



## Mexico's Role at Bretton Woods: An Assessment 70 Years Later

Remarks by  
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It is for me an honor to attend this Bretton Woods Conference at this truly grandiose, historic site where it all took place 70 years ago. I am sure that the Bretton Woods ghosts have inspired the proceedings and very much appreciate how often they have been mentioned today.

I want to make a special note of appreciation to Larry Goodman, for how you have given today a very special role to Mexico. I'm speaking now; former President Zedillo is speaking this evening. Guillermo Ortiz has had a very active participation. We have all worked together at different trenches.

I think you have invited me to participate perhaps in a dual role. First, as you have mentioned, as the son of Eduardo Suárez who was Minister of Finance of Mexico, head of the Mexican delegation and chaired the third commission. I think that probably you have set up a new club which is the club of the sons of Bretton Woods. There are three members, Mr. Eccles, Mr. Istel and myself. That also is interesting.

Secondly, because of my own lifetime professional involvement in international monetary affairs. I started out as Mexican Executive Director at the IMF at the time of the reform process of 1972 to 1976. Then I went on to become Undersecretary of the Treasury during the 1982 debt crisis. I think that really became a laboratory in debt restructurings and also for the need to include structural reforms. Then I met Bill Rhodes, Chief Negotiator for the banking community. Now in my present capacity as Ambassador of Mexico to Canada. On Friday I will drive to Ottawa as my father did after the Conference at the invitation of the Canadian authorities because we had just established diplomatic relations with Canada. Our first ambassador also took advantage of the visit of the minister of finance –an opportunity which he could not really forgo– and coerced him to purchase the embassy where I now happen to live!

Perhaps one of the contributions that I can make at the conference is derived from an essay I wrote in a book published by the Bank of Mexico at the request of then Governor Ortiz to explain the role played by Mexico at Bretton Woods. I think this falls very much in line with one of the themes of the conference, that contrary to conventional theory, it was not only the United States and Great Britain that played a key role, but many other countries as well. I think this is precisely the very well argued view in Helleiner's excellent book, *The Forgotten Foundations of Bretton Woods*, and evidenced in the great discovery of *The Bretton Woods Transcripts* by Kurt Schuler.

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I will present some key arguments which are based on the Memoirs of my father, but also those of two other delegates that were here, Mr. Cosío and Mr. Urquidi. These are useful historical sources to remember. I also studied the two great volumes on the Proceedings. They all demonstrate that Mexico and some Latin American countries played a very important role. My main points attempt to demonstrate this thesis.

First, Eduardo Suárez was asked to propose Secretary Morgenthau to chair the conference. He was seconded by Canada's Minister Ilsley and Brazil's Minister Souza Costa and Russian Commissar Stepanov. Why this special distinction? Mr. Morgenthau had great personal appreciation for the Mexican minister. In one of his speeches he referred "to his very good friend, Mr. Suárez", and he mentioned, and I quote, "He and I are sort of old hands at being ministers of finance." They had both been ministers for ten years, and he said, "Mexico enjoys one of the finest financial reputations of any republic in the world." That was not a minor compliment. They had indeed worked together at solving very difficult issues like the compensation settlement after the oil expropriation of 1938 and the debt renegotiation that took place in 1942. Mexico had suspended debt payments since the Revolution. And of course both had successfully steered their countries out of the Depression.

Secondly, Suárez was asked to chair the Third Commission on "other means of international cooperation". This commission handled a limited range of issues, some were important at the time. For example, it proposed the elimination of the Bank for International Settlements "at the earliest possible moment on the grounds that it was no longer needed after the creation of the IMF. Also it was tainted by a stain of cooperation with the Nazi regimes. However, the earliest moment never occurred". The BIS managed to survive!

But there was another case that I think shows that the script of the conference was not in any sense predetermined. Of particular importance to Mexico and the silver producing countries like China, Peru and Bolivia was whether the silver could not be given a monetary role, thereby –and that was of great importance to these countries– to contribute to its price stability. Any form of bimetallism was of course doomed to be rejected and the Mexican delegation knew it, but wanted to rescue at least some limited role. When I started working at the Central Bank, the silver holdings could be computed as part of the international reserves of Mexico and could be used as guarantee for loans.

Thirdly, of course the main issue was the role that the Mexican delegation played so that the World Bank should not only be concerned or primarily concerned with the reconstruction of Europe.

Since the early meetings in Washington, the Mexican delegates fought for the inclusion of that goal. They had been frustrated earlier by their failure to create the Inter-American Development Bank in which Mexico's Central Bank Governor Mr. Villaseñor, as early as 1939, at the meeting of Foreign Affairs Ministers of the Americas, had presented a full-fledged text. This was in fact approved in May 1940 and among other countries by the United States with the signature of President Roosevelt. But it didn't pass the approval of

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the Senate. However Harry White was involved in the works and therefore drew some inspiration in this idea for his proposal of the World Bank.

In the second commission, chaired by Keynes, Mexico presented on the first day as recorded in the memoirs of Suárez, Cosío, and Urquidi – a well-argued position that development should be included on equal footing with reconstruction. Mexico argued in the commission's meetings of July 11th that "In the very short run, reconstruction will be very urgent for the world as a whole, but in the long term, Mr. Chairman, before we are all dead if I may say so (a clear reference to one of Keynes' texts) development must prevail." Of course history proved them right. The first loans were made to Denmark and France. After the Marshall Plan came into effect development played the main role.

Keynes, who was a very strict chairman, hailed the proposal positively. A Norwegian proposal presented the same day did not meet the same approval. It was rejected out of hand, as my father recalls, because "it did not make sense". There were later some complaints about the heavy-handed way in which Keynes managed the commission. Nevertheless, he accepted the Mexican proposal and I quote from the transcripts, his text was, "The resources and facilities of the bank should be used exclusively, with equal, equitable consideration on projects for development and projects for reconstruction alike."

This of course demonstrates that those authors that have claimed that development issues were not discussed at Bretton Woods, were simply wrong.

Fourthly, governance and voting power to what we would now call emerging countries, were as important then as they are now. A very cohesive Latin American bloc which met to discuss together all the issues, made a proposal led by the Mexican delegates and very importantly by the delegate of Cuba, Luis Machado, that on the Executive Board of the organizations, besides the five chairs assigned to the victorious powers, two chairs should be assigned to the American republics. The arithmetic favored Latin America because out of the 44 participating countries, 19 were from Latin America.

As Suárez states in his memoirs, the Brazilian Minister Souza considered that this was not feasible because other regional groups would claim the same. In fact, the four Middle Eastern countries, at Egypt's proposal, sought an assigned chair for the Middle East but was rejected. The Latin American effort was won and this gave Latin America an exceptional governance role. In his memoirs Suarez comments that once the Latin American delegates were celebrating the result, the Brazilian minister, who had been very skeptical of the possibility of success, said: "of course, one of the chairs will have to be assigned to Brazil." With a certain amount of amusement the other delegates replied, "Well you might very likely get the chair but it will have to be through a voting process". Of course, given the fact that Brazil had one of the largest quotas they succeeded later on. But it was a result of a process.

The contribution of Mexico was the result of work that challenged the notion that "few delegations other than the United States, the United Kingdom, and Canada came equipped to make intellectual contributions to the Bank and Fund". This is a quote from one of the books written on the topic cited by Eric Helleiner. In

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fact Mexico since 1942 had informally been given a first draft. Here there's an interesting anecdote. There had been intensive diplomatic activity. In June of 1942, there was a meeting of financial officials that took place in Washington related to the control of enemy assets in the continent. It happened that who was later to become the youngest delegate of the Mexican delegation at Bretton Woods, Victor Urquidi, a young graduate of the London School of Economics at a dinner in Washington, sat by Harry White. Harry White took a liking to him and told him to come to his office the following day and that he would give him one of the early drafts of the proposals, a confidential one. He told him "take it to your bosses". He was also aided by the fact that Mr. Espinosa de los Monteros, also later very active in the conference, had been as a student at Harvard a very close friend of Harry White.

Mexico immediately set up a high-level working group at the Bank of Mexico who really worked for two years on the analyses of proposals. Thus, Mexican delegates were able to participate actively in all the meetings that took place in Washington, particularly the May 1943 one. Mexico, of course participated to express support for the draft declaration.

It was a very well prepared delegation that played an active role. Possibly, I think some of the delegates might say even too much of an active role because they were really harping on some of the issues that were important for Mexico, such as silver. For example they also took an active role against a proposal that the three major countries could alone decide on a uniform change of the par values. Mexican view was that it had to be a stated majority. This view prevailed.

Let me mention that the Mexican delegates at Bretton Woods established a school, almost a tradition at the Central Bank of Mexico to participate actively in international monetary affairs. I will highlight one which is in line with the proposals at Bretton Woods. At the time of the Nairobi meeting, the idea was to create initially only a Ministerial Committee: the Interim Committee to deal with monetary affairs. Mexico made the proposal at the time that there should be also a Development Committee of the World Bank and the IMF. Thus there would be not only a ministerial committee for monetary affairs but also a development committee, like the dual twins of Bretton Woods, the IMF and the IBRD.

To conclude, I'm now mainly involved in pushing for a new stage of North American cooperation but I cannot avoid the temptation to touch on some of the future issues of international financial affairs because in the end, not much has changed. I will refer to a few very basic challenges:

After a brief heyday of international cooperation in 2008 the world I think has fallen back to "complacency and patchwork". Time in a sense will solve all the issues. It's clear that nobody's playing the role of real leader and lender of last resort. Witness the incapacity of the U.S. Congress to pass the quota reform. I think as discussed this morning there's a really very dangerous trend that Europe will be facing a lost decade as Latin America faced in the '80s. And Germany is playing a very limited role. It's probably one of the ironies of history that I think one should probably speak again of the "reconstruction role" for Europe. The World Bank intended to take care of that initially, but who will do it now?

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Given the fragility of the recovery and the volatility of capital markets, I might add on the political side, that the very dangerous huge growth of unemployment, particularly of the young; the surge of extremist right-wing parties; the massive migration problems; the resort to territorial claims, and mini-wars to distract domestic attention, are many of the elements that were present in the '30s. This leadership and vision vacuum poses real dangers.

Secondly, governments of the institutions regrettably have not adjusted to changes in the structure of the world economy. The archaic system to designate a president of the World Bank and the MD of the IMF, is a serious problem. The prestige of these two jobs has been tainted by scandals. There has been almost a “developing country turnover” of some of the chief executives in these organizations. It's difficult for them to accomplish their task. There is of course a blatant over-representation of the European chairs. The ministerial committees are obviously now overshadowed by the G20, but the G20 itself has stalled and lost its initial momentum. An expression of the failings of the system is its fragmentation. Obviously one symptom is the creation of the BRICS bank and its swap network. China has stepped up infrastructure investment in developing countries, taking over a huge gap left by the World Bank and the regional banks. I remember in Mexico, as an example, that the whole Cancun and Ixtapa projects were done by the World Bank and the IDB. Nobody has so referred to the world trade negotiations but I think given the failure of the Doha Round, fragmentation of efforts has also taken the form of Trans-Pacific Alliances, Transatlantic Alliances, and Pacific Alliances.

We have an old relationship and respect with our friends from the IMF and the World Bank. I think that they are the important institutional survivors of the Bretton Woods system. No doubt they will continue to play the significant role of influential think tanks because of the quality of their economic outlooks and their research, although sometimes with an ideological slant, that has in some sense evolved. But by any measure they lack the resources and the vision. They can become irrelevant operationally. The World Bank has too much focus now on the poverty reduction role per se. Without a “growth mindset”, it can easily become a type of Red Cross - aid institution. The IMF can go back to being an adjustment police force to impose “one size fits all conditionality” to small countries in distress. I'm sure this will be addressed this afternoon but the institutions require a major overhaul, not only plastic surgery.

I will conclude my remarks with a quote from the message of President Roosevelt that Secretary Morgenthau read to welcome the delegates, which I think is very relevant today. He said, "Economic diseases are highly communicable. It follows therefore that the economic health of every country is a proper matter of concern to all its neighbors near and distant. Only through a dynamic and soundly expanding world economy can the living standards of individual nations be advanced to levels which will permit the realization of our dreams." Thank you very much for your attention.