

# **Toward a Pragmatic New Bretton Woods**

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Before we get carried away with the idea of a new Bretton Woods Conference to re-make the global economy, it is worth recalling four facts about what made the original Bretton Woods Conference a success.

First, the original Bretton Woods Agreement was a response to the shock of the Great Depression and the Second World War. The current shock is severe, to be sure, but not that severe. Even the most pessimistic observers expect “only” the deepest recession since the early 1980s, when unemployment in the United States reached ten per cent, not a depression like that which raised U.S. unemployment to 24 per cent in 1933. And while economic crisis may yet fan geopolitical tensions, no one anticipates repercussions tantamount to World War II. This crisis has created a willingness to contemplate significant reform, but it is unlikely to support reforms as radical as those reached after World War II.

Second, the conference held in Bretton Woods, New Hampshire in 1944 took place after three years of extensive planning under the intellectual leadership of Harry Dexter White and John Maynard Keynes in the U.S. and British Treasuries. This time, in contrast, Treasuries on both sides of the Atlantic have been behind the curve. Advance planning, such as it is, has anticipated events by at most a matter of days.

Third, the Bretton Woods Conference was a meeting of finance and treasury officials, not heads of state. Heads of state are prone to grand statements, not detailed proposals for economic and financial reform – Gordon Brown to the contrary notwithstanding. For substance as opposed to posturing, we will have to wait for the follow-up conferences attended by specialists.

Finally, the Bretton Woods Conference took place at a time of unquestioned U.S. hegemony over the Western alliance and the global economy. The U.S. had the intellectual and financial resources with which to drive the reform process. Now America lacks both types of resources. In Europe, France and Germany are squabbling over the form and extent of state intervention in the post-crisis world. In Asia, China and Japan are vying uncooperatively for leadership. Beijing responded favorably to Korea’s proposal for a regional bailout fund, but Tokyo deferred, fearing that this would be dominated by China, given that country’s immense dollar reserves. Tokyo then proposed funneling Asian reserves through the IMF, but China deferred, fearing that this initiative would be dominated by Japan, which has long participated in IMF deliberations. Financial diplomacy is evidently more difficult than in 1944.

So what to do? Countries participating in the series of summits starting on November 15<sup>th</sup> should concentrate on stabilizing financial markets, which is the immediate problem to be solved. There are other pressing global problems from climate change to poverty and underdevelopment, but adding them to this agenda will only make deliberations wordier and less productive. It is far from clear, for example, that the U.S. will agree to a new international

agreement if it has to compromise not just on financial regulation but on global warming, foreign aid, and other sundry and assorted issues.

Next, move quickly from the leaders' meeting, which is largely about the photo-ops, to the meeting of finance ministers, where the real business will occur. And once there, focus on pragmatic reforms. Clamp down on regulatory arbitrage. Raise capital requirements. Make the regulatory regime less procyclical. Use taxes and regulation to drive transactions in credit default swaps and other derivative instruments into an organized exchange.

This modest approach will not be hailed as a New World Financial Order. But it will be a useful first step toward making the world a safer financial place. And it will minimize the danger that the new Bretton Woods Conference will go down in history as a failure.

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