



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

Conclusion and Summary of the Future of the Global Monetary and Financial System: 75 years after Bretton Woods

Lawrence Goodman

October 17, 2019

The Willard Hotel, Washington, DC

I would like to thank the speakers, moderators, invited delegates, and contributors for a deeply enriching roundtable – a roundtable with concrete ideas for the future. I would also like to thank the Euro 50 Group for making the “Future of the Global Monetary and Financial System: 75 years after Bretton Woods” engaging and highly fruitful.

Imagine. Imagine that... the Founders of the Bretton Woods Agreement were here today. What would they think? We know a great deal more about the Founders from the work of Kurt Schuler. Kurt found a box of tattered yellowed pages in the basement of the U.S. Treasury building and then spent over a year to meticulously edit, annotate, and create *The Bretton Woods Transcripts*. From a personal perspective, this work was greatly enhanced by insights from Carole Brookins over the years on institutional and historic events shaping the period.

After reading *The Bretton Woods Transcripts* twice, I was shocked. In many parts, they are dry. But, wouldn't this be expected from a line-by-line account of a conference crafting a complex multilateral agreement? More importantly, many passages are laced with soaring rhetoric laden with insight. **The Bretton Woods Transcripts provide a window into how leaders and economists thought in 1944. They had long term vision.**

Wilhelm Keilhau – the Chairman of the Norwegian delegation – exemplified this perspective. Regarding the International Monetary Fund (IMF), he mused:

“We give a fundamental law which may be in effect for hundreds of years.”

But now, what would the Founders think today? They would undoubtedly be pleased. The last 75 years have been characterized by growing economic prosperity and peace - for many. Likewise, the institutions conceived coincident with the agreement have remained at the heart of the international financial system and global economy for nearly eight decades.

However, the Founders would be fearful of the strains revealed at the roundtable today.

Many of these fragilities would, no doubt, be disappointing to the Founders – who envisioned **limited current account imbalances, greater exchange rate stability, and a reduction of debt burdens.**



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

The Founders never contemplated rapid gyrations in capital flows and asset markets. They would be perplexed by fault lines in the financial system from shriveling liquidity in corporate bond markets, swell in Collateralized Debt Obligations (CDOs), stress in repo markets, underfunded pensions, crypto-currencies, and the advent of passive investing.

Yet, to be sure, they would have been grateful for the work and conclusions from such a thoughtful and engaged group of the conference panelists, moderators, and delegates. Some of the conference highlights included...

Extraordinary Monetary Policy is at its Limits

Judy Shelton nicely moderated the panel by characterizing forces on central banks today and querying speakers.

Paul Tucker was poignant and precise as ever noting that unelected policymakers are moving into the realm of elected officials. In the event of a policy error, people are more forgiving of elected officials. He described the dynamic as “hazardous.”

Nouriel Roubini diagnosed the present situation as a world of secular stagnation and great deleveraging. Yet, from my perspective, it seems that debt and leverage statistics in the public and private sectors are pushing higher. Nouriel also warned of the inevitability of more unconventional monetary policy.

Miao Liang described a global cycle driven asymmetrically by the real and financial economies. China drives the real – while the US drives the financial economy. Since 2018, People’s Bank of China (PBOC) monetary policy has been less connected to that of the Federal Reserve. The flexible exchange rate regime facilitated a PBOC keeping rates flat, while the Fed hiked four times.

Robert Holzmann chronicled how the present monetary policy mix is counter-productive. Current policies are not useful for aggregate demand. They only create more instability. Present monetary policies represent a threat to productivity.

Spillovers, “Beggar thy Neighbor,” and Policies

Eduardo Aninat focused on the macro, political, and international monetary system. He focused and challenged the panel to address whether we are experiencing a step-by-step decoupling of the world’s geopolitical and economic infrastructure or not? If so, what should be done?

John Taylor chronicled a succession of monetary policy knock on effects. He posited that the origin was exchange rate driven. He further discussed the cost of over \$17 trillion in negative



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

yielding debt as creating a “mess.” He offered a solution. Domestic rules would lead to clear global benefits. The Fed is a natural place to show leadership.

Charles Goodhart suggested caution regarding global imbalances. He noted that they might self-correct over time due largely to demographics. He specifically highlighted the cases of China and Germany.

Dong He discussed the chain of actions from monetary policy extending through the financial system into the real economy. He encouraged the use of macroprudential measures and capital control management to build up buffers and reverse problems.

Active debate ensued.

Innovation should be Embraced – but with Caution

Bill Rhodes focused the discussion – which could have been wide and unstructured – on cryptocurrencies, cyber risks, and issues of sovereignty.

Richard Sandor – a perennial innovator – shared his perspective on innovation in financial services and products. He discussed a 20-year cycle or “Arch of Innovation.” Cryptocurrencies and the Blockchain are in early and intermediate stages. His fintech exchange AFX uses Blockchain to store information and develop a market-based alternative to LIBOR... AMERIBOR. Trading has advanced from a \$13 million daily average to \$1.8 billion / day last month.

Sheila Bair thought about Blockchain from a systemic perspective – adding that the distributed ledger would create efficiencies and lower costs for consumers and businesses in the payments system as well as help with financial oversight. On cyber risks, she noted the existence of security holes and risks. However, the financial system is meaningfully ahead of the rest of the economy.

The Future of the International Monetary Fund

Guillermo Ortiz promised to be provocative and he delivered. He noted that the IMF has historically failed to predict crises. For instance, the 2006 Global Financial Stability Report (GFSR) opined that financial systems are demonstrating a stabilizing influence worldwide. He challenged the speakers to address the future role of the IMF as either one of leadership or being relegated to focusing on difficulties in Emerging Market economies.

Tao Zhang noted that “yes” the IMF is fit for purpose. He proceeded with his reasoning that the IMF’s core objectives remain relevant and the institution is capable of change and adapting to new challenges. He underscored the importance of integration noting interconnectedness via supply chains, people, and financial markets. He further noted how the IMF is the only Multilateral financial institution engaged in 189 countries in the world.



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

John Lipsky responded to Guillermo Ortiz's challenge regarding the IMF's poor crisis prediction record. He noted that the IMF struggled with analytics in a securities-based world. However, repairs were initiated in 2007. He noted that much of the advanced economy surveillance had been purposefully moved by the G-20 to the Financial Stability Board (FSB). He nicely juxtaposed IMF objectives of providing 1) macro advise, 2) balance-of-payments financing, and 3) technical assistance with differing priorities e.g. financial inclusion, fin tech, debt transparency, taxes, reducing corruption, etc.

Conclusion

My three final takeaways are:

- First, **the time is right for the Bretton Woods Institutions (BWIs) to exercise greater leadership.** The IMF is uniquely situated to help govern effectively and navigate in an increasingly complex and challenging world. But, with greater complexities and areas of engagement comes the risk of mission creep.
- Second, **the international monetary and financial system would benefit from a move with great purpose over time to a more rules-based system.**
- Third, **policy actions today would benefit from a system-wide and longer-term perspective.**

This cannot occur overnight. Kurt's latest book *Before Bretton Woods: The Atlantic City Conference* nicely chronicles the elapse of nearly two decades of work to help sculpt the BW agreement – which provided so much... to so many... for so long.

We are grateful that you are here. We are especially appreciative of your time during these busy days. We hope that you are too inspired to help transform this conference into a living breathing work with life into the future. **We welcome your comments and thoughts. These stressors will not vanish. In fact, they will only intensify. But, now is the time look forward with ideas and action.**

Thank you.

Moderator and speaker bios and affiliations are available at www.CenterforFinancialStability.org/bw2019.php



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

The Center for Financial Stability (CFS) is a private, nonprofit institution focusing on global finance and markets. Its research is nonpartisan. This publication reflects the judgments and recommendations of the author(s). They do not necessarily represent the views of Members of the Advisory Board or Trustees, whose involvement in no way should be interpreted as an endorsement of the report by either themselves or the organizations with which they are affiliated.