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The Contemporary Reform of Global Financial Governance: Implications of and Lessons from the Past

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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Division on Globalization and Development Strategies, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums.

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THE CONTEMPORARY REFORM OF GLOBAL FINANCIAL GOVERNANCE: IMPLICATIONS OF AND LESSONS FROM THE PAST

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Abstract

As the world experiences its worst financial crisis since the 1930s, policymakers are increasingly calling for a "Bretton Woods II". This paper argues that officials will need to think more creatively and ambitiously about international financial reform than they have done so far if they are to claim the mantle of the 1944 Bretton Woods conference.

The first section of the paper describes how the global financial crisis of the early 1930s generated bold thinking about the need to assert public authority more centrally into the realm of international finance. This thinking culminated in three sets of proposals discussed during the Bretton Woods negotiations which were genuine innovations in global financial governance: (i) those designed to regulate international financial markets more tightly, (ii) those designed to address global imbalances, and (iii) those designed to promote international development.

The second section argues that the current crisis is also generating widespread calls for a reassertion of public authority in the global financial realm, but the reform agenda put forward by the G20 leaders to date has been very cautious by the standards of the Bretton Woods analogy. Policymakers seeking to be move beyond this agenda could consider initiatives in each of the three issue areas identified at Bretton Woods. Some such initiatives could resurrect some long-forgotten proposals from the time of the Bretton Woods negotiations, such as those relating to debt restructuring, heterodox financial advice for developing countries, and the role of international cooperation in controlling capital movements.

At the same time, new kinds of reforms, suited to contemporary economic and political circumstances, could also be considered. The contemporary agenda to regulate international financial markets must consider new mechanisms and address a broader range of topics than in 1944. The management of global imbalances needs to devote more consideration to the reserve currency status of the dollar, currency composition of borrowing by developing countries, sovereign wealth funds and the role of regional cooperation. The promotion of international development must also address issues raised by contemporary international prudential regulatory initiatives. And important to all these topics is the need for a broader governance agenda of making international financial institutions – including, but not restricted to, the Bretton Woods institutions – more inclusive as well as more open to the principles of subsidiarity and regionalism.

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THE CONTEMPORARY REFORM OF GLOBAL FINANCIAL GOVERNANCE: IMPLICATIONS OF AND LESSONS FROM THE PAST

Eric Helleiner*

I. Introduction

As the world experiences its worst financial crisis since the 1930s, there is a widespread sentiment that bold innovations in global financial governance are needed. Reflecting this mood, many analysts have begun to call for a Bretton Woods II, invoking the 1944 conference that established the postwar international financial order. Even some leaders took up the banner during the lead-up to the first G20 leaders' summit in November 2008 that was called to draw lessons from the crisis and set an agenda for global financial reform. The global financial reforms endorsed at that Washington meeting, however, did not match these ambitions. If they are to claim the mantle of Bretton Woods, policymakers will need to think more creatively.

This paper suggests that there are, in fact, important lessons to be learned from the Bretton Woods experience for those searching for a more ambitious vision. The contemporary relevance of the Bretton Woods conference is that policymakers then were driven by a similar goal as those today: the desire to assert public authority in the realm of international finance in the wake of a major international financial meltdown. This overall goal culminated in three sets of proposals discussed during the Bretton Woods negotiations which were genuine innovations in global financial governance: (i) those designed to regulate international financial markets more tightly, (ii) those designed to address global economic imbalances, and (iii) those designed to promote international development. For policymakers seeking to move beyond the G20 reform agenda, this paper suggests that the three innovations could provide some inspiration at this moment. Even a number of the detailed – and often long-forgotten – proposed mechanisms to achieve these goals may deserve revisiting today, such as those relating to debt restructuring, heterodox financial advice for developing countries, and the role of international cooperation in efforts to control capital movements.

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At the same time, given how the world has changed, a Bretton Woods II could not be the same as Bretton Woods I. The contemporary agenda to regulate international financial markets needs to consider new mechanisms and address a broader range of topics than in 1944. The management of global imbalances should devote more consideration to the reserve currency status of the dollar, currency composition of borrowing by developing countries, sovereign wealth funds, and the role of regional cooperation. The promotion of international development must also address issues raised by contemporary international prudential regulatory initiatives. And important to all these topics is the need for a broader governance agenda of making international financial institutions – including, but not restricted to, the Bretton Woods institutions – more inclusive as well as more open to the principles of subsidiarity and regionalism.

II. The Bretton Woods precedent

The international financial crisis that began in 2007 is generating a significant backlash against the lack of accountability of many private actors in international financial markets. Left to their own devices, global markets appear to have created a mess. After the liberalizing and deregulatory trends of the past few decades, many analysts and policymakers are calling for public authority to be reasserted in the international financial arena.

The architects of Bretton Woods drew a similar lesson from the momentous international financial crisis of the early 1930s. Before that crisis, the world of international finance had been dominated by private international financiers as well as central banks, most of which were still privately owned at that time. Those groups favoured a laissez faire order in which financial capital moved freely across borders and international payments imbalances were corrected by the automatic mechanism of the international gold standard. When the system came crashing down in the early 1930s, that liberal vision and its supporters lost their privileged position in international financial politics. If a multilateral financial order was to be rebuilt, it was clear that it would need to be one in which governments played a more active role.

This view was held particularly strongly by the New Dealers from the United States who played the lead role in the Bretton Woods negotiations. They had blamed the financial crisis and Great Depression on the recklessness of private bankers, especially the internationally-oriented New York financial community. The first years of the New Deal were spent asserting greater public control over the United States financial system by creating new regulations over the markets as well as by bringing the Federal Reserve System under tighter public control. Initially, Roosevelt and his advisers did not show much interest in redesigning the international financial system. But when wartime pressures encouraged ambitious thinking about the post-war world order, New Deal policymakers began to consider the possibility of creating what Treasury Secretary Henry Morgenthau called a "New Deal in international economics" (quoted in Van Dormael, 1978: 52).

With their country likely to emerge from the war as the dominant economic power, United States policymakers were determined to play a leadership role in rebuilding a multilateral international economic order. The closed economic blocs of the 1930s were believed to have contributed to the Great Depression and World War Two. But United States policymakers did not want to see a return to the classical liberal international economic order of the pre-1930s' era. Instead, they sought to reconcile liberal multilateralism with the new interventionist economic policies that had been pioneered in the New Deal and elsewhere. This objective was shared by John Maynard Keynes who had emerged as lead policymaker in charge of British planning for the post-war world economy during the early 1940s. Both Keynes and his American counterpart, Harry Dexter White, saw the goal of bringing international finance under greater public control as a central objective of their blueprints. As Morgenthau put it rather dramatically at the Bretton Woods conference, the goal was to "drive the usurious money lenders from the temple of international finance" and to shift power "from London and New York to the United States Treasury", thereby creating "a new concept between nations in international finance" (quotes from Gardner, 1980: 76).

What tools did Keynes and White propose for bringing public authority more centrally into the realm of international finance? Three sets of proposals were advanced during the negotiations, each of which signalled a major innovation in global financial governance. Not every specific idea put forward within each of the three categories ended up in the final Agreements. But some of those that were discarded deserve mention, not just to highlight the bold vision of the negotiators, but also because they may be useful for ambitious reformers today to revisit.

A. International financial regulation

The most dramatic departure from pre-1930s norms concerned the treatment of cross-border movements of private financial capital. Although countries agreed to make their currencies convertible for current account transactions under the Articles of Agreement of the newly created International Monetary Fund (IMF), they were given the right to control all capital movements under Article VI. Capital controls were also encouraged by the fact that IMF resources could not be used to cover "large or sustained outflows of capital" (quoted in Helleiner, 1994: 49). The contrast with post-World War I thinking could not have been more dramatic. The Brussels International Financial Conference of 1920 had passed a resolution condemning all barriers to the international movement of capital (League of Nations, 1920: 9). Now, an international agreement endorsed the use of capital controls in a comprehensive and unambiguous manner. As John Maynard Keynes put it: "What used to be a heresy is now endorsed as orthodox" (quoted in Helleiner, 1994: 25).

The Bretton Woods architects were under no illusions about the difficulties involved in controlling financial flows given the fungibility and mobility of money. But the seriousness of their commitment was made clear in two ways in the IMF charter. First, to curtail capital movements, governments were entitled to use comprehensive exchange controls in which all transactions – capital account *and* current account – could be scrutinized for illegal financial flows (as long as payments for current account transactions were not restricted). Second, the negotiators also endorsed the idea that each government might help to enforce the capital controls of other governments. During the lead up to the 1944 conference, Keynes and White had discussed how this kind of cooperation might involve governments sharing information about financial holdings within their countries that contravened other countries' controls or helping foreign efforts to repatriate capital through regulations or the taxing of foreigners' holdings. At one point, White even suggested that governments could be asked to stop inflows of capital that were considered illegal in the sending country (Helleiner, 1994: ch. 2).

These ambitious plans were not designed to stop all private financial flows. In fact, the Bretton Woods architects strongly welcomed "equilibrating" private international financial flows and those designed for "productive" investment (Helleiner, 1994: 36). Indeed, they hoped that their overall effort to re-establish international currency stability would revive these kinds of private flows. But by explicitly permitting governments to control *all* financial movements, the IMF's Articles of Agreements were written to give states the maximum freedom to decide which financial movements were desirable and which were not.

The Bretton Woods architects were particularly concerned about speculative and "disequilibrating" capital movements. There was widespread agreement that these movements had severely disrupted efforts to stabilize exchange rates in the interwar period. Many also feared that their volatility could undermine efforts to foster the expansion of international trade after the war. Even more important was the concern that these cross-border financial flows would undermine national policy autonomy. Capital controls were deemed particularly important to enable governments to pursue macroeconomic planning. As Keynes put it, "In my view the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to rates prevailing elsewhere in the world. Capital control is a corollary to this" (quoted in Helleiner, 1994: 34). The effectiveness of domestic financial regulatory structures constructed in many countries during the 1930s and 1940s to facilitate industrial and microeconomic planning could also be threatened if domestic savers and borrowers had access to foreign financial markets. In addition, policymakers sought to protect governments from having their policy agendas thwarted by capital flight motivated by "political reasons" or the desire to evade domestic taxes or "the burdens of social legislation" (quoted in Helleiner, 1994: 34).

B. Public management of global imbalances

Policymakers at Bretton Woods also sought to assign public authorities a more conscious and active role in the management of international economic imbalances. The international gold standard had been idealized by classical economic liberals because it promised an automatically self-correcting international monetary order. In theory (although not in actual practice), international imbalances under the gold standard were corrected promptly and efficiently by market forces, rather than the discretionary behaviour of governments. By requiring all countries to fix their currencies' value to the dollar, which in turn was convertible into gold, the Bretton Woods conference appeared to re-establish an international gold standard – or to be more precise, a "gold exchange" standard or "gold-dollar" standard. But several other features of the agreements made it clear that this was to be an international monetary order in which public authorities played a much more central role.

To begin with, governments were allowed to adjust the par value of their currency whenever their country was in "fundamental disequilibrium". Under this adjustable peg system, national policymakers faced with a balance of payments deficit could substitute currency devaluation for the automatically imposed harsh domestic deflation of the traditional gold standard. Currency realignments of up to ten per cent from the initial parity were to be approved automatically by the IMF, while larger ones required its permission. Even in the latter case, the priority given to domestic policy autonomy was made clear; the Articles of Agreement of the IMF noted that Fund "shall not object to a proposed change because of the domestic social or political policies of the member proposing the change" (Article IV-5).

Even more significant was the creation of the IMF itself. By providing short-term loans to help countries finance their temporary balance of payments deficits, this international public authority could soften the kind of external discipline that private speculative financial flows and the gold standard had imposed (a goal reinforced by the endorsement of capital movements). The IMF was also given the broader task of promoting global monetary and financial cooperation among governments. The most important part of this mandate involved encouraging countries to change policies that might be generating large international economic imbalances. Its lending capacity gave it some potential influence over deficit countries. But another clause in its charter – the scarce currency clause – also provided a means for official pressure to come to bear on surplus countries. If the Fund's resources were drawn upon so extensively by deficit countries that its ability to supply a surplus country's currency was threatened, the IMF could declare that currency "scarce". Member governments would then be permitted to impose temporary restrictions on trade with that country.

These various provisions gave public authorities a much more active role in the management of international economic imbalances. It was not just that national governments were assigned this role, but also that an international public authority, the IMF, had been created to look out for the global public interest. The only existing international financial institution at the time was the Bank for International Settlements, created in 1930, whose principle mandate had been that of addressing war debt and reparations issues and whose members were central banks. The IMF, by contrast, had a much broader mandate and its members were politically-accountable government officials.

C. *The new international development vision*

The third major innovation embodied in the Bretton Woods Agreements was the creation, *for the first time,* of an official international commitment to promote the "development" of poorer member countries through mechanisms of international finance. This commitment was outlined most clearly in the creation of an international public institution with this goal as one of its two central purposes: the International Bank for Reconstruction *and Development* (IBRD). The conventional view is that the Bank's development mandate "arrived almost by accident and played a bit role at Bretton Woods" (Kapur, Lewis and Webb, 1997: 68). More generally, it is assumed that the Bretton Woods architects had little interest in development issues and the concerns of poorer countries. As Meier (1984: 9) put it, "the political power lay with the United States and Britain, and from the outset it was apparent that issues of development were not to be on the Bretton Woods agenda". This conventional wisdom understates the interest in international development issues at the time, and has led scholars to overlook a number of innovative proposals put forward during the Bretton Woods negotiations to make the international financial system serve poor countries more effectively (Helleiner, 2006, 2009c).

To understand the innovative nature of Bretton Woods thinking in this area, it is important first to locate the negotiations within the context of broader post-war planning. This planning process was launched by Roosevelt's and Churchill's 1941 Atlantic Charter which set out very broad aspirations for all the world's peoples, aspirations that Roosevelt compared to those of the United States constitution and the British Magna Carta. One of the central commitments in the Atlantic Charter was an "assurance that all the men in all the lands may live out their lives in freedom from fear and want" (quoted in Borgwardt, 2005: 304). The concept of guaranteeing "freedom from want" had been developed earlier that year by Roosevelt and reflected his belief that the promotion of the economic security of individuals throughout the world would provide a crucial foundation for post-war political stability, domestically and internationally. In this way, he and other United States policymakers sought to "internationalize" the New Deal and make the promotion of development in poorer countries an international responsibility for the first time (Borgwardt, 2005; see also Staples, 2006).

The earliest phases of United States planning for Bretton Woods were strongly influenced by this sentiment. In his first draft for the World Bank in 1942, White suggested that all members should have to "subscribe publicly to a 'Magna Carta of the United Nations'" which would constitute "a bill of rights of the peoples of the United Nations" that set forth "the ideal of freedom for which most of the peoples are fighting the aggressor nations and hope they will be able to attain and believe they are defending". As White put it, "the inclusion of that provision would make clear to the peoples everywhere that these new instrumentalities which are being developed go far beyond usual commercial considerations and considerations of economic self-interest. They would be evidence of the beginning of a truly new order in the realm where it has hitherto been most lacking – international finance" (quoted in Oliver, 1975: 319).

White and other United States officials had, in fact, already endorsed the creation of an international institution to promote development in poorer countries in the context of the United States-Latin American relations in 1939–40. As part of the cultivation of strategic ties with countries in that region, the United States officials had worked closely with Latin American counterparts to develop a proposal – the first of its kind anywhere – for an international bank with $100 million in capital funding whose central purpose was to promote economic development in that region. The top United States policymakers involved in this "Inter-American Bank" initiative saw it not just in strategic terms but also as part of the broader New Deal "Good Neighbor" policy to correct past wrongs in the United States policy vis-à-vis Latin America. In the eyes of many New Dealers, these wrongs included not just the dollar diplomacy and the United States intervention in the region before the 1930s, but also Wall Street's lending practices to Latin America which had received widespread publicity during the United States Senate hearings in the early 1930s. The goal of the IAB, one top official noted, was to provide capital that "could be made to serve national needs", and was "following the more careful plans of the various governments involved with a view to the steady development of the country", rather "the old very speculative forms of finance" that were "used to build up some kind of rather tyrannous foreign monopoly which the country resented" (quoted in Oliver, 1975: 96–97). This New Deal desire to counter the power of Wall Street also prompted Treasury officials to insist that the IAB be government-controlled (Helleiner, 2006).

Although opposition from isolationists and conservatives in the United States Congress as well as New York financial interests prevented the IAB from being established, the experience of developing the proposal had a strong influence on the United States policymakers who soon took up the task of planning for the post-war international financial order. The first drafts of the IMF and the IBRD in early 1942 drew very heavily on the IAB precedent and inherited its commitment to promoting development goals (Helleiner, 2006). The most obvious continuity in this respect was the commitment to provide international public funds via the IBRD to support the economic development of poorer countries. Far from being an accident, the Bank's mandate to promote development was strongly endorsed at the time. The commitment to large-scale public international development lending was widely shared in the United States policymaking circles during the war, and reflected a deep distrust of the ability of private markets to serve the new development agenda that the Roosevelt administration had committed to. In addition to doubting the willingness of private investors to engage in large-scale lending after the war, the United States officials did not think profit-driven lending would always effectively serve development goals (Helleiner, 2009c).

These sentiments were strongly supported by many other delegations to Bretton Woods, particularly those from poorer countries. It is often forgotten that well over half the countries attending Bretton Woods were from non-industrialized regions. Latin America was particularly well represented with 19 of the total 44 delegations at the conference.[1] When the Union of Soviet Socialist Republics (USSR) suggested that the IBRD focus on reconstruction loans for war-devastated areas, the Latin American delegations mobilized successfully to insist that the Bank's development mandate have at least equal standing (Oliver, 1975: 184, 188). The delegates representing still-colonized India (who were both Indian nationals and British citizens) also strongly backed the Bank's development function and even pressed for the IMF to focus more explicitly on distinct development priorities of poorer countries (Kapur, Lewis and Webb, 1997: 60; Gold, 1971: 270–276). Strong support for the development function of the Bank also came from the Chinese delegation (Eckes, 1975: 91).

There were three other ways in which United States policymakers attempted to integrate development goals into the post-war international financial architecture, each of which has been largely overlooked by scholars of Bretton Woods despite their contemporary relevance. The first relates to the problem of capital flight from poor countries. This issue had interested United States officials during the IAB discussions because Latin American capital flight to New York had increased considerably during the 1930s. To recycle this capital, United States policymakers had suggested that the Bank be allowed to accept private deposits and issue bonds directly to Latin American citizens, thus enabling it to become "by reason of its preferred position, a popular repository for Latin American funds". The funds could then be re-channelled to the same countries in the form of public loans for developmental purposes in ways that would "assure to each country the availability of the savings of its citizens" (quotes in Helleiner, 2009c). This and other aspects of the IAB prompted New York banks operating in Latin America to mobilize strongly against the initiative. In his first drafts of the Bretton Woods institutions, Harry Dexter White abandoned that specific proposal, but retained the commitment to address the capital flight issue. In place of recycling the funds via an international public institution, he chose instead to recommend the control of flight capital, noting that the Fund's endorsement of capital controls would be particularly useful to poorer countries for this reason (Horsefield, 1969: 67).

United States policymakers also sought to address the question of restructuring the debts of poorer countries. The issue had been controversial in United States-Latin American relations in the wake of widespread Latin American defaults on external debt in the early 1930s. As far back as 1933, some Latin American governments had proposed the creation of an international institution that could renegotiate these debates in a manner that avoided the kind of heavy-handed creditor interference of the past. Although the Roosevelt administration had little sympathy with Wall Street interests, it had been wary of participating in an international institution that would force it to take a position on the resolution of private United States debts. This issue reappeared in the late 1930s when United States' financial assistance to the region was opposed by financial interests who felt it should not go to countries that had not settled their debts with United States private lenders. Frustration with this opposition prompted some in the United States Treasury to suggest that the proposed IAB could appoint independent arbiters to force settlements of outstanding debts (Helleiner, 2009c).

White's first drafts of the Fund and IBRD picked up on this proposal. He gave the Fund the ability to engage in "compulsory arbitration" by including a rule that member governments could not default on external loans "without the approval of the Fund" (Horsefield, 1969: 44, 71). In the case of the Bank, early drafts prevented it from lending to governments in default on a foreign loan, but an exception was made if the government "has agreed to renew service of the defaulted debt on a basis worked out by a special committee appointed by the Bank for that purpose" (quoted in Oliver, 1975: 292). In defending these provisions, White openly aired his frustration with the fact that United States bondholders had often blocked initiatives to boost United States public lending to countries when they were "not satisfied with the terms of adjustment offered by the defaulting government" (quoted in Oliver, 1975: 303). The idea that new post-war international financial institutions could assist in debt restructuring found support in the United States State Department and elsewhere. Ultimately, however, it was withdrawn from negotiations, partly because of concerns that it might encourage more defaults and partly because of Morgenthau's longstanding opposition to the United States Government involvement in any debt-collecting arrangements (Helleiner, 2008).

The final way that United States policymakers attempted to bring development concerns into the realm of international finance also did not find its way in any formal sense into the final Bretton Woods Agreements, but it was influential and widely welcomed across Latin America. Beginning in the early 1940s, the United States Federal Reserve launched a set of financial advisory missions to the region explicitly intended to signal the new United States interest in supporting Latin American development objectives. These were not the first financial advisory missions the United States had sent to Latin America. During the 1920s, the United States economist Edwin Kemmerer had led a number of famous "money doctoring" missions to the region in which he advocated the establishment of independent central banks and the gold standard to a number of countries seeking to attract New York investment capital. The content and style of the Fed missions in the early 1940s were entirely different, however. Instead of prescribing orthodox gold standard policies, the new United States advisors explicitly sought to boost the ability of Latin American governments to build more diversified, industrialized and inward-focused national economies by endorsing the use of capital controls, activist monetary policy aimed at domestic goals, adjustable exchange rate pegs and government-controlled central banks (Helleiner, 2009a).

This "heterodox" advice was in keeping with the overall Bretton Woods vision, and the officials involved in these missions initially saw their advisory work as an activity that the post-war international institutions could soon take over. In contrast to the Kemmerer missions, United States officials also went out of their way to draw upon, and learn from, Latin American expert views and experience. Latin American Governments during the 1930s had already experimented with many of the policies that the United States officials now recommended. The lead United States official, Robert Triffin, also went out of his way to consult extensively with, and acknowledge his debt to the ideas of Raúl Prebisch who was emerging as a leading Latin American economic thinker at this time (Dosman, 2008, Helleiner 2009a). While Kemmerer's advice had been almost identical in every country, Triffin insisted on adapting his advice to the distinctiveness of each country's circumstances and needs, and giving very high priority to the inclusion of the country's officials in the process of developing the reform proposals. He and other United States financial advisers also included Latin American experts, including Prebisch, on their missions and strongly encouraged intra-Latin American exchanges of financial expertise on the grounds that Latin American policymakers often could learn much more from each other than they could from United States officials (Helleiner, 2009a).

III. What relevance today?

In what ways, if any, is this history of the Bretton Woods experience relevant to the contemporary context? As we experience the worst global financial crisis since the early 1930s, it is perhaps not surprising that some similar political reactions are emerging. Bankers find themselves under attack, and governments everywhere are being called upon to reassert their authority in global finance. Responding to this mood, President Bush convened the G20 leaders' summit in November 2008 with the goal of setting an agenda for global financial reform. Analysts, and even some leaders, raised expectations that the meeting would be a kind of sequel to Bretton Woods. This section compares the agenda for reform endorsed at the summit to that of Bretton Woods across the three areas outlined above. The comparison reveals how cautious the G20 agenda has been so far. But it also provides a framework for thinking about how the agenda could be made more ambitious, if leaders so wished. This is not to suggest that all the specific proposals discussed during the Bretton Woods negotiations deserve revisiting. Different circumstances today require that policymakers think through problems considered at Bretton Woods in new ways.

A. Widening the agenda of international regulation

The G20 summit agenda focused heavily on the question of the regulation of international financial markets. But the meaning was quite different than at Bretton Woods. In the early 1940s, the focus was entirely on enabling states to regulate the international movement of financial capital at their borders with capital controls if they so wished. International financial regulation, in other words, was a synonym for curtailing the international capital mobility. Today, the phrase has a different meaning. Over the past few decades, financial markets around the world have become more and more integrated, driven by the liberalization of capital controls and various technological and market innovations. In this context, policymakers began, from the mid-1970s onwards, to construct an increasingly dense international regulatory regime that set common standards for national regulators in areas ranging from prudential regulation to the control of illicit financial activity. When the G20 leaders discuss strengthening international financial regulation, they mean tightening various provisions of this new international regulatory regime – particularly those relating to prudential regulation – rather than any new Bretton Woods-style constraints on cross-border financial movements.

These initiatives help fill an important gap left unaddressed by the Bretton Woods architects. Because they did not anticipate the emergence of such highly integrated global financial markets, the Bretton Woods negotiators devoted no attention to the need for international prudential regulation. The G20 agenda outlines some important initiatives that will fill holes in the existing international regulatory framework relating to a wide range of issues involving banks, credit rating agencies, derivatives markets, hedge funds, and accounting practices (Helleiner and Pagliari, 2009). The G20 also committed to undertake a review of the scope of financial regulation as a medium-term objective "with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated" (G20, 2008). It is also encouraging that the G20 leaders have committed to move beyond the usual calls for improved transparency and risk management to address the pro-cyclicality of existing regulatory frameworks.

While the G20 leaders are pioneering new forms of international prudential regulation, they have devoted much less attention to the kinds of regulations on cross-border flows that occupied the Bretton Woods architects. Rodrik and Subramanian (2008) question this neglect. They note that the recent financial bubble experienced by the United States was exacerbated by large-scale capital inflows in a similar way that earlier crises in developing countries – such as the debt crisis of the early 1980s and the 1997–98 crises – were preceded by massive inflows of capital which generated bubbles in those countries (see also Reinhart and Rogoff, 2008; Wolf, 2008). Given these experiences, they argue that an agenda of reducing capital mobility could play a role in minimizing future international financial crises. Indeed, they go further to suggest that this agenda may be more important than efforts to strengthen international prudential regulation since the latter will never be able to keep up with financial innovation. As they put it, "if the risk-taking behaviour of financial intermediaries cannot be regulated perfectly, we need to find ways of reducing the volume of transactions ... What this means is that financial capital should be flowing across borders in smaller quantities, so that finance is 'primarily national', as John Maynard Keynes advised" (Rodrik and Subramanian, 2008).

In specific terms, Rodrik (2009) has recommended that developing countries strengthen their "counter-cyclical capital-account management"; that is, they restrict excessive foreign borrowing in good times and control capital flight during crises. Although these policies are already permitted under the IMF's Articles of Agreement, Rodrik suggests that the IMF should be more active in advising on their national implementation (see also South Centre, 2008). Rodrik also backs two international regulatory proposals that would require developed country support. The first was endorsed by the Bretton Woods architects: the sharing of information about financial holdings that may contravene other countries' tax laws. Rodrik is particularly concerned about how developing country governments have trouble gaining accurate information on the deposits of their wealthy citizens abroad, but the problem also affects developed countries, especially vis-à-vis tax havens. A number of international initiatives have been launched in recent years to address this issue and the G20 leaders endorsed more being done as a medium term objective: "lack of transparency and a failure to exchange tax information should be vigorously addressed" (G20, 2008).

The G20 did not, however, endorse the other initiative supported by Rodrik: the introduction of a Tobin tax. First put forward in the 1970s by Nobel laureate James Tobin, this initiative would introduce a very small transaction tax (Rodrik suggests 0.25 per cent) on all foreign exchange transactions. Tobin's case for the tax paralleled the arguments of the Bretton Woods architects: it would discourage short-term, speculative cross-border financial movements that are causing socially-disruptive adjustments to trade patterns and exchange rates besides reducing the policy autonomy of governments (although the tax would be very unlikely to deter sudden withdrawals in the event of panic). At the same time, the tax would not interfere with more desirable and more productive long-term financial movements since its level would be quite insignificant as a cost item. In Tobin's (1978: 158) famous phrase, the objective is simply to "throw some sand in the well-greased wheels" of international financial markets. Given the widespread criticism of international bankers at the moment, the tax might be seen by the general public as an appropriate discipline to apply against their past behaviour. Support for the tax may also be generated by the fact that it would provide considerable revenue – as much as several hundred billions of dollars each year – which could be used for a variety of public purposes, including not just the funding of fiscal deficits at the national level, but also international initiatives to address development or global environmental issues.

Opponents of the Tobin tax have been quick to dismiss it, arguing that it could never be implemented in an effective fashion since it would require the cooperation of every country in the world. But this overstates the political difficulties involved. The vast bulk of foreign exchange trading is concentrated in a handful of financial centres because it relies on dense networks of information, accounting and legal services that exist there in a reliable form. If the tax was imposed in those centres, the likelihood of foreign exchange trading business fleeing in massive quantities to lightly regulated offshore financial centres is low (Schmidt, 2007). Even if this flight took place, the leading financial centres could threaten jurisdictions that did not abide by the tax in various ways. Richard Cooper (1994: 141), for example, notes that "it would suffice to stipulate that disputes arising over foreign exchange transactions could not be adjudicated in countries of the leading financial centres unless the tax had been paid. Since it takes years to establish a reputation for fair and impartial dispute settlements, a small tax would be unlikely to drive transactions to tax-free countries without such reputations" (see also Ul Haq, Grunberg and Kaul, 1996).

B. Managing global imbalances in new ways

The recent crisis has also raised the question of whether public authorities need to take a more active role in the management of global imbalances. Many analysts blame the crisis at least partly on large imbalances that had emerged in recent years, with the United States running enormous current account deficits funded by capital from surplus countries, particularly oil exporters and the most successful East Asian exporters (e.g. Wolf, 2008). In the years leading up to the crisis, many policymakers were complacent about these imbalances because they were financed more than adequately by global capital flows. The financial crisis has created new concerns about the sustainability of such financing. If volatile capital flows provoked the need for sudden macroeconomic adjustments and currency fluctuations, the resulting economic upheavals could be painful. Even if existing imbalances are sustainable, others worry that they will contribute to protectionist pressures, currency instability, and international political tensions. Still others question the desirability of a world where enormous sums of capital flow 'uphill' from developing countries to one of the richest country in the world. More generally, if global imbalances played a role in contributing to the crisis, many believe their management must be part of the current international financial reform agenda.

The G20 leaders largely ignored the issue in their final summit communiqué in November 2008, although it has generated growing acrimony between major deficit and surplus countries. Top United States officials have blamed surplus countries, especially China, for generating the crisis with their excessive savings. Chinese officials have responded angrily saying "this view is extremely ridiculous and irresponsible and it's 'gangster logic' (quoted in Wolf, 2009). From the standpoint of many surplus countries, excessive United States borrowing and consumption as well as macroeconomic indiscipline have been the key sources of the global imbalances.

Is there anything to be learned from Bretton Woods to move this debate forward? The Bretton Woods principle – that both surplus and deficit countries should share responsibility for addressing global imbalances – deserves to be reiterated today. The specific international public mechanisms needed to foster this goal, however, will need to be very different from those put forward at Bretton Woods. The BW architects hoped that the IMF could play the key role in prompting both deficit and surplus countries to undertake adjustments by virtue of its central position in the international monetary system. But the IMF has little influence in this situation today because the surplus countries' currencies are not becoming "scarce" in the Fund and because the major deficit country, the United States, has no intention of borrowing from the institution. In this context, the IMF's recent efforts to encourage cooperation by strengthening the multilateral surveillance process are laudable, but unlikely to have significant impact.

Other international mechanisms deserve consideration. Looking first at the United States, the international policy problem is the opposite of the one that Keynes faced at Bretton Woods. Keynes had worried about the traditional asymmetry between deficit and surplus countries, where the latter faced less immediate market pressures to adjust than the former. Today, we are faced with a situation that he did not anticipate: the most important deficit country faces few constraints. The dollar's role as world currency has enabled the United States to delay adjustments as foreigners finance its current account deficits with dollar holdings. It is for this reason that a number of policymakers have been discussing the possibility of scaling back the dollar's international role as part of the international reform agenda.

The agenda has been given a further push by the fact that the dollar's international position is already facing a challenge from the euro. Although scholars debate the extent of the challenge, few disagree with the view that the dollar's pre-eminent position will be diminished, at least somewhat, by the new European currency in coming years. In the context of this challenge and the United States' own financial difficulties, there are concerns about the prospect of growing currency instability. International currencies are sustained in part by a kind of inertia; people continue to use a specific currency because other people use it. If there was a sudden change of expectations, a "tipping point" could be reached where foreign support for the dollar's international role could diminish quite quickly. Dollar crises in the past – recall 1971, 1978–1979 and 1987 – have been associated with worldwide instability. To minimize this risk, it would be helpful if a mechanism could be developed to enable those governments wishing to diversify their reserves away from dollars to do so without generating a major dollar crisis.

Precisely such a mechanism was negotiated during1978–80 by the top G5 policy makers, with the strong support of United States and IMF officials (Gowa, 1984). Under this proposal, foreign governments would have been allowed to deposit dollars in a special "substitution account" at the IMF and be credited in certificates denominated in the IMF's currency: SDRs. Because this exchange was off-market, foreign governments would have been able to diversify their assets without undermining the value of the United States dollar. Of course, there would have been some costs. Although SDRs could be used by foreign governments to pay for future balance of payments deficits or transfers to other governments, assets denominated in this currency are less liquid than those in dollars. The account also risked losing money if the dollar fell, since its liabilities were denominated in SDRs whereas its assets were dollar-denominated United States Treasury bills. Efforts to shift this exchange rate risk to the IMF – by asking the Fund to back the account with its gold holdings – ultimately complicated the negotiations. When the dollar rose sharply after the United States monetary policy tightened dramatically in 1979, the issue left the global public policy agenda.

Proposals for a substitution account deserve to be considered again today. Prominent United States economists such as Fred Bergsten (2007) – who was involved in the 1978–1980 discussions – have raised the idea and some analysts suggest that large foreign dollar holders such as China might be open to discussing it (Reuters, 2008). By boosting the role of the SDR, the initiative would work towards Keynes's goal – laid out in his initial Bretton Woods drafts – of centring the international monetary system more firmly on a supranational form of money. If this multilateral solution proved too difficult to negotiate, Peter Kenen (2005) has also suggested that the European Central Bank (ECB) could create a special facility that bought dollars from other central banks in exchange for newly-issued, off-market, *euro* instruments. This proposal would enable the ECB to minimize the risk of a dollar sell-off that would generate a further appreciation of the euro. United States and European officials could even share the exchange rate risk if the Europeans were to exchange some portion of the United States Treasury bills they purchase for special euro-denominated United States T-bills.

What about the surplus countries? As Martin Wolf (2008) has recently noted, a key reason many developing countries have been accumulating such large foreign exchange reserves is their fear of financial crises; more specifically, they seek to insulate themselves against a repetition of the kinds of financial crises experienced in the 1980s and 1990s. Wolf argues that the international community could help to minimize their fears by encouraging them to borrow in domestic currency as a way to minimize currency mismatches. He also notes that it would help to make debt restructuring easier, a point discussed further below. But it is his third solution that would have been most familiar to the Bretton Woods architects: reserve pooling. If developing countries could be persuaded to pool their reserves with the IMF and draw on them when needed with minimal conditionality, they would feel less compelled to hold such large reserves (at considerable financial cost to themselves).

Unfortunately, that institution's recent record has undermined trust in it among potential borrowers. Policymakers in many developing countries have preferred costly self-insurance against balance of payments crises rather than reliance on an institution whose recommendations in the recent past have been seen as unhelpful, too intrusive, and/or overly influenced by United States and European goals. An important step on the road to reducing global imbalances is thus to reform the IMF in a more serious manner to regain the trust of developing countries. The G20 leaders made a commitment at their November 2008 summit to advance the reform of the Bretton Woods institutions in order that "emerging and developing economies, including the poorest countries, should have greater voice and representation" (G20, 2008). Alongside this reform, there needs to be a shift in the style and content of the IMF's advice. In this context, Triffin's money-doctoring missions could act as a possible model for rebuilding trust in the institution among developing countries. These missions were welcomed across Latin America because they took seriously the concept of "country ownership" and showed openness to a diversity of policy approaches (including the kinds of capital controls recommended by Rodrik).

Reform of the IMF is important for another related reason. In the past, payments surpluses were usually recycled to deficit countries via private financial flows or official purchases of safe, highly liquid international reserve assets. In the last few years, in order to earn higher returns, many surplus countries have begun to move some of their official reserves into funds which invest much more aggressively in higher-risk assets, ranging from equities to real estate. These sovereign wealth funds (SWFs) have now become significant players in global financial markets and they have generated some political concerns in recipient countries about the purposes to which such state-run investment vehicles might be used. These concerns have led to some calls for restrictions on SWF investments, restrictions that would not just antagonize surplus countries but also inhibit the role that SWFs are playing in recycling payments surpluses.

In order to minimize these reactions, the IMF led negotiations to create a set of principles that 26 SWFs embraced in October 2008 to guide their investment behaviour internationally. But the non-binding and vague nature of these "Santiago principles" makes them unlikely to satisfy all critics. A more ambitious proposal comes from analysts Michael Bordo and Harold James (2008) who have wondered whether the IMF should take on the role of an active asset manager, investing funds on behalf of SWFs, and thus minimizing protectionist reactions in recipient countries. This proposal once again would obviously require significant governance reform at the Fund. Bordo and James suggest that as much as fifty percent of IMF votes could be determined by the size of reserve assets placed in the IMF for this kind of active management. This change could even be combined with an initiative to encourage SWFs to invest a small portion of their funds – World Bank President Robert Zoellick has suggested one percent (Guha, 2008) – in projects relating to development or other global goals. In this way, it might be possible to reinforce the Bretton Woods principle that the accumulation of large balance of payments surpluses should be accompanied by certain international responsibilities.

If surplus countries continued to have misgivings about the IMF, it may be that other international institutions – particularly those at a more regional level – could be useful. Already, East Asian countries have been expanding regional cooperation of this kind through the Chiang Mai Initiative. With the largest reserves in the world, the countries in this region have the capacity to create a regional reserve pooling arrangement that could dwarf the size of the IMF. European Union countries are also being called upon to take a large role in crisis-lending to Eastern European countries. In Latin America, initiatives to expand the regional provision of balance of payments finance are also being considered. If meaningful IMF reform continues to prove politically difficult, these regional arrangements are likely to become more important.

This regionalization trend would allow for greater pluralism in international financial governance. The existence of regional development banks has long enabled quite regionally distinct approaches to development lending. Mistry (1999) argues that the case for pluralism may even be stronger in the area of balance of payments financing given some of the problems that have been associated with the IMF's monopoly in the past. Some might object that this trend will undermine the Bretton Woods commitment to multilateralism. But it is important to remember that the European Payments Union ended up playing a very constructive and complementary reserve-sharing role in the early years of the Bretton Woods system. Some supporters of regional institutions, such as the South Centre, have even suggested that the IMF could emerge in the future "as the apex of a network of regional reserve funds – that is, a system closer in design to the European Central Bank or the Federal Reserve System than to the unique global institution it currently is ... A denser network of institutions seems better adapted to a heterogeneous international community, and it is likely to provide better services and give stronger voice to smaller countries" (South Centre, 2008: 4).

C. Strengthening development priorities in international finance

Finally, what has been the place of development issues in the international reform agenda? The widening of the G7 to the G20 at the leaders level was intended to involve some developing countries in setting the agenda. One would then expect development issues to assume a more prominent place. The G20 communiqué did reaffirm commitments to the Millennium Development Goals and the principles of the 2002 United Nations Conference on Financing for Development in Monterrey, including that of "country ownership and mobilizing all sources of finance for development" (G20, 2008). In addition to the IMF and World Bank governance issues already mentioned, the G20 leaders also encouraged international financial institutions and aid donors to maintain and enhance financial support for developing countries. These points reiterate some principles embodied in the original Bretton Woods development agenda.

Less prominent, however, was development content relating to the central issue addressed by the November 2008 communiqué: international regulatory reform. One very limited reference was a "medium-term" goal that "advanced economies, the IMF, and other international organizations should provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations, consistent with international standards" (G20, 2008). There was, however, a more important indirect reference: "The Financial Stability Forum (FSF) must expand urgently to a broader membership of emerging economies [by March 31, 2009], and other major standard setting bodies should promptly review their membership" (G20, 2008). The expansion of the FSF is significant because the international regulatory agenda has, to date, been led by this body whose membership is dominated by the G7 countries. The FSF, in turn, has worked closely with various standard-setting bodies in which developing countries have also had minimal voice such as the Basel Committee. The G20 leaders' decision to widen membership of the FSF and these other bodies should provide developing countries with more opportunities to inject "development" content into the international regulatory reform agenda.

Some parts of this agenda involve issues of great importance to developing countries such as sharing tax information as well as issues on which developing countries have had quite distinct perspectives in recent years, such as the content of Basel II or the regulation of hedge funds. Other parts of the regulatory reform agenda may raise opportunities to explore links between financial regulation and development problems that have not received much attention in the past. For example, the initiative to bring greater order and regulation to derivatives markets may provide a chance for developing countries to raise questions about the relationship between speculation in commodities futures markets and the recent food crisis. There is presently no international standard for the regulation of commodity futures markets, but individual countries have been moving unilaterally to tighten regulations and these initiatives may prompt the creation of international rules (IATP, 2009).

Are there other international regulatory issues that have not been raised at all by the G20 leaders that could be put on the agenda? The Tobin tax has been mentioned above and it might be particularly attractive for developing countries if the revenue it raised could be used for international development assistance. Another initiative might be Rodrik's proposal for the IMF to take a more active role in encouraging counter-cyclical capital account management. The Bretton Woods negotiations suggest two additional regulatory issues that might be of special interest to developing countries – the regulation of debt restructuring and capital flight.

Regarding the first, it is likely that we will see growing external debt problems in the developing world as the current global financial crisis continues to unfold. It is also unlikely that they will get resolved with the strategy employed during the 1980s and the

1990s with high conditionality, large IMF lending. Political support for the kind of IMF conditionality imposed in those episodes has eroded dramatically in debtor countries. And large international bailouts are unlikely to be popular in rich countries whose citizens have little appetite to support the interests of international investors at the moment and whose cash-strapped governments may be reluctant to approve very significant new funding for the IMF. In this political context, it is prudent to anticipate the prospect of impending defaults and debt restructuring, with the key policy question being whether or not they will take place in an orderly fashion.

The case for creating an orderly multilateral mechanism for facilitating debt restructuring parallels that for domestic bankruptcy rules. Because sovereign debt crises can be caused, or at least exacerbated, by "rushes to the exit" in the form of capital flight, the international legitimization of a standstill on payments in these circumstances would be helpful to debtors *and* private creditors alike. Once crises have broken out, the resolution of sovereign debt crises has also often been a messy and time-consuming affair that has been damaging to the interests of both private creditors and sovereign debtors. In that context, all can benefit from a clear set of international rules and procedures that force holdout creditors to accept the terms of debt restructuring, impose stays on litigation during restructuring negotiations, and perhaps outline provisions for the extension of new credits during restructuring exercises. Of course, debtors can *unilaterally* prevent rushes to the exit by introducing exchange controls and can set the terms of debt restructuring through *unilateral* debt write-downs. But the experiences of the 1930s and more recently of Argentina show that debtors undertaking these actions on their own face the threat of creditor retaliation and litigation, as well as damage to their reputation as a borrower. An international mechanism that legitimizes and supports these actions will minimize these risks (Helleiner, 2008).

These kinds of arguments have generated support for some kind of international bankruptcy mechanism, not just in the early 1940s, but also during 1980s' debt crisis and, more recently, with the very detailed IMF proposals during 2001–2003 for a "sovereign debt restructuring mechanism" (SDRM) (Rogoff and Zettlemeyer, 2002). As the IMF's then senior Deputy Managing Director Anne Krueger (2001) put it in 2001, the absence of such a mechanism is a "gaping hole" in the governance of international finance. Although her proposed SDRM failed to gain enough support, it helped generate momentum for two more limited initiatives to address this issue after 2003. The first was the inclusion in all new international bond issues of collective action clauses (CACs) which allow for such provisions as altering repayment terms by a super majority of bondholders and restrictions on individual creditors from disrupting restructuring processes.

The second was the creation of a set of voluntary international "principles" in 2004 to govern the behaviour of both debtor governments and private creditors relating to issues such as information sharing, transparency, commitments to dialogue and cooperation, good faith actions in debt restructurings, and equal treatment of all investors in cases of default (Helleiner, 2009b). These "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" were the product of negotiations between a small group of developing countries (Brazil, Mexico, Turkey and the Republic of Korea) and private international financial interests, most notably the Institute of International Finance (IIF) which represents the world's major international banks. They were welcomed by the G20 finance ministers and central bank governors at the time. The IIF subsequently established a "Group of Trustees" to review the implementation and further development of the Principles which includes senior representatives of the private international financial sector as well as prominent officials and ex-officials from industrialized and emerging market countries. That Group provides guidance to a twenty-three member "Principles Consultative Group" (PCG) made up of senior private financial sector members and emerging market government officials (with the former in the majority), which evaluates individual country situations and provides advice to private creditors and governments about compliance with the Principles and any possible amendments to them. The PCG receives technical support from the IIF and includes, as observers, a representative of the Federal Reserve Bank of New York and IMF staff (Principles Consultative Group, 2008).

These initiatives represent an advance in the international regime for debt restructuring, but their limitations are likely to be exposed during the current crisis. Most CACs do not include aggregation provisions for the terms of a country's debt restructuring to be extended across all categories of bonds. CACs also do not usually endorse standstill provisions, but rather are designed primarily only to facilitate the restructuring of sovereign debts *after* a crisis had broken out. In addition, CACs leave many of the key decisions concerning debt restructuring in the hands of private creditors, rather than allocating them to an independent arbiter or sharing power more equally with sovereign debtors in a formal institutional setting. The dominant role of the private sector in the governance of the Principles is also open to criticism, as is their voluntary nature and ambiguous content in many areas (Herman, 2008). Finally, neither CACs nor the Principles include commitments of the kind recently endorsed in the December 2008 Doha Declaration from the follow-up conference to the 2002 Monterrey summit. The declaration stated that the objectives of debt resolution must include "furthering development" and "taking into account debtors' national policies and strategies linked to attaining the internationally agreed development goals, including the Millennium Development Goals" (United Nations, 2008). The current moment offers an opportunity to try to address these various issues (see also Herman, 2008).

The other development issue raised during the Bretton Woods preparations that deserves more attention today is the regulation of capital flight. Estimates of the size of capital flight from developing countries vary considerably, but for many of the poorest debtor countries, the private assets of their wealthy citizens abroad surpass the size of their official debt. In other words, these countries are often creditors to the world at the very time they experience sovereign debt crises.[2] If this private capital could be brought home – or discouraged from leaving in the first place – the development prospects of these countries would be enormously improved. Some argue that flight capital can only be stopped by changing the afflicted countries' economic policies such as overvalued exchange rates or inflationary monetary policies. This view, however, ignores the extent to which capital flight may be related to other factors such as tax evasion, political instability or corruption. For these reasons, many analysts argue that capital controls have a role to play – usually alongside various economic stabilization measures – in stemming capital flight. In many poor countries, however, the capacity of the state to enforce capital controls effectively is not very high.

Here is where the ideas of Keynes and White about the role of international cooperation in boosting the effectiveness of capital controls may be relevant. They noted how capital controls can be enforced more easily if recipient countries help by sharing information about foreign holdings, by directly assisting efforts to repatriate funds, or even by blocking capital inflows in the first place. It is often forgotten that international cooperation of this kind was implemented in a very modest way during the Marshall Plan when the United States assisted some European efforts to track flight capital in the United States by sharing information about these assets. The measure found particularly strong support among conservative and often isolationist members of Congress who saw the measure as a way to reduce the cost of the aid programme to United States taxpayers. The issue was also debated during the Latin American debt crisis of the 1980s when a number of observers suggested that the United States banks should be prompted to share information with Latin American governments about the assets of Latin America citizens they held as well as to refrain from soliciting flight capital from Latin America (Helleiner, 1995, 2001).

A number of analysts have also raised the issue in the context of the increasingly extensive cooperative efforts to control money laundering and terrorist finance. Financial institutions around the world are already forced to report all "suspicious" transactions to domestic authorities and to refuse to engage in transactions where the identity of the customers involved is unknown. Governments have also developed extensive arrangements for international information sharing and legal cooperation which include commitments *not* to allow bank secrecy provisions to interfere with these forms of international cooperation. As Karin Lissakers (1991: 158) noted as far back as 1991, "the potential of the new record-keeping and client-identification requirements as a tool for tracking flight capital is obvious".

This Bretton Woods moment should consider whether some kind of international cooperation stemming capital flight could be embedded permanently within the international financial architecture. In their initial drafts, both Keynes and White had, in fact, intended international cooperation to control capital movements to be mandatory (Helleiner, 1994: ch. 2). Today, this could easily be accomplished by simply widening the definition of money laundering activities used by the international community to include capital flight (e.g. Sherman, 1993: 13). A limited move in this direction has come with the World Bank-United Nations Stolen Asset Recovery Initiative – an initiative which the G20 leaders endorsed at their November 2008 summit. But the assets it targets make up only a small portion of flight capital. A more wide-ranging initiative would be in keeping with the initial ideas of Keynes and White. In this context, it is encouraging that the recent Doha follow-up conference to Monterrey called for strengthening multilateral efforts to address capital flight (United Nations, 2008).

If wider initiatives involving permanent mandatory cooperation were too ambitious, the idea could be implemented on a more temporary basis in the context of financial crisis management. When a crisis breaks out, the IMF could be empowered to require foreign governments to share information about capital flight from the crisis-hit country. This might appeal to developed countries if it reduced the potential costs of financial bailouts by slowing capital flight and by enabling the mobilization of existing flight capital. During the Marshall Plan era, a number of interesting proposals of this latter kind were considered by the United States government, including one IBRD proposal that would have seen a portion of the European flight capital invested in either United States or IBRD bonds with the proceeds used for aid or loans to European governments. During the 1980s' debt crisis, proposals were also made to tax the interest income earned by the United States deposits of Latin American citizens and to give the proceeds to the Inter-American Development Bank (Helleiner, 1995; Williamson and Lessard, 1987). These efforts to recycle flight capital back to the original capital via international public lending echo the ideas that United States Treasury officials pioneered in the late 1930s in developing the IAB initiative.

In addition to boosting resources available to debtor countries, this proposal might also have two other benefits. First, it would help spread the distribution of the adjustment burden within the country experiencing a financial crisis in a more equitable fashion. When international creditors pressure debtor governments to assume the private foreign debt of their citizens as part of crisis-management procedures, the burden of adjustment to private borrowing behaviour – usually that of more wealthy citizens – is shifted to the country as a whole. By mobilizing flight capital in crisis moments to help service the external debt of the country, the international community would ensure that wealthier citizens contributed more to the resolution of the crisis as well. Second, the existence of this kind of procedure at the international level might also discourage flight capital in the future. At the moment, there are strong incentives for wealthy domestic asset holders in poorer countries to engage in capital flight at the first sign of an impending crisis. Not only do they protect their money from a potential devaluation or imposition of capital controls in this way, but they also have the prospect of "round-tripping" the money after a devaluation to buy up domestic assets at bargain prices. If domestic asset holders were aware that their foreign assets might be mobilized for public purposes as part of a financial rescue plan, they might be less inclined to flee so quickly.

IV. Conclusion

The G20 leaders' summit in November 2008 invariably invited comparisons with Bretton Woods. At both meetings there was a shared desire to assert public authority more centrally into the international financial system in the wake of a devastating international financial crisis. But the G20 leaders have so far been much more cautious than their Bretton Woods predecessors in laying out an agenda to achieve this goal. This paper has suggested that the three broad innovations in global financial governance outlined at Bretton Woods may serve as useful road map if policymakers want to set their sights higher: the regulation of international financial markets, the management of global imbalances, and the promotion of international development.

Some of the specific long-forgotten proposals that were discussed during the Bretton Woods negotiations in each of these three categories also deserve reconsideration today, such as those relating to debt restructuring, heterodox financial advice for developing countries, and the role of international cooperation in efforts to control capital movements. This is not to suggest that history should simply repeat itself. If the Bretton Woods objectives are to be met in the contemporary context, a number of the proposals they discussed would need to be adjusted to the new economic and political circumstances. Efforts to regulate international financial markets today must go far beyond the border control issues addressed at Bretton Woods to strengthen international prudential rules. For those wanting to curtail speculative international financial flows, the Tobin tax provides a new approach not considered at Bretton Woods. With respect to the management of global imbalances, the Bretton Woods principle that both surplus and deficit countries have shared responsibilities needs to be reinforced via new mechanisms such as an international substitution account, support for domestic currency borrowing in developing countries, and new kinds of reserve pooling arrangements at the global and regional levels. The promotion of international development must also be extended to cover the new international prudential regulations being developed.

Important to all these areas is also the need for governance reform to adjust international financial institutions to today's more decentralized international political environment. At the Bretton Woods conference, United States leadership within the multilateral Bretton Woods institutions was simply assumed. Today, the world is changing in ways that make governance questions a much more important part of the agenda of global financial reform. It is not just a question of giving developing countries more say in the Bretton Woods institutions as well as in the FSF and other standard-setting bodies. Also significant is the need to consider decentralizing international financial governance by assigning more tasks to the regional level. At the same time, greater resort to a principle of subsidiarity via regional arrangements in international financial governance must be grounded within the broad multilateral framework set not just by the Bretton Woods institutions, but also the United Nations system more generally.

This last point deserves special emphasis for those seeking to build a new Bretton Woods. As we have seen, from the very start, United States policymakers in the early 1940s intended the planning for the post-war international financial order to be situated within the larger process of creating the United Nations system. It is no coincidence that the formal title of the Bretton Woods meeting was the "United Nations Monetary and Financial Conference". In the lead-up to the conference, British policymakers had pressed at various moments for bilateral negotiations, but United States policymakers insisted on a more inclusive multilateral meeting which included not just smaller industrialized countries, but also countries from the non-industrialized world (Helleiner, 2006). In the contemporary period, the United States decision to create a summit of the G20 leaders for the first time in November 2008 marked an important effort to be more inclusive of emerging powers in discussions of global financial reform. If the goal is to build a new Bretton Woods order, however, the process will need to be embedded within a more representative, inclusive and universal political framework.

Notes

1 Beyond Latin America, other non-industrialized countries from outside Europe that were represented at the conference included: China, Egypt, Ethiopia, India, Iran, Iraq, Liberia, the Philippines, South Africa.

2 See, for example, Ndikumana and Boyce (2008). Variations in estimates partly reflect different definitions that are used. The most recent estimate comes from Kar and Cartwright-Smith (2009) who suggests that "illicit capital flight" from developing countries was between $850–1,000 billion in 2006. They define capital flight as "capital that is illegally earned, transferred, or utilized and covers all unrecorded private financial outflows that drive the accumulation of foreign assets by residents *in contravention of applicable laws and the regulatory framework"*.

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