Bretton Woods revisited: IMF and World Bank at 80 must evolve or lose relevance

Bretton Woods, New Hampshire's "top ski resort", is luring close season visitors with the promise of 'high-flying fun'. Some may see the 'canopy tour', in which tourists plunge 300 yards at 30mph, as an apt metaphor for the political and economic turbulence of the 16 years since the financial crisis.

The resort's marketing team is not going big on marking the 80th anniversary on Monday of the conference that spawned the post-world economic infrastructure.

Some 44 members of the nascent United Nations, guided by Churchill and Roosevelt's Atlantic Charter, met for three weeks in July 1944 to hammer out a post-war international financial system built on free trade, free markets and short-term support for economies hitting hard times.

The United Nations Monetary and Financial Conference was the culmination of two years' work in Washington and London, the latter led by economist John Maynard Keynes – who had been an appalled minor functionary at the Versailles peace conference in 1919. He was determined that the folly of imposing draconian economic hardship on defeated nations would not be repeated. He and Roosevelt's team were also influenced by the lessons of the protectionist trade policies and tight public spending that most governments implemented in the early years of the Great Depression.

On 22 July 1944, the 44 nations present signed up to the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, which later became the World Bank.

The IMF was intended to assist countries with short-term external imbalances through granting short term loans, while the World Bank would provide long-term loans countries so they could implement structural projects and reforms to foster economic growth.

These institutions, together with the United Nations itself and its various offshoots, were the foundations on which the booming United States, the declining UK and, eventually Europe and a reborn Japan, prospered under the new world order that went largely unchallenged for the rest of the century.

However, today's world is much changed in many ways and any reshaping of the Bretton Woods system must reflect those changes.

The role of emerging markets in the global economy has increased. Emerging markets' share of global GDP rose from about 18% in 1988 to around 40% last year. Obviously, China's rise is particularly significant, with its' share of global GDP soaring from 2% in 1987 to 17%. In 1987 India was outside the top ten economies but now contributes almost 4% of GDP. This importance of the emerging markets in the world economy has implications for world trade, and demand for, and price of, commodities.

We have also seen an apparent trend towards deglobalisation, starting with the trade tensions between China and the US. Trade flows, however, have become more knowledge-intensive in terms of labour and capital. The expanding digital infrastructure will facilitate trade without any physical movement of goods. The process of globalisation is therefore unlikely to be halted, it will just change form.

Meanwhile, geopolitics have been reshaping global economic ties. Countries have been reevaluating their trading partners based on economic and national security concerns, while geopolitical risks have spiked. Trade of goods and capital flows have become more regional. The covid pandemic has reinforced these trends.

The Bretton Woods institutions must become more inclusive and embrace the role of emerging countries in the global economy and depoliticise their decisions. They were born into a world where the US was the only superpower, a booming nation endowed with the economic strength to enforce order. It was joined by Canada, Western Europe and, later, Japan to form the Western Alliance, which remained unchallenged until China’s recent rise to economic and military superpower status.

The alternative will be for the emerging markets to form their own alliance, which they have started to do with the expansion of the BRICS group (Brazil, Russia, India China and South Africa)) to include six new countries (Argentina, Egypt, Ethiopia. Iran, Saudia Arabia and the United Arab Emirates). This group is impressive in size and influence and its members are trying to right the perceived wrongs of a global system that favours the US-led west.

However, the challenge for both the BRICS and the founders of the Bretton Woods system is to avoid any further high-speed plunges through the canopy.