemonic leadership of the United States is in serious decline, the US remains an extremely powerful influence in the world and US policymakers have a strong interest in maintaining the multilateral system of international governance the country played such an important role in constructing after World War Two. At the precise moment when the future of the Fund may have been in the greatest jeopardy in the years since the Asian financial crisis, and against the backdrop of renewed calls for 'a new Bretton Woods', the London Group of Twenty Leaders' Summit in April 2009 chose to triple the Fund's lending resources and to reinforce the Fund's centrality as an international crisis manager (albeit one that coordinates, cajoles, and persuades rather than leads).

Consider a brief counterfactual scenario. Imagine if European policymakers had the foresight to create a cashed-up European Stability Mechanism before the crisis, during the economic good times of the 2000s. The smart money would still be on the Fund's assistance being called upon when the crisis hit because of its potential to serve as an external commitment mechanism and as a rule-based arbiter between disputing parties. The Fund would still have been necessary to give political cover to European bureaucrats, not to mention German and French politicians, who wanted an institutional shield to hide behind when they were accused of playing politics with the future of the Euro by promoting European austerity rather than solidarity and bringing Greece to its knees.

Third, on a more theoretical note: interests don't trump values, values shape and inform interests. So long as the governments of European and North American countries continue to share broadly similar economic values and preferences about how the structure of global economic governance should be organised, and to what purposes it should be directed, there will continue to be a strong coalition of interests in support of both of the Bretton Woods Institutions. Questions such as who pays the bill for global economic governance and how the costs and benefits are distributed across different countries and regions are fundamental, and are becoming more urgent as the economic clout of new major powers increases. But these material pressures may not prove to be decisive if countries' longstanding values orient governments towards prioritising other goals, such as protecting the principle of an open multilateral economic system, the promotion of free markets as engines of growth and prosperity, and the assumption, however myopic, that liberal capitalism can breed liberal democracy.

For these three main reasons – the alignment in values between most Western governments and the Bretton Woods Institutions, the roles the institutions play in larger power structures, and the status quo bias towards reform rather than abolition – the Bretton Woods Institutions are likely to not only endure but to continue to play major roles in global economic governance for the foreseeable future. To have some 'skin in the game', a concrete prediction is called for in a commentary that assesses changes in the global order. The great science fiction author Octavia E. Butler (1947-2006) once wrote in an essay entitled 'A Few Rules for Predicting

the Future' that her books were based on looking at the problems that were being neglected now and imagining the world in 30 years' time, when these problems had developed into disasters. She also wrote in the same essay that you should always 'count on the surprises'. In 2044 when the International Monetary Fund and the World Bank would be facing their centenary, the global economy will no doubt look very different to the one we have today, just as the global economy in 2015 looks starkly different to that of 1986 (when Japan's economic strength was predicted to soon overtake that of the USA).

“The legacy of the past plays a critical role in shaping the evolution of global economic governance. Large and powerful international organisations are ‘sticky’...”

My prediction is that the Fund and the Bank will look very different by 2044 but they will continue to exist and to play important roles shaping global economic governance. So is it to be Bretton Woods forever? Certainly not. Major war on the same scale as the World Wars of the twentieth century, or a repeat of the 1930s Great Depression or another Global Financial Crisis, especially if such tragic events occurred in close proximity to each other, would probably spell the end of the Bretton Woods legacy. A new Cold War may produce a similar effect. Indeed, economic challenges may very well have transformed into environmental disasters by the middle of the century, consigning the contemporary roles of the Fund and the Bank to the dustbin of history. Those would not be changes for the better, but we can always count on the surprises.

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How the World Bank is Still Bankrolling Tyranny

by James Bovard

The World Bank and the International Monetary Fund were founded in 1944, a time when much of the western world was in ruins. In the following years, aid from the Bank and the IMF helped numerous European nations begin to return to normalcy. In that early period, the Bank and the Fund did a fairly effective job of serving a limited function at a time when international capital markets were still in their relative infancy.

The IMF aimed to shore up currencies and help nations with temporary balance-of-payment problems. During the 1950s, when many nations experienced a severe of U.S. dollars, IMF relief sometimes smoothed temporary crises. But in subsequent decades, global capital markets and fluctuating currency exchange rates should have made the IMF a relic. Instead, the IMF remains a heavyweight player.