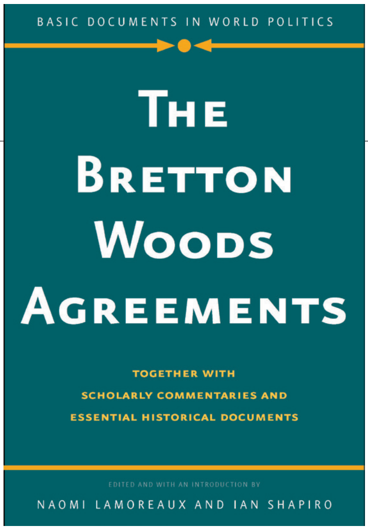
A New Global System

THIS USEFUL COLLECTION of basic documents and essays marks the 75th anniversary of the Bretton Woods Agreement of July 20, 1944. The Bretton Woods system is chiefly identified with the monetary agreement that set up the International Monetary Fund (IMF) to help countries maintain fixed exchange rates. In fact, the IMF was part of an interlocking set of institutions, including the International Bank for Reconstruction and Development (IBRD), progenitor of the World Bank, and—three years later—the General Agreement on Tariffs and Trade, forerunner of the much later World Trade Organization.

Naomi Lamoreaux and Ian Shapiro, eds.
The Bretton Woods Agreements
Yale University Press, New Haven and London, 2019, 504 pp., $29.50



Technically, these institutions were subordinate parts of the United Nations. The whole ensemble was viewed by the imaginative as an embryonic world government, reflecting the revulsion against laissez-faire capitalism and uncontrolled politics, which had seemingly led to the Great Depression of 1929–32, the currency and trade wars of the 1930s, and ultimately to the Second World War.

On the monetary side, the editors, Naomi Lamoreaux and Ian Shapiro, and Jeffrey Frieden argue that the pre-1914 gold standard worked because of wage and price flexibility. This ignores Charles Kindleberger's well-known thesis that its success was due to its being a British-managed standard. Barry Eichengreen's contribution is as accomplished as one would expect—but is it really true that the fixed, but adjustable, peg system set up in 1944 was brought down in 1971 by the US dollar's link to gold? Any reserve currency has to maintain the confidence of its holders: modern inflation targeting is as much a commitment to sound money as is gold convertibility. The "original sin," rather, is human nature, which wants tomorrow to come too quickly, and Michael Bordo is surely right to say that it was not the gold link but US inflation from the late 1960s that broke the camel's back.

Harold James's elegant essay is the most thought-provoking in the book. The Bretton Woods agreement, he writes, was possible because it insulated the monetary settlement from interminable trade disputes, which held off trade wars for 70 years.

A particular strength of this volume is the space it gives to the idea of the Global South. Selwyn Cornish and Kurt Schuler show that Australia tried but failed to make full employment a central concern of the IMF, but Eric Helleiner documents how pressure from countries like China, some in Latin America, and India—starting with a Sun Yat-sen paper in 1920 proposing an "International Development Organization"—led to the setting up of the IBRD as a "new kind of multilateral framework for development."

The section "Paths Taken and Not Taken" includes Keynes's International Clearing Union plan (which hardly gets discussed) and various proposals for flexible exchange rates (Douglas Irwin). It would have been worth mentioning that opponents of flexible rates, including Keynes, argued that exchange rate depreciation could lead away from balance of payments equilibrium, depending on the price elasticities of exports and imports.

Disappointingly, little thought is given to how the world might escape the looming confrontation between market-led globalization and economic and political nationalism. FD

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