2014

Bretton Woods System

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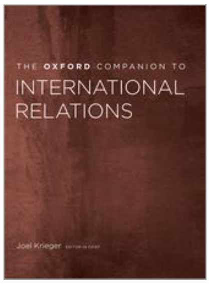

The Oxford Companion to International Relations
Edited by Joel Krieger

Publisher: Oxford University Press
Print ISBN-13: 9780199738878
Current Online Version: 2014
Print Publication Date: 2014
Published online: 2014
eISBN: 9780199739202

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Since the mid-twentieth century, global commercial and financial relations and global social policy have been managed through a variety of institutions. Today, these include the World Trade Organization (WTO) and what are popularly called the Bretton Woods Institutions (BWIs): the International Monetary Fund (IMF or Fund) and the World Bank (Bank) (Deacon, 1999). These institutions, together with an associated system for monetary policy and exchange-rate stability centered on the US dollar's convertibility to gold, are collectively known as the Bretton Woods System. Since this initial dollar-peg system ended in the early 1970s, the term most commonly refers only to the Bank and the Fund, even though the WTO also has its roots in the same conference at which the Bank and the Fund were first proposed, the Bretton Woods Conference.

History.

In July 1944, representatives of the forty-four Allied states met at the Mount Washington Hotel in Bretton Woods, New Hampshire, to continue planning for the postwar reconstruction of Europe and the improved financial management of global economic relations in the wake of the Great Depression. Delegates agreed to a plan comprising three new institutions: the IMF, the World Bank, and the International Trade Organization (ITO). The financial linchpin of the plan that emerged was a system of monetary policy and exchange-rate-management centered on the US dollar and its convertibility to gold, though other fundamental financial mechanisms had been proposed, most notably John Maynard Keynes' plan for an International Clearing Union (Steil, 2013; Skidelsky, 2005).

In August 1971, US President Richard M. Nixon signaled the effective end of the Bretton Woods System as originally constituted by pulling the linchpin: he suspended the convertibility of the US dollar into gold, making it a fiat currency. This initiated a series of measures by other states resulting in the free floating of the world's major currencies. The ensuing global financial regime, still in force in the second decade of the twentieth century, is often referred to as Bretton Woods II (Yergin, 1998).

The Bretton Woods Institutions.

Both the World Bank and the IMF came into being in 1945 with the entry into force of their respective articles of agreement. Shortly thereafter, in 1947, the General Agreement on Tariffs and Trade (GATT) was adopted as a curtailed implementation of the planned third Bretton Woods Institution, the ITO. The WTO was created in 1994 as the outcome of the Uruguay Round of GATT negotiations, and it incorporates the GATT.

The World Bank began when one of its two primary lending organs, the International Bank for Reconstruction and Development (IBRD), was created in 1945 to help finance the reconstruction of Europe (a role largely taken over by the subsequent Marshall Plan). Its mission quickly broadened into organizing development investment on a global scale. The IBRD continues to carry out what is often considered the Bank's core activity, development lending at preferential (but near-commercial) rates. The Bank's second lending institution, the International Development Association (IDA), was created in 1960 to assist the Bank's poorest clients through concessional (zero-interest) lending and outright grants (Ghazi, 2005).

The IMF was created to bring stability to the exchange-rate system and facilitate cooperation on international monetary matters (Ghazi, 2005). After gold-pegged exchange rates were abandoned, the Fund's role shifted toward that of an international financial institution specializing in macroeconomic crisis management (Lastra, 2000). Today the Fund performs a broad range of monitoring, technical support, and lending operations centered on interventions in the global distribution of reserve currencies. Central to this is the IMF program of short- and medium-term lending in response to balance-of-payments difficulties with accompanying IMF "conditions" regarding domestic-policy reforms in the borrowing country (Stiglitz, 2003; Buckley, Ross, and Fitzgerald, 2004). The IMF carries out this lending through a variety of distinct lending programs, or "facilities," each with different terms and conditions intended to suit different categories of borrowers with different types of needs.

Through discharging their functional roles, both the Bank and the Fund may be understood as global allocative social institutions, making distributive decisions on two levels: allocating primary social goods (development capital for the Bank, crisis lending resources for the Fund) *among* their member states, and through conditionality influencing distributive decisions *within* borrowing states. Therefore, their policies and practices are subject to distributive-justice concerns, placing both institutions at the center of the global-justice debate over development policy and the fairness of the global economic system (Barry, 2005; Reddy, 2005; Garcia, 2008; Butt, 2012).

Calls for Reform.

The Bank and the Fund have been the subjects of numerous highly publicized critiques concerning the legitimacy and effectiveness of their operations, the wisdom of their policy advice and lending practices, their governance structure, and the effects of their practices on development (Stiglitz, 2003; Buira, 2005; Sachs, 2006; Woods, 2006). Globalization and the BWI role in the emerging global financial system shift the context of such critiques from specific calls for institutional reform into a debate over the architecture of global governance.

Historically, the main criticisms of the BWIs center on their "conditionality" practices—the link between continued BWI funding and the client state's implementation of specified domestic-economic-policy reforms. Conditionality as a practice can be justified on prudential grounds given the finite nature of Bank and Fund resources, as, for example, when the Fund evaluates the degree to which the domestic social policies of borrowing states are themselves part of the balance-of-payments or monetary-stability problem and the degree to which such policies risk squandering Fund currency reserves as the Fund takes action. Conditionality can also be justified on substantive grounds when domestic-policy reform *is* the objective, as when the Bank, through its structural-adjustment programs (now known as Poverty Reduction Strategy Papers), seeks in concert with the IMF to improve resource allocation, increase economic efficiency, expand growth potential, and increase resilience to shocks in the target economy.

Nevertheless, conditionality has been the most contentious and the most suspect aspect of BWI policy intervention, for several reasons. First, such conditions inevitably include policy reform on sensitive domestic issues, such as wage rates, levels of public expenditures, budget deficits, and export levels, all of which raise difficult political, developmental, and normative challenges. Second, the BWIs have considerable leverage by virtue of their roles and the needs of the client state, readily subjecting them to resentment on the part of affected constituencies within borrowing states (Ghazi, 2005). Perhaps the most important criticism, however, has to do with the empirical and normative basis of BWI domestic-policy prescriptions (Head, 2005).

The Bank and the Fund have been criticized for policy prescriptions heavily influenced by controversial neoliberal economic assumptions, which critics argue have failed to achieve any meaningful level of development or stability in recipient-country economies (Buckley and Arner, 2011). The failures of large-scale Bank infrastructure loans and inadequate measures taken by the IMF to limit or stem, for instance, the Asian Financial Crisis, have led to questions regarding the effectiveness of the BWIs in their designated roles (Stiglitz, 2003). When combined with the often intrusive and controversial nature of their domestic-policy prescriptions, and complaints about US and European domination of their governance structures, questions about Bank and Fund effectiveness have become inquiries into their legitimacy as development institutions (Woods, 2006; Torres, 2008).

Finally, current Bank and Fund practices have been criticized for failing to take into account the redistributive effects of their conditionality policies (Head, 2005; Hockett, 2005; Reddy, 2005; Garcia, 2009). Inequalities in wealth distribution affect economic stability, levels of education, life expectancy, levels of health care, job training, etc.—in short, the factors that are already the subject of Bank and Fund activities and prescriptions (Sachs, 2006). Bank and Fund policies themselves mandate redistributions of public-sector investment, social-welfare expenditures, and economic rights and opportunities, with inadequate attention paid to the normative justification or socioeconomic effects of these policies *as* redistributive policies.

Assessment.

While the Bank and Fund have had a controversial history, both institutions have been increasingly active in engaging with their critics and reforming their own policies. Moreover, governments around the world continue to call on both institutions for the full range of their services. Nevertheless, much work remains to be done (Stiglitz, 2010). In particular, the voices of the states most in need of BWI services remain substantially underrepresented in BWI governance, and the BWI's key roles with respect to global distributive justice remain generally undertheorized.

From a distributive-justice perspective, two core questions face both the Bank and the Fund: (1) by what normative principles and substantive rules are the critical social goods they manage allocated *among* member states and to whose benefit; and (2) what principles and rules guide and constrain Bank and Fund conditionality policies with respect to their impact on socioeconomic inequalities *within* their client states? Addressing the distributive impact of BWI activities along both axes is not simply a matter of economic policy and technical expertise, but also will require sustained normative analysis and a review of all aspects of their structure, governance, and lending practices (Garcia, 2009).

The level of interest and intensity in BWI analysis and criticism, and the urgency of the global-justice debate over their policies and impact, testify to the fundamental significance of the BWIs for development and global economic policy. It is clear that, whatever the architecture of the next generation of global governance, the Bretton Woods System will have a central role.

[*See also* International Monetary Fund; International Political Economy; World Bank; *and* World Trade Organization.]

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