MODERNIZING THE BRETTON WOODS INSTITUTIONS FOR THE TWENTY-FIRST CENTURY

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Atlantic Council
GEOECONOMICS CENTER

BRETTON WOODS 2.0

BRETTON WOODS 2.0 PROJECT

This paper is one of four publications launched as part of the Bretton Woods 2.0 Project on October 17, 2022. Launched right after the 2022 IMF-World Bank Annual Meetings, the Bretton Woods 2.0 Project examines the deep challenges facing the Bretton Woods Institutions and leverages interactive data visualizations to reimagine the governance of international finance for the modern global economy. The goal of the Project is to deliver a blueprint for reforms in four key areas: governance and parallel institutions, macro-critical global trends, future of money, and fintech, and non-state and quasi-state actors.

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INTRODUCTION

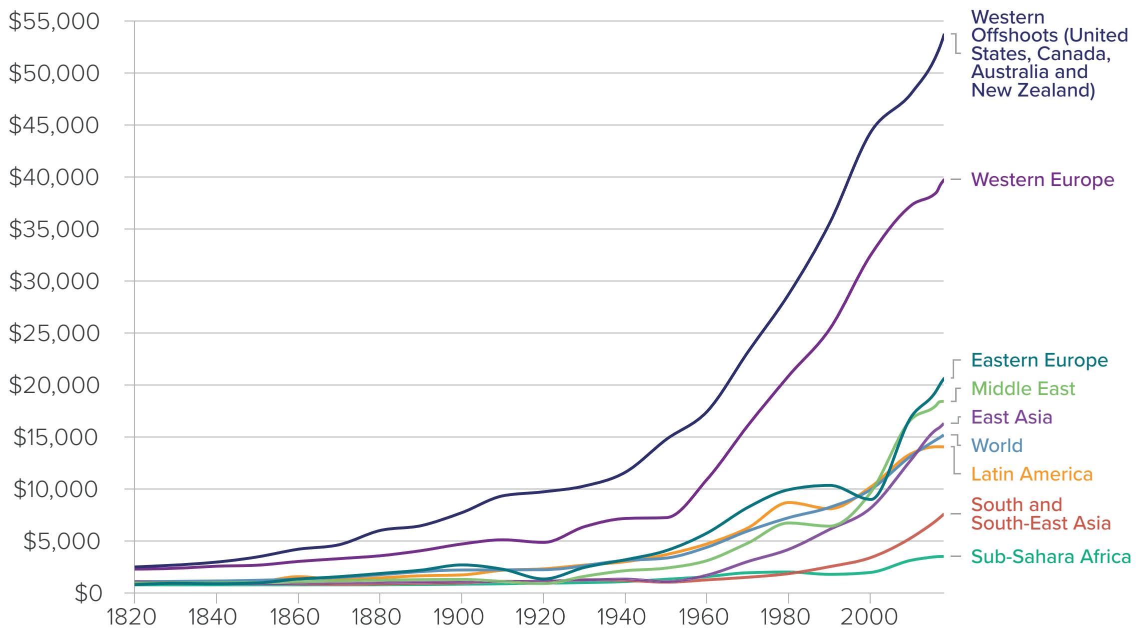
In July 1944, during World War II, the United Nations Monetary and Financial Conference—known more popularly as the Bretton Woods conference—reached agreements on an international financial architecture that, with some modifications and additions, has existed to today. That agreement was designed to create a rule-based international financial architecture and open trading system that would reduce protectionism, rampant nationalism, growing inequalities, and beggar-thy-neighbor policies that had led to the financial crash of 1929, the Great Depression, and, eventually, World War II. For the next seventy or so years, despite hiccups, that project succeeded. The world has seen not only reconstruction and recovery from World War II, but also rising incomes and lowered poverty in large parts of the world—especially where they have been drawn into the global economy.[1]

The global trading system envisaged in 1944 certainly expanded for much of the period since World War II, leading right up to the global financial crisis (GFC) in 2008. Trade in goods and services combined as a share of global gross domestic product (GDP) peaked at 61 percent in 2008, and has declined since then.[2] Trade in services, which was around 12.4 percent of global GDP in 2008, rose to 13.6 percent of global GDP in 2019. The massive expansion in trade and prosperity also helped reduce poverty in many parts of the developing world. It also led to a decline in global inequality but unfortunately at the same time in-country inequality has increased dramatically in most countries in the world (see Figure 1). This is linked to technological changes, but also to the forces of globalization—freer trade and financialization of global markets—that were at the heart of the Bretton Woods system.[3]

The 2008 GFC marked a turning point in many ways. There was a brief period of heightened global coordination to deal with the crisis, but today that coordination and cooperation are badly frayed. Rising protectionism and lack of global coordination on the COVID-19 pandemic have exposed huge differences and disparities in the world.[4] And now the Russia-Ukraine war and the resulting sanctions and food- and energy-supply disruptions have created even further divisions and disparities as countries struggle to cope with rising inflation and access to food and energy. These divisions come at a time when even more dangerous challenges have emerged, which threaten the globe and need serious global collective action. The most serious of these is the threat of climate change, with rising temperatures leading to greater frequency of natural disasters (Figure 2).[5]

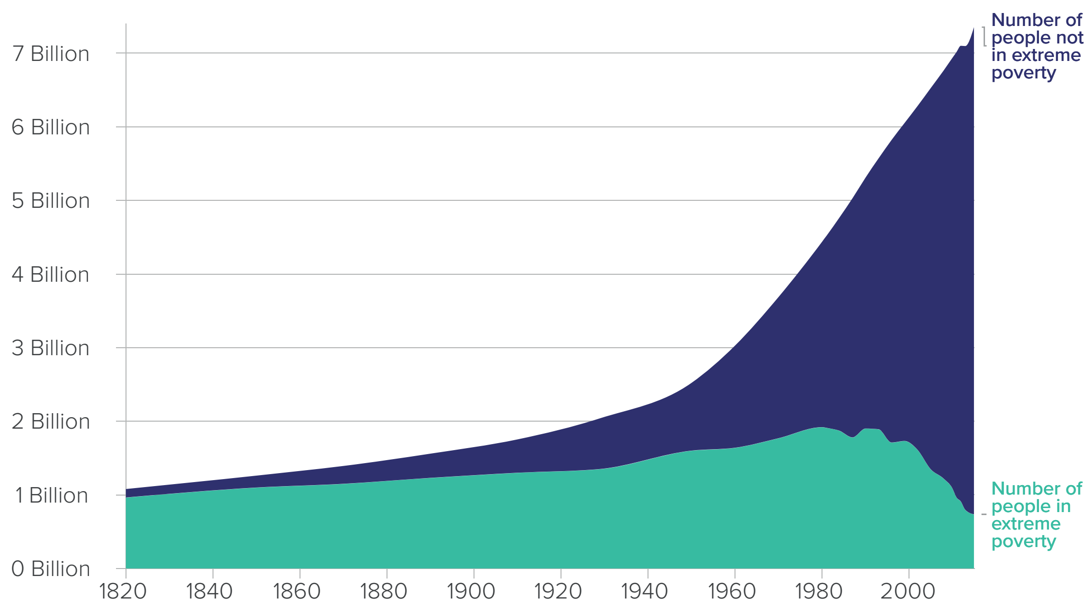
Figure 1. Global Trends in Income, Poverty, and Inequality

a. GDP per capita, 1820 to 2018
Adjusted for price differences between countries and inflation over time



Source: Our World in Data.

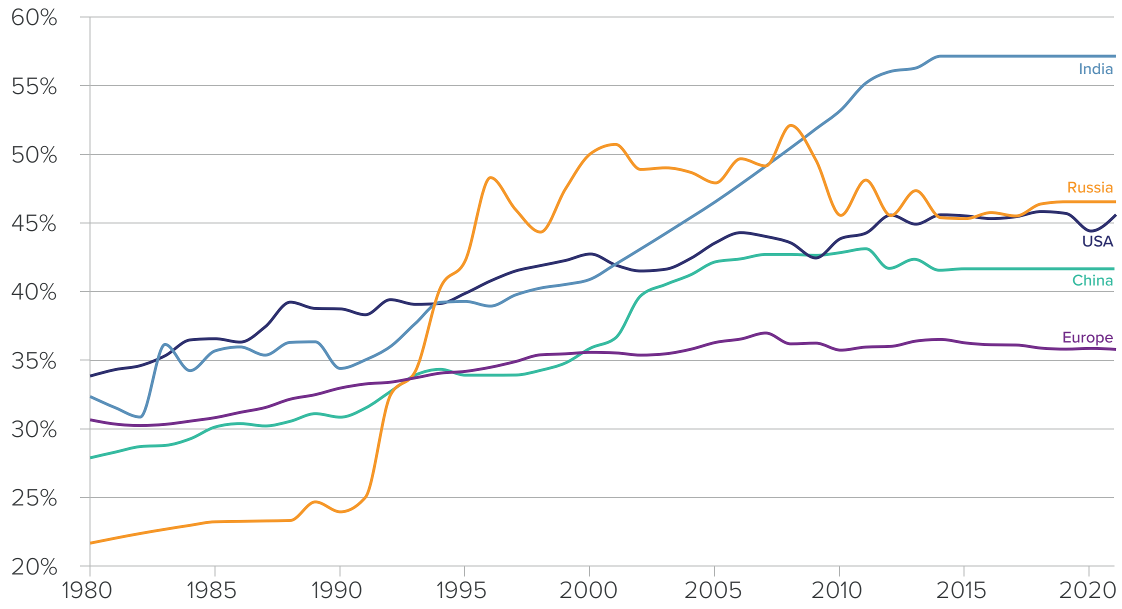
b. World population living in extreme poverty, 1820 to 2015
Adjusted for price differences between countries and inflation over time



Source: Ravallion (2016) updated with World Bank (2019)..

c. The rise of inequality around the world, 1980 to 2018

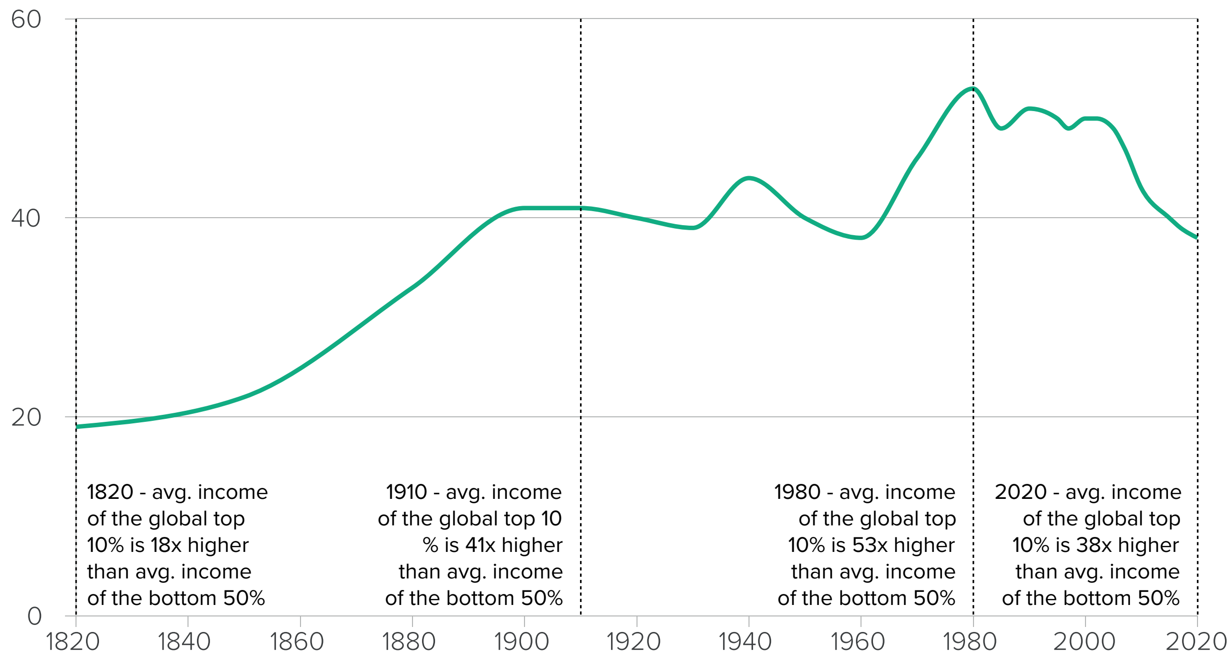
Top decile share of total income



Source: World Inequality Database

d. Global income inequality, 1820 to 2020

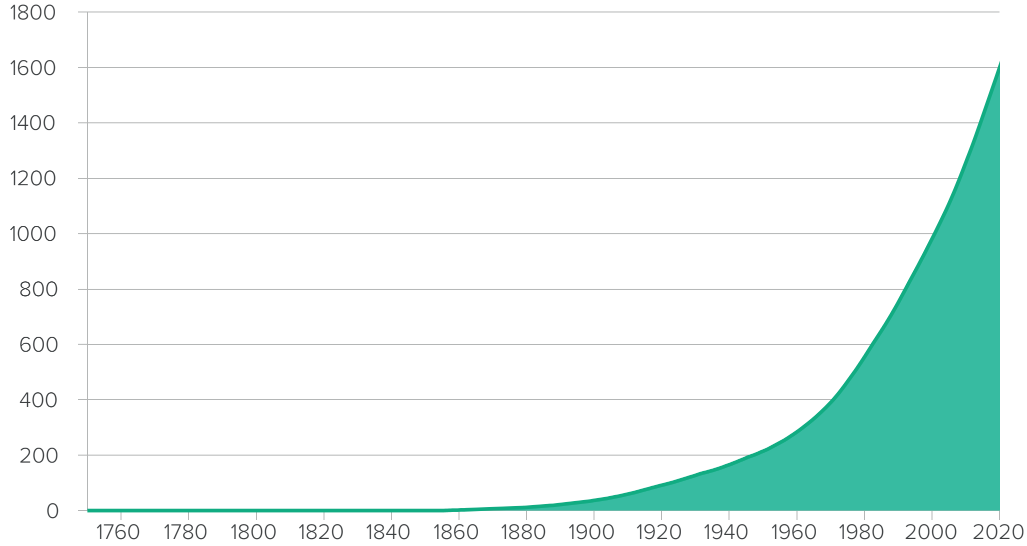
Ratio of Top 10/Bottom 50



Source: World Inequality Database.

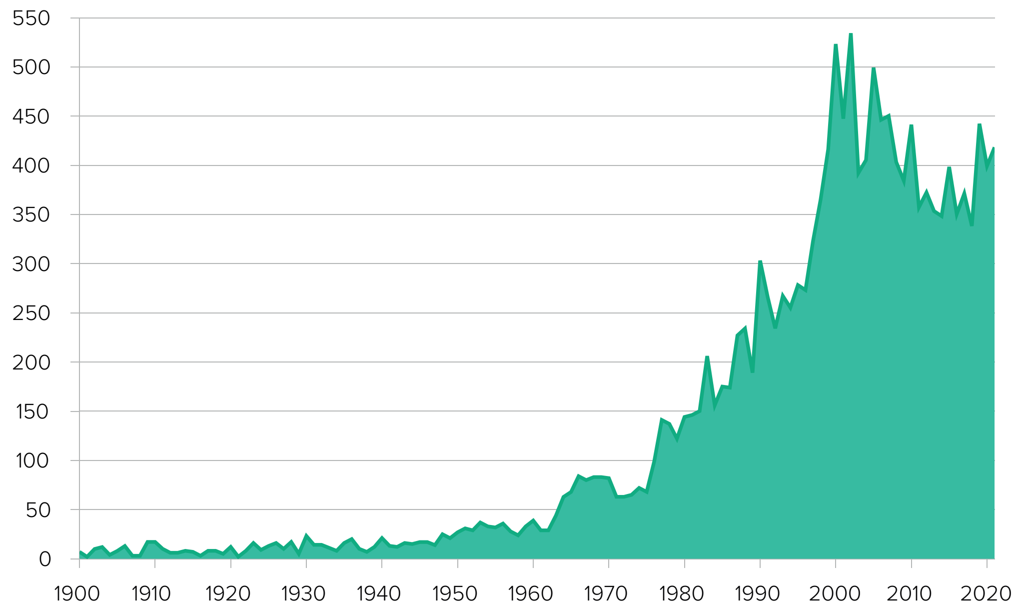
Figure 2. Global Trends in CO_2 Emissions, Warming, Natural Disasters, and Cyber-Terrorism

a. Cumulative CO2 emissions, 1750 to 2020
Billions of tonnes



Source: Our World in Data.

b. Global number of natural disasters, 1900 to 2021



Source: The International Disaster Database.

IMF managing director Kristalina Georgieva holds a news conference at the IMF headquarters. REUTERS/James Lawler Duggan.

The institutions that were established at the Bretton Woods conference and subsequently—the IMF, the World Bank Group, and the General Agreement on Tariffs and Trade (GATT)—tried to remain relevant by adapting to a changing world.[6] They were broadly successful in contributing to reduced poverty and faster growth in large parts of the developing world. They helped low- and middle-income countries deal with global shocks through finance and improved domestic policies. Many emerging economies that liberalized and participated in the global trading system converged toward the advanced economies, especially after 1990 and in the years before the GFC. But since then, even they have run out of steam and need fresh momentum.[7] In addition to providing financial support, the IMF and the World Bank also provided advice on a range of macroeconomic, financial, regulatory, and development issues. While some of their advice has often been criticized, it nevertheless has provided a body of knowledge that has helped countries move up the development ladder.

But the BW institutions are no longer fit for purpose to meet today's global challenges, because their governance structures remain more or less what was created at the end of World War II, and their size and mandate have made them less able to address today's challenges. They are now seen as mainly institutions to help deal with problems in the developing world, and they are struggling to even do that. What is needed today are genuinely global institutions that address global problems. This paper will focus on their size and mandate, but no new set of institutional arrangements will have legitimacy, and therefore acceptability, without fixing their governance structure. The issues of governance structure, voting shares, and the leadership-selection process are taken up in a separate paper. But broadly, a shift of voting shares from the European Union (EU) countries toward China, India, and emerging economies in Africa is needed.

WHAT AILS THE BRETTON WOODS SYSTEM?

The problems with these institutions can be put into two broad categories: size, financing mechanisms, and leverage; and their mandate and effectiveness.

SIZE AND LEVERAGE

With the reemergence of global crisis, with the GFC in 2008–2009 and the pandemic in 2020, it has become clear that the IMF remains too small, and its resources too constrained, to help the world address these challenges.[8] Bilateral swap lines and regional safety nets (such as the Chiang Mai initiative and the BRICS contingent facility) are today twice as large as the resources of the IMF. Along with unused special drawing rights (SDR) issues, IMF resources are now about $1 trillion—only about 1.1 percent of global GDP—barely enough to deal with crises in a few countries, and certainly not enough to manage a global crisis.[9]

The same problem of size also applies to the World Bank and the multilateral development banks (MDB). Their combined lending is now smaller than that of bilateral development finance institutions (DFIs) and sovereign wealth funds (SWFs), and now form a small share of resources flowing to the developing world. In 2019—just before the pandemic—the World Bank and the MDBs provided less than 10 percent of all financial flows to the public finances of the developing world, according to World Bank and OECD data provided in a report of the World Bank's Independent Evaluation Group assessing it's global footprint[10] In 2019 and 2020, they provided only about $40 billion in climate finance—a small share of what is needed, according to the World Bank, according to the same report. When the Addis Ababa Action Agenda—the financing plan for the SDGs—was announced in 2015, the MDBs had promised to turn the billions they provided into trillions by leveraging private finance, but even that promise remains unfulfilled.[11]

More broadly, in the international financial system it is difficult to convince countries to allocate funds for global problems. As a result, there is huge underfinancing of global public goods (GPGs). Even when countries provide aid, they prefer to finance projects within a recipient country. Official development assistance (ODA) GPG funding is only near 10 percent of the total. There have been some successful global funds that have helped address specific problems. In agriculture, the Consultative Group for International Agricultural Research (CGIAR) helped generate a green revolution in wheat and rice. In health, the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM) and the Global Alliance for Vaccination and Inoculation (GAVI) have made contributions. But funding for broader global challenges has not had the same success. The Green Climate Fund, which devotes 50 percent of its funding to adaptation and 50 percent to mitigation, has not seen anywhere near the $100 billion per year that it was promised. Some of the contributions it has received may have come from diverting existing ODA, rather than new funding.

MANDATE AND EFFECTIVENESS

THE INTERNATIONAL MONETARY FUND

The IMF is accused of having failed at two of its major functions—to warn the world of impending global crises and do adequate surveillance of the global monetary and financial system.[12] At its creation, the IMF's primary role was supervising exchange-rate arrangements agreed upon at Bretton Woods. But once the United States abandoned the dollar-gold peg, the IMF began to change its role. It has spent much of its energy trying to develop new instruments to help emerging-market economies deal with growing financial and debt crises and low-income countries reduce poverty, but with very mixed outcomes.[13] Now it has turned its focus to issues such as climate finance, gender equity, and human development, which many other agencies are better suited to address. According to some critics, the IMF is beginning to act like an aid agency.[14]

The IMF is also criticized for other aspects of its programs, including its excessive focus on capital-account liberalization, which increases inequality and fosters instability.[15] Its programs also impose excessive austerity and are procyclical, with arbitrary program size and serial lending, where a large part of its membership remains in repeated IMF programs.[16] Some forty-eight countries, making up more than a quarter of its membership, have been under IMF programs for well over half of the time they have been members.[17] Finally, the IMF is also accused of weak surveillance in advanced economies, which, in turn, may have contributed to its inability to predict global crises.[18] Some of this is because its advice is ignored in the advanced economies, and some of it is because of self-censorship in the way it carries out surveillance in advanced economies.[19]

THE WORLD BANK GROUP

The World Bank Group is being criticized for not doing enough about climate change. What the world needs today is a global institution tasked with guiding a global transformation toward a sustainable planet and promoting shared prosperity. The WBG is largely missing in action in the climate fight, according to former Vice President Al Gore. Instead, the World Bank, which earlier adapted well to address global poverty, is now seen as a multipurpose development bank that tries to provide support to countries for their perceived needs, without much overall strategic vision. Even in that role, it has issues and problems. Key critiques of the WBG include failed structural-adjustment programs, its flawed Doing Business Index, and an excessive focus on lending at the expense of its much better acclaimed non-lending services and analytical work.[20] It used to be a leader in thinking on economic development, but has lately fallen behind, and is often seen as a laggard in terms of how it addresses these issues.

Another major critique of the World Bank Group is its insufficient focus on catalyzing private flows.[21] It has also been overly conservative and risk averse in the use of its capital base.[22] As a result, it has not been able to lend as much and leverage private capital flows for infrastructure and climate change. It has underutilized its guarantees, focused largely on loans, and has not financed insurance facilities as much as it could have. It has also been criticized for being too slow and laden with bureaucratic procedures that cause costly delays for its borrowers, and make it difficult for the private sector to want to do business with it.[23] Its country focus has improved performance, but neglects its ability to meet global and regional financing needs.[24] It needs a substantial overhaul of its objectives, and much more innovative use of its capital base and financial instruments.

WORLD TRADE ORGANIZATION

Since the WTO's creation on January 1, 1995, global trade volumes have more than doubled, and global tariffs have fallen to 9 percent. Despite that, the failure to reach agreement on the Doha Round is seen as a major setback for the WTO. Whereas the GATT dealt with trade in goods, the WTO and its agreements expanded to cover trade in services and intellectual property. They introduced more formal mechanisms for dispute settlement, including an Appellate Body of experts to adjudicate disputes, but that system is now in disarray.[25] It also allowed a self-designated status of "developing" country, which provided various exemptions from WTO agreements for specified periods. Despite a lack of agreement on the Doha Round, trade grew rapidly, and the WTO system worked reasonably well. Lately, however, problems have arisen. First, the continuing self-attestation of some countries such as China—now the world's largest trader—as a “developing economy” that continues to receive special exemptions is being criticized. The use of state-owned enterprises with special subsidies—specifically, but not exclusively, with China, which gives it an unfair advantage—is another major issue of contention.[26] Second, the United States has been unhappy with the way the Appellate Body has functioned, and has held up appointment of new Appellate Body members.[27] It has also unilaterally increased tariffs in recent years, which has damaged the WTO system considerably. Other countries have retaliated, and used this practice as an excuse to raise tariffs.

More broadly, the consensual system of reaching agreements that underline the WTO is fair, but has also made it difficult to reach agreements because any one country can veto an agreement. Frustration with lack of progress on multilateral agreements has created demand for allowing plurilateral agreements at the WTO, and calls for a change from consensus to other voting arrangements for reaching agreements at the WTO. Many issues related to tariffs on e-commerce, investment protection, and environmental and labor standards also remain unresolved. A major reform of the WTO is clearly needed. The agreements reached at the 12th Ministerial Conference (MC) on a limited number of issues—such as fisheries subsidies, pandemic response, food insecurity, and e-commerce—were important because they were multilateral, and give hope and vigor to address the more difficult issues going forward.

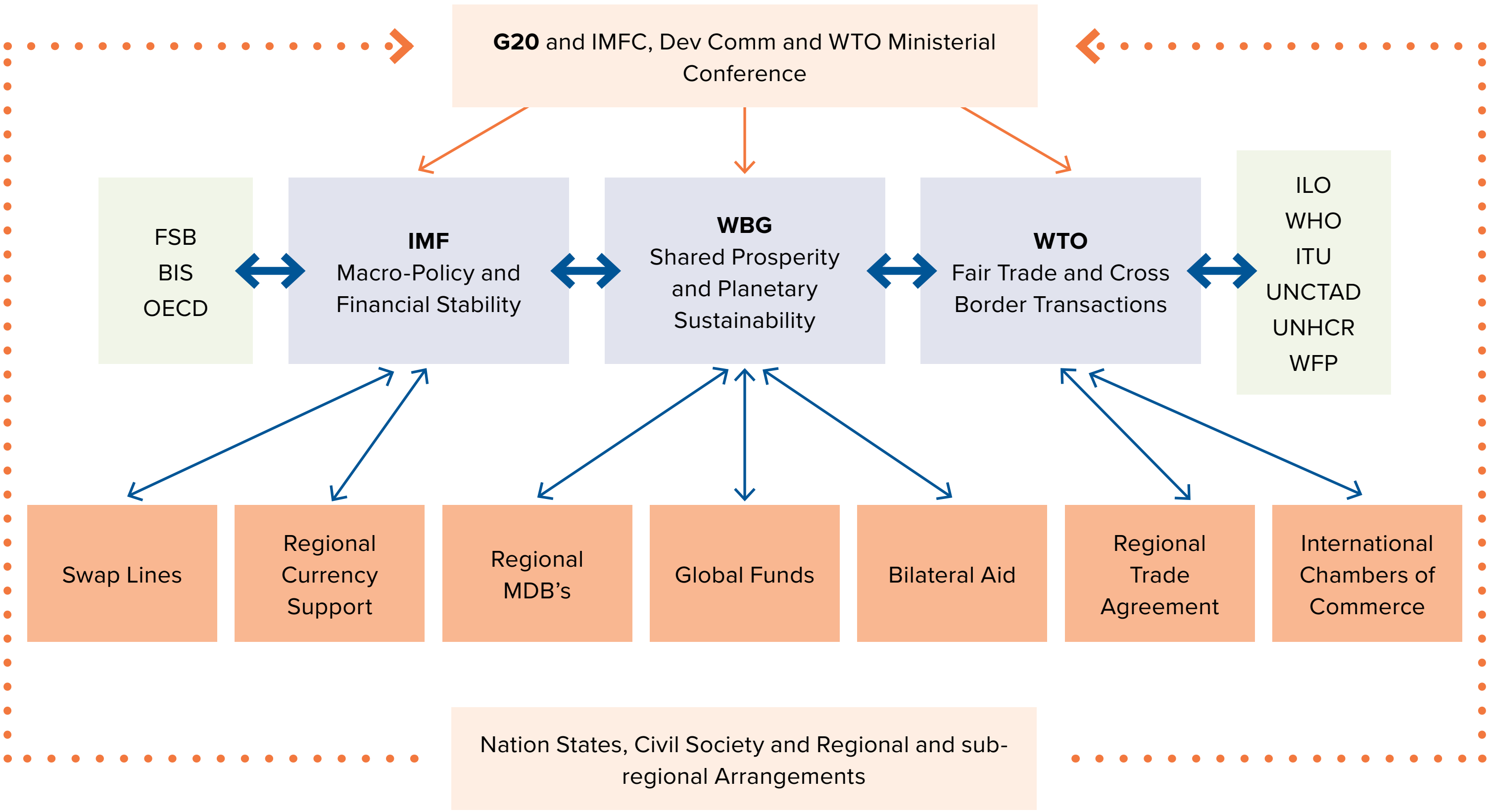
WHAT SHOULD THE BRETTON WOODS 2.0 INSTITUTIONS LOOK LIKE?

The twenty-first century for which a Bretton Woods 2.0 is needed will be quite different from the one exists today, and certainly quite different from the era that existed in 1944. What form should the new Bretton Woods institutions take, given the scale of change that is needed? Should they simply be a revamp of the existing institutions, or a start from scratch with new institutions, as some have suggested?[28] While it may seem that starting from a fresh cloth is ideal, getting today’s fragmented world to do that will not be easy. It is, therefore, more practical to try reshaping and bolstering the existing institutions to make them able to address the challenges the global system faces today, and will face in the future.

A more flexible international financial architecture, with strengthened Bretton Woods institutions but woven together with regional and issue-specific institutions and non-state actors, may be the right way forward. It will help build a more resilient and responsive system of cascading and interconnected institutional structures that can adapt to future uncertainties.[29] In the predicted multipolar world, a modified Group of Twenty (G20) can become the forum for providing overall guidance in setting priorities to the new Bretton Woods institutions, along with their existing governance structure—the International Monetary and Finance Committee (IMFC), the Development Committee (DC), and the WTO’s Ministerial Conference (MC).

At its core will sit three genuinely global institutions—the IMF, tasked with global financial and monetary stability; the WBG, which will be tasked with achieving shared prosperity and planetary sustainability; and the WTO, which will be charged with orderly trade and cross-border transactions (Figure 3).[30] Parallel to these, and working together, will be a series of regional and specialized organizations, with well-defined mandates and mechanisms for collaboration that will enhance and strengthen the international financial architecture. Where needed, these institutions will work with specialized agencies such as: the IMF with the Financial Stability Board (FSB) and Organisation for Economic Co-operation and Development (OECD); the WBG with relevant UN agencies, private philanthropic institutions, and bilateral aid agencies; and the WTO

Figure 3. The Proposed New Bretton Woods System



Note: Global funds include pension funds, and bilateral aid includes sovereign wealth funds.

with regional customs and trade and investment facilitation arrangements, and with relevant business and industry chambers.[31]

The proposals for a new system can be put into three buckets: remit, resources, and rules—or the three "Rs" of Bretton Woods 2.0.

REMIT

The remit of the new BW institutions must be global—the IMF for macroeconomic policy and financial stability, the WBG for planetary sustainability and shared prosperity, and the WTO for fair trade and cross-border transactions. The IMF and the World Bank Group are global in their membership, but remain focused mostly on problems in developing countries. This leads to overlapping and sometimes counterproductive actions, and often a lack of clarity on who should do what. Under Bretton Woods 2.0, there will be a primus inter pares—a primary institution—with the main responsibility and, in some areas, joint or shared responsibility with a clear mandate on how to work together. Also needed is a system where global challenges are addressed by global institutions and regional issues, where appropriate, by regional

David Malpass, president of the World Bank Group, arrives for a meeting in Japan. REUTERS/Issei Kato/Pool.

institutions—cascading systems that support each other.[32] A new remit for the Bretton Woods institutions should include the following suggestions.

a) IMF: A strengthened IMF must be a core pillar of the system, but it should see its primary role as a monitor and arbiter of the rules, not as a lender. Its success should not be judged by the size of its programs or how much it has lent. It should be seen as the lender of last resort, and it should not try to invent new facilities to keep itself relevant or to keep lending. In this regard, it should work to encourage central-bank swap arrangements and regional support mechanisms, rather than resisting them. It should be working toward helping create a stronger, multi-instrument financial-resilience system, rather than be the sole provider of support to countries in balance-of-payments and financial distress.

The IMF also needs to address the following issues.

- **Focus on debt and help prepare a debt-restructuring framework.** Given the likelihood that many countries are likely to enter debt crises in the coming years, the IMF—working closely with the World Bank and the Financial Stability Board—should be tasked with establishing a debt-restructuring framework that can be acceptable to Development Assistance Committee (DAC) and non-DAC countries.[33]

- **Reduce mission creep.** The IMF should, of course, work on social, gender, and climate-change issues to better understand their macroeconomic and financial impacts, but it should avoid any programs and lending on these issues, and leave that function to other aid agencies of the international financial system.

b) World Bank Group: The World Bank Group must become the apex global institution for sustainability and the green transformation of the world economy. Just as the world needed a Marshall Plan to help it recover from the ravages of World War II, it now needs actions on a similar scale internationally to engineer the energy and ecological transformation for a more sustainable planet. Its new role should be as the global institution for climate change and sustainability—not just another multipurpose development bank. It must also be able to provide monitoring and advice on climate action to the entire world—not just to developing countries—on a range of issues such as climate adaptation, mitigation, carbon pricing, net-zero transformation, and environmental, social, and governance (ESG). Climate change cannot be yet another add-on activity like agriculture, industry, and infrastructure. It is not sufficient to create a climate-change department in the WBG that allows all others to continue business as usual, with sustainability being handled by the new department. The entire organization must be transformed to make it the premier global institution for helping the world deal with climate change. Its name could be changed from the International Bank for Reconstruction and Development (IBRD) to the World Bank for Sustainability and Development (WBSD).[34]

The WBG must also shift the focus from lending to catalyzing resource flows. It could help build the regulatory systems and institutions that will help to attract more capital from the private sector and from sovereign wealth funds. It can help build more schools, health centers, roads, dams, irrigation systems, power plants, or rail lines, but it has limited resources. If it helps build regulatory and public-financial systems, and the governance and judicial systems that will help an economy attract more private capital for this social infrastructure, it can help meet the badly needed infrastructure-financing needs of a large number of developing countries, which need to attract more capital to meet them. Its success must be judged not just by how much it lends, but by how many resources it can catalyze to address social and physical infrastructure and climate-finance needs. More innovative use of its financing instruments is needed, especially in the way it books guarantees and insurance backstops.[35] A guarantee or an insurance backstop facility has only a probability of being called, and must be booked differently from a loan; otherwise, it creates a huge disincentive to its use.[36] It is, therefore, quite shocking to learn that the first insurance backstop facility financed by the World Bank was $100 million in 2002 (some fifty years after it was established) for earthquake insurance in Turkey, which allowed Turkey to attract more than $1 billion in reinsurance. Since then, the World Bank has financed a few more insurance programs around the world, but they remain a very small part of its portfolio. Its private-sector arm, the IFC, is also a bit player in private finance. It spends enormous effort on looking for and financing individual companies, while it should spend much more effort on helping develop systems for small and medium enterprise (SME) finance, which can attract international capital. The Multilateral Investment Guarantee Agency (MIGA) part of the WBG remains very small, and covers political and non-commercial risk.

The World Bank Group must continue its country-based assistance, but also focus more on global problems—much more than it has done so far. The WBG has huge leverage and convening power to address these issues, working in partnership with specialized agencies.[37] It may need new and more innovative sources of financing for this purpose, including green bonds. But it must also receive resources from global funding mechanisms, such as the new SDR issues and CO2-emission fees that are discussed later in this paper. In its country work, it should pay greater attention to governance and institution building, as well as to gender equity, continue its focus on human-capital development, and also help countries build the technical workforce for twenty-first-century technologies. In its work on human capital and climate change, the WBG should also work closely with UN agencies on other problems—e.g., the World Health Organization (WHO) on COVID response and health, UNICEF on education, the Food and Agriculture Organization (FAO) on agricultural adaptation—much more than it has so far.[38]

c) WTO: The WTO is struggling and needs major reform. Everyone wants free and fair trade, and Article XX of the GATT rules adopted by the WTO include the principle of non-discrimination, but they have not been applied consistently. Agreements at the WTO have been difficult for a variety of reasons. First, the agenda of issues on which to focus varies by country interests.[39] Second, the different levels of development, how market based economic systems are, and geostrategic objectives make the work of the WTO very complex. Third, slowdown in world trade as a share of GDP, and the growing emergence of trading blocs, will probably make reaching agreements at the WTO much harder, and efforts to try resolving them even more important.

Going forward, major issues that will need to be addressed include “self-attestation” as a developing country, rules regarding use of state-owned institutions and other hidden mechanisms to subsidize domestic producers, and much tougher rules on investment protection.[40] The Appellate Body must also be made functional, with a prescribed remit. Plurilateral arrangements can make progress if they are open ended (where others can join later), are agreed to by a large set of countries (say 85 percent), and eventually become multilateral.[41] Moving from consensus to some arrangement for voting (say, 85 percent) is another reform that could be considered, and would allow faster progress on trade talks.[42] The WTO secretariat could also be strengthened, but the wider distrust and the perception that it more closely represents advanced-country interests—especially among developing countries—must also be addressed.[43] Hopefully, the recent progress at the 12th MC will provide momentum for agreement on some of these issues.

RESOURCES

The size of the BW institutions, relative to global needs, remains exceedingly small. If these institutions are to play a central global role, their resource base must be enhanced and they, in turn, must reform to leverage other capital flows and resources to address global challenges. The IMF has the capacity to lend up to $1 trillion (about 1 percent of global GDP), of which less than half (about $450 billion) is from quotas (i.e., callable capital). The rest comes from borrowing, which is discretionary. Its quota size must be at least doubled and adjusted more automatically as global GDP rises, especially as the world is entering a phase in which widespread debt crises are likely.[44] The total stock of SDRs of 660.7 billion is equivalent to around $950 billion, or a little more than 1 percent of global GDP. Each SDR issue is subject to political whims, and uncertain. An agreement for a more automatic SDR issue every five years to stay at least around 1 percent of GDP, and with mechanisms to assign greater shares to lower-income countries, is needed. But it will be difficult to get agreement on this in today’s fractured world.

The World Bank Group’s capital base must also be increased, and must also change the way it uses its capital. The World Bank now provides an exceedingly small share of net flows to emerging markets.[45] Doubling its capital base should be an easy fix, as this is callable capital.[46] The WBG has been overly conservative in its equity-to-loan ratios, despite having preferred-creditor treatment and AAA ratings based on its shareholder ratings.[47] It could also be allowed more leeway in the use of capital by changing its capital-adequacy ratios and by allowing it to use a share of callable capital—not just its paid-in capital. They could also be more flexible in their AAA ratings, which should be an instrument rather than a strict objective.[48] The goal is to find ways to raise resources in an expeditious, prudent manner without becoming overly conservative.[49]

The underfunding by the WBG and the MDB system of global challenges must be addressed, as their current funding uses are very country focused. There are calls for a big push for financing—akin to a new Marshall Plan for the emerging and low-income economies.[50] But the current method of seeking donor support issue by issue for specific purposes has left these issues grossly underfunded, unpredictable, and

WTO Director-General Ngozi Okonjo-Iweala attends a news conference in Geneva, Switzerland. REUTERS/Denis Balibouse.

subject to political whims. More global and automatic financing mechanisms should be considered. One can think of three options that could contribute toward financing GPGs.

The first is a carbon tax, or auctioning of permits for carbon emissions. There is a perception that carbon taxes will damage long-term growth, but the evidence in the few countries where they have been introduced does not support that view.[51] Nevertheless, it is an idea which, to date, is opposed by many major emitters, even though it will help reduce emissions by encouraging the shift to less carbon-intensive production. Some countries have tried using permits to decrease emissions of several harmful chemicals, but emission permits have not been used on a global scale.

The second is to add a pollution user fee on the use of global commons, such as the oceans and atmosphere. This could be done by charging a fee on accumulated CO2 emissions by each country, like a rent on parking spaces for CO2 provided by the atmosphere. A fee of $1 per ton of CO2 per year would raise close to $800 billion per year. Much of this money could be used in the country that pays the fee for addressing climate change, and a fixed share could be passed onto the existing green climate fund or made available to a strengthened WBG to finance action on global actions needed to address climate change.

The third option, which was already mentioned under the IMF resource section, is to allow issuance of SDRs and use part of them to finance GPGs. Advanced economies' legislatures, especially the US Congress, would likely oppose global funding mechanisms' supranational connotation. One way to avoid this opposition could be to specify upfront how global funding resources would be used. The existing global funds all have separate boards, which specify how these funds would be used. Using the SDRs through the WBG and the MDBs, where the controlling vote is based on contributions, may be a way forward.

RULES

In addition to changing the remit and resources of the Bretton Woods institutions, a new set of rules must guide the global system. The rules must apply universally, not just for the less advanced economies, to create a more fair, transparent, and effective international financial architecture in which these institutions will operate. While finding agreement on these rules may not be easy in a fractured world, no international institutional arrangements will work without them.

a) Trade: The need for an open trading system is of paramount importance, with an emphasis on free and fair trade. A more differentiated and agreed definition of developing-country status is needed as the current system countries like China – the world's largest trader, to classify themselves as developing countries and get beneficial treatment. The reforms must also address behind-the-border actions that affect fair trade, such as hidden subsidies and use of state-owned enterprises.[52] A strengthened and speedier dispute-resolution mechanism, must also be a central feature of rebuilding credibility at the WTO.

b) Monetary and financial policies: In the absence of exchange-rate arrangements, rules are also needed for better coordination of monetary and financial-sector policies, and better understanding of spillovers from country policies. Excessive macroeconomic stimuli have effects within country countries, but also huge spillovers that have global effects and complicate macroeconomic management in emerging and low-income economies.[53] The IMF (working with the Financial Stability Board) must be the body that monitors these and provides recommendations. It will also need to upgrade and improve its surveillance in advanced economies, and become a forum for discussion and resolution of these issues. It should also provide guidance on development of rules for cryptocurrencies and other new financial products whose spread and risk require regulation.

c) Debt and debt sustainability: The proportion of Debt Service Suspension Initiative (DSSI) countries under debt distress has doubled to 56 percent, from a low of 21 percent in 2012 after recovery from the GFC, according to the IMF.[54] The world needs a new debt-restructuring framework, rather than the current case-by-case approach that also drags down and delays development—as seen, for example, by the debt-restructuring talks under way in Zambia, Ethiopia, and Yemen.[55] The IMF and the World Bank would be best suited to develop such as framework after discussion with the DAC of the OECD and key non-DAC players such as China and India (two major non-DAC donors), as well as private creditors.

d) Governance and taxation: The World Bank and relevant UN bodies must set governance and anti-corruption rules that apply to business practices, as well as to public procurement. Various civil-society initiatives such as Transparency International and the Extractive Industries Transparency Initiative could be examples of initiatives that help set standards that become universally acceptable. Global tax rules to address base erosion and profit shifting (BEPS) and improvement in tax systems should be agreed upon by the G20 but monitored by the IMF, along with other knowledgeable bodies like the OECD.

e) Climate-resilient infrastructure and regulatory standards: Standards may be needed to help bundle finance for climate-resilient infrastructure—and the World Bank Group, together with MDBs, is best suited to provide them. Climate regulation, and utility regulation more broadly, is another area in which some basic rules and standards are needed to attract private capital, and in which the World Bank and MDBs could set standards and provide aid.

f) SDGs: SDGs provide an agreed framework for reaching goals in seventeen areas, with one hundred and sixty-nine indicators and the SDG Index tracks progress across the world. The UN provides the secretariat to monitor their progress, but the Bretton Woods institutions (especially the World Bank and the MDBs)—which came reluctantly to accepting the Millennium Development Goals (MDGs)—must now step up to the SDGs and help countries meet those goals until 2030.

This is not an exhaustive list, but a flavor of a new rule-based order that must emerge.

CONCLUSIONS

In a fractured world, some argue that agreement on a new Bretton Woods architecture will be exceedingly difficult. Quite possibly, things will need to get a lot worse before they can get better. Some argue for starting from scratch and thinking of completely new institutions. Such a grand restructuring will be exceedingly difficult, and it may be much easier to fix what exists today and make it fit for purpose. This paper has laid out the case for a modernized and reshaped set of Bretton Woods institutions—a Bretton Woods 2.0—to help address and mitigate these challenges, with three "Rs": a revised global remit, enhanced resources, and the mandate to monitor agreed global rules not only to help individual countries, but also to address global problems more effectively. Two key features of these proposals are as follows.

First, at its center will sit three reshaped and revitalized genuinely global institutions—the IMF, WBG, and the WTO. The IMF will be tasked with macroeconomic policy and financial stability. This will include much stricter and enhanced surveillance of the advanced economies and the spillover effects of their policies to better understand, and hopefully predict, global crises and help less advanced economies. A restructured WBG—even renamed as the World Bank for Sustainability and Development—will make sustainability and shared prosperity (to address rising inequality) its major goals, and will need to use its capital base to leverage private capital more effectively. It must also be able to help within countries, and be better able to address global goods (and bads) working closely with others. Finally, a strengthened WTO with better trade rules and dispute-resolution mechanisms will enhance fair trade. Progress made at the 12th MC in Geneva on several issues hopefully creates the momentum for progress on the contentious issues at the WTO.

Second, the system needs more automatic and rule-based agreed financing mechanisms. The current system of ex-post and discretionary response has delayed the ability to help and made aid more politicized. This paper suggests some automatic financing mechanisms—more regularly calibrated SDR issue, and global pollution fees on accumulated CO2 emissions. Once agreed to, these mechanisms can become less politicized, and less dependent on political changes and whims.

At a minimum, under a Bretton Woods 1.5, a focus on resources and remit of the three institutions is necessary, even if new global rules may not be achievable. On resources, even if automatic financing mechanisms may be difficult to get agreement—especially through domestic legislative bodies—the resources of the IMF and the World Bank must see a one-time increase. On remit, the IMF should refocus on its main functions—macroeconomic policies and financial stability—and help prepare a debt-restructuring framework. It must work on understanding the macroeconomic implications of climate change, but leave financing to the WBG and other development institutions.[56] The WBG must be tasked to focus much more on sustainability, and be able to use its instruments to leverage private financial flows to a much larger extent than it has so far. The WTO must push ahead on the success of its 12th MC to further WTO reform, especially of its Appellate Body, agreement on pluralistic arrangements, and a range of multilateral issues that loom ahead, such as tariffs on e-commerce.

The new Bretton Woods institutions must become Archimedes' lever to help change the world into a more prosperous, inclusive, and sustainable planet in the twenty-first century. They alone will not be able to do it, as countries control actions in their own domains. But without them, the task will be much harder. Just as the world emerged from World War II to a period of peace and prosperity, it now needs a strengthened and revamped set of Bretton Woods institutions more than ever before, to save the planet and usher in a period of even greater prosperity in the twenty-first century.

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ENDNOTES

1 Poverty has surged due to various crises. The latest Ukraine crisis has pushed an additional fifty million people into extreme poverty, according to the United Nations Development Programme. “Global Cost-of-Living Crisis Catalyzed by War in Ukraine Sending Tens of Millions into Poverty, Warns UN Development Programme,” United Nations Development Programme, July 6, 2022, https://www.undp.org/european-union/press-releases/global-cost-living-crisis-catalyzed-war-ukraine-sending-tens-millions-poverty-warns-un-development-programme. The World Bank had earlier estimated that about ninety million people had fallen into extreme poverty due to the COVID pandemic. Carolina Sanchez-Paramo, et al., “COVID-19 Leaves a Legacy of Rising Poverty and Widening Inequality,” World Bank, October 7, 2021, https://blogs.worldbank.org/developmenttalk/covid-19-leaves-legacy-rising-poverty-and-widening-inequality. Hopefully, these are temporary setbacks and poverty will revert to its long-term decline by 2030.

2 According to the IMF, the same is true of capital flows, with gross foreign assets peaking at around 200 percent of global GDP and foreign direct investment (FDI) flows peaking at 5.3 percent of global GDP in 2007. “Changing Patterns of Capital Flows,” Committee on the Global Financial System, May 2021, https://www.bis.org/publ/cgfs66.pdf; Barry J. Eichengreen, et al., “Globalization and Inequality: Capital Flows as a Two-Edged Sword,” International Monetary Fund, January 8, 2021, https://www.imf.org/en/Publications/WP/Issues/2021/01/08/Financial-Globalization-and-Inequality-Capital-Flows-as-a-Two-Edged-Sword-49977.

3 In advanced economies—especially in the European Union—taxes and transfers have helped reduce inequality to some extent, but this is less true in other parts of the world, where social protection systems are not as well developed according to the OECD (Orsetta Causa and Mikkel Hermansen, Income redistribution through taxes and transfers across OECD countries”, Working paper No. 1453, OECD, 2019).

4 This is especially true regarding access to vaccines, which some have termed “vaccine apartheid.”

5 Average global temperatures are now more than 1 degree higher than the 1951–1980 average. Cyberattacks have risen more than seven times in this century, as documented by the Identity Theft Resources Center in the Annual Report 2020 Overcoming Pandemic Challenges in a Unique Landsacpe. 03.25.2020_2020-Annual-Report_FINAL-optimized.pdf (idtheftcenter.org)

6 The Bretton Woods Conference created the IMF and the World Bank, which was set initially up as the International Bank for Reconstruction and Development (IBRD) in 1946. The International Finance Corporation (IFC) and the International Development Association (IDA) were added in the 1960s. In 1988, the Multilateral Investment Guarantee Agency (MIGA) was established to provide political-risk guarantees. Regional multilateral development banks (MDBs)—the Asian Development Bank (ADB), Inter-American Development Bank (IADB), African Development Bank (AfDB), and European Bank for Regional Development (EBRD)—were created subsequently, as were the European Investment Bank (EIB) and Asian Infrastructure and Investment Bank (AIIB) and many subregional banks, totaling around twenty-seven today. GATT was created in 1947. On January 1, 1995, the WTO was established as part of the Uruguay Round Agreements.

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8 According to the UN’s Economic Commission for Latin America and the Caribbean (ECLAC), the IMF issued the equivalent of $171 billion to ninety developing economies in the two years between the start of the pandemic in March 2020 and March 2022. However, the estimate of developing economies’ total financing need was $2.5 trillion in March 2022.

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11 "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance," World Bank, April 2, 2015, https://thedocs.worldbank.org/en/doc/622841485963735448-0270022017/original/DC20150002EFinancingforDevelopment.pdf.

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13 The number of exchange-rate crises doubled in the developing world after 1980, and their nature changed from just balance-of-payments crises to banking and fiscal crises. Carmen M. Reinhart and Christoph Trebesch, "The International Monetary Fund: 70 Years of Reinvention," *Journal of Economic Perspectives* 30, 1 (2016), 3–28, https://www.aeaweb.org/articles?id=10.1257/jep.30.1.3. The IMF's various lending instruments developed over the years include: Stand-By Arrangement (SBA), Extended Fund Facility (EFF), Extended Credit Facility (ECF), Standby Credit Facility (SCF), Rapid Financing Instrument (RFI), Rapid Credit Facility (RCF), Rapid Financing Instrument (RFI), Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), Catastrophe Containment and Relief Trust (CCRT), Policy Support Instrument (PSI), Resilience and Sustainability Trust (RST), and Enhanced Structural Adjustment Facility (ESAF).

14 Kenneth Rogoff, "Why Is the IMF Trying to Be an Aid Agency?" Project Syndicate, January 3, 2022, https://www.project-syndicate.org/commentary/imf-acting-like-aid-agency-risks-embarrassment-by-kenneth-rogoff-2022-01.

15 Joseph E. Stiglitz, "Capital-Market Liberalization, Globalization, and the IMF," *Oxford Review of Economic Policy* 20, 1, (2004), 57–71, https://www.jstor.org/stable/23606673; Atish R. Ghosh, Jonathan D. Ostry, and Mahvash S. Qureshi, "When Do Capital Inflow Surges End in Tears?" *American Economic Review* 106, 5 (2016), 581–585, https://www.aeaweb.org/articles?id=10.1257/aer.p20161015; Jonathan D. Ostry, Prakash Loungani, and Davide Furceri, "Neoliberalism: Oversold?" *Finance and Development* 53, 2 (2016), https://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm. In November 2012, the IMF issued a revised position on capital-market liberalization, but how much of this led to change in actual IMF advice remains to be assessed. "The Liberalization and Management of Capital Flows: An Institutional View," International Monetary Fund, November 2012, https://www.imf.org/external/np/pp/eng/2012/111412.pdf.

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22 Mahesh K. Kotecha, "Rising Role of Preferred Creditor Status in Ratings of Multilateral Development Banks," in *Revitalizing the Spirit of Bretton Woods: 50 Perspectives on the Future of the Global Economic System*, 2019, https://www.4scic.com/pdf/2%20Kotecha_Revitalizing%20the%20Spirit%20of%20Bretton%20Woods.pdf.

23 Emergency projects in response to disasters were found to be as successful as projects that took much longer to prepare, according to the Independent Evaluation Group (IEG), the evaluation department of the WBG. Hans Singer pointed out in 1956 that, because of fungibility, external aid only finances the marginal project. Therefore, it is better to assess overall country outcomes rather than individual projects—but this is not easy to attribute to MDBs, especially as their role in overall financing has diminished over time.

24 Some regional banks do pay more attention to regional needs but, in general, the World Bank Group—and the MDB system more broadly—provides insufficient resources and attention to global and regional problems.

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27 Marianne Schneider-Petsinger, "Reforming the World Trade Organization," Chatham House, September 11, 2020, https://www.chathamhouse.org/2020/09/reforming-world-trade-organization.

28 James M. Boughton, “Governance Reform after Ukraine: Five Lessons from Bretton Woods,” Centre for International Governance Innovation, April 21, 2022, https://www.cigionline.org/articles/governance-reform-after-ukraine-five-lessons-from-bretton-woods/.

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30 There is a view that the WTO remains an organization, but needs to become an institution.

31 The new Financial Intermediary Fund (FIF) for pandemic response, agreed to at the Bali meeting of finance ministers of the G20 with the World Bank and the WHO in charge, is an example of this. See also: Mariana Mazzucato and Jayati Ghosh, “An Effective COVID Response Must Be Truly Global,” Project Syndicate, July 20, 2022, https://www.project-syndicate.org/commentary/g20-world-bank-ineffective-approach-to-pandemic-preparedness-by-mariana-mazzucato-and-jayati-ghosh-2022-07.

32 Some regional crises that have global effects may require intervention by global institutions, such as the 1997 Asian financial crisis or the Ebola outbreaks in Africa.

33 Mariana Mazzucato and Alan Donnelly, “How the G7 Could Help the Debt-Distressed,” Project Syndicate, June 23, 2022, https://www.project-syndicate.org/commentary/g7-could-do-more-for-indebted-low-income-countries-by-mariana-mazzucato-and-alan-donnelly-2022-06.

34 The European Investment Bank (EIB) already informally calls itself the European Carbon Bank.

35 MIGA provides political-risk guarantee but, once a project in a country takes a political-risk guarantee, that could become a stigma and require political-risk guarantees on all future projects with market financing.

36 Both the borrower and the lender have a disincentive to use a guarantee instead of a loan, as the borrower who takes the guarantee is precluding a loan of the same amount and the lender makes money on the loan.

37 Some suggest the regional MDBs focus more on country and regional issues, and the World Bank on global issues. Nancy Birdsall, “MDB’s Why Governance Matters,” in Revitalizing the Spirit of Bretton Woods.

38 See also: Annalisa Prizzon, et al., “Six Recommendations for Reforming Multilateral Development Banks,” Overseas Development Institute, December 2017, https://cdn.odi.org/media/documents/11908.pdf.

39 Even the free-trade push is applied selectively. For example, the lack of free trade in agriculture, including heavy subsidies by advanced economies, is not addressed. See: James Thuo Gathi, “The High Stakes of WTO Reform,” *Michigan Law Review* 104, 6 (2006), https://repository.law.umich.edu/mlr/vol104/iss6/6/.

40 Article 7 of the WTO already sets a limit of 3.25 percent of world trade as a rule for developing-country status for export subsidies, and this could be applied as a criterion more broadly.

41 It could be set at 85 percent, but would basically remove the requirement for complete consensus, which has effectively held up progress, at least until the agreements reached at the 12th MC.

42 Pradeep S Mehta and Sneha Singh, “Back to the Drawing Board: WTO Reform Requires a Reassessment of Its Fundamentals, Economic Times, July 20, 2022, https://economictimes.indiatimes.com/news/international/world-news/back-to-the-drawing-board-wto-reform-requires-a-reassessment-of-its-fundamentals/articleshow/93012454.cms.

43 Andrew Beattie, “The Perceived Dark Side of the WTO,” Investopedia, March 26, 2022, https://www.investopedia.com/articles/economics/dark-side-of-the-wto.asp.

44 Such an increase will also make it easier to adjust quota shares.

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46 Some argue that the MDBs must make better use of their existing capital base and show their willingness to leverage private capital before giving them a capital increase.

47 Its equity-to-loan ratios have been 30–35 percent, compared to 10–15 percent for commercial banks. See: Chris Humphrey, “All Hands on Deck: How to Scale up Multi-lateral Finance to Face the COVID-19 Crisis,” Overseas Development Institute, April 9, 2020, https://odi.org/en/publications/all-hands-on-deck-how-to-scale-up-multilateral-financing-to-face-the-covid-19-crisis/.

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51 A few countries (for example, Sweden) have used carbon taxes as a way to decrease the use of fossil fuels without damaging growth in the long run.

52 It is primarily the rise of China as the largest trading country in the world with a status of “developing country” that has created problems that need to be addressed. Ashima Goyal and Rupayan Pal, “Global Shocks and International Policy Coordination,” Indira Gandhi Institute of Development Research, June 2022, http://www.igidr.ac.in/pdf/publication/WP-2022-008.pdf/.

53 Some argue that the advanced economies must do what they need to do, and then help repair the damage internationally, but it may be better to coordinate and reduce spillovers and beggar-thy-neighbor policies.

54 Danielle Balbi, “Billions in Distressed Debt Threatens Developing Economies,” Bloomberg, July 8, 2022, https://www.bloomberg.com/news/newsletters/2022-07-08/the-big-take-developing-nations-at-risk-of-debt-crisis; Sydney Maki, “Historic Cascade of Defaults Is Coming for Emerging Markets,” Bloomberg, July 7, 2022, https://www.bnnbloomberg.ca/historic-cascade-of-defaults-is-coming-for-emerging-markets-1.1789178.

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56 The IMF’s new facility—the Resilience and Sustainability Trust, which provides loans with a twenty-year maturity and a 10.5-year grace period at a rate just slightly above the SDR rate—will most likely be used by countries to swap more expensive commercial debt with cheaper longer-term IMF credit with no additionality.

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