

IV. Conclusion

Instead of attempting a summary, we conclude by reverting to our initial suggestion that the social utility of the BWIs has been called into question by the growing discrepancies between the present-day global economy and the world for which they were designed, and ask what kind of arrangements a 'new Bretton Woods' might create.

First, it should reaffirm the premises of the 1944 meeting: the desirability of rules-based global co-operation in pursuit of equitably shared global prosperity, and of the necessity for interventions by international agencies if this goal is to be secured.

Second, however, it should take note of the great increase that has occurred over the past half-century in the coverage, efficiency and power of market forces, particularly international capital markets. Any new public international agencies (or reform of the existing BWIs) would have to be justified in terms of deficiencies in the system that has grown up, i.e. in terms of 'market failures'.

Already, the BWIs provide important public goods, such as stability and rules, as well as a degree of equity, to at least partially compensate for the deficiencies of markets and national governments.

Despite the undoubtedly large benefits that have resulted from the freeing of trade and capital markets, three failings can be identified, to which there should be international responses: (1) *instability*

in trading and financial flows; (2) *incomplete financial markets*, e.g. for financing adjustment in low-income countries or for development projects which promise high economic or social but sub-commercial financial returns; (3) *persistent gross international inequalities and absolute poverty*.

INSTABILITY:

Instability can be tackled in a number of ways. One option is to move towards reduced volatility of major-currency exchange rates through a system of target zones, maintained by enhanced international co-ordination of macroeconomic policies, discussed in Part II.

Another is to discourage speculative short-term capital movements by introducing a modest uniform international tax on spot foreign exchange transactions, as proposed by James Tobin. This would both increase the down-side costs of speculation and provide governments greater autonomy in their interest rate and other macroeconomic policies.

Another possibility is the creation of an international insurance scheme, or contingency financing fund, to assist countries which suffer from unforeseeable external shocks or natural disasters. The retreat from international contingencies financing over the past 15 years has reduced both the efficiency and equity of the international system.

INCOMPLETE FINANCIAL MARKETS:

Two types of market failure suggest themselves here, for which international public funding is desirable: the financing of adjustment programmes by non-creditworthy countries (especially low-income ones), along the lines discussed in Part II; and the financing of development projects which will not attract private capital, because of high risks, externalities and other gaps between social/economic and financial profitability.

The BWIs, of course, already seek to fill these gaps and it has sometimes been suggested that the lending operations of the Fund and Bank should be merged (although creating a large concentration of monopoly power does not usually bring many user-benefits, and many believe the Bank is already too unwieldy). Another suggestion, taken up in the Volcker Report, is that the Bank should find ways to channel more of its lending to the private sector. However, if a market failure approach is taken it is not clear why the World Bank (or the EBRD or CDC, for that matter) should enter into an area apparently well provided for by private capital, unless it can be clearly shown that such finance will meet publicly desirable goals that would not be satisfied by private capital. For the most part, public capital should meet public needs, of which there remain many.

INTERNATIONAL INEQUALITY AND POVERTY:

Great progress has been made by many 'underdeveloped' countries during the lifetimes of the BWIs but this has been uneven. There is a special problem with Africa, which has not benefited from the general progress and there are few grounds for believing that this problem could be solved as an outcome of profit-maximising movements of capital and know-how. Equally, there are no grounds

for believing that market forces could satisfactorily resolve the persistence of large-scale poverty.

The desirability of public action to tackle these problems is the classic market failure case for concessional development aid, of which the IDA lending of the World Bank is a prime example. However, as is increasingly recognised, giving priority to the poverty problem has an important implication for the Bank and other aid agencies: they are unlikely to make their best contribution by working through central governments, and will require the freedom to operate much more at the grassroots level, e.g. through the vehicle of NGOs.

The above suggestions imply the need for creation of international *authority* to match increased interdependence: 'rules with teeth' to achieve greater cohesion, or convergence, in national macroeconomic policies; to administer the proposed taxation and insurance schemes (the one, perhaps, funding the other); to lend for adjustment and for public-interest projects; and to administer multilateral aid.

The most obvious deficiency of present arrangements is in the area of policy co-ordination. One possibility, discussed at some length in Part II, is for the IMF to be given greater powers in this area. The principle should be observed that international problems require properly constituted, representative and accountable international authorities. It cannot be satisfactory for some exclusive group, such as the G-3 or G-7, to claim this role for itself, with all the inherent conflicts of interest that arise.

No doubt, it will take a long time (and probably a major crisis) to achieve major systemic change. In the meantime, for all their shortcomings, the BWIs (together with the proposed WTO and the UN) are the best agencies of interna-

tional co-operation the world has got. If systemic change is ruled out but incremental adaptation of the existing BWIs is possible, how might they best be adapted?

If there were acceptance of the desirability of improved policy co-ordination, including some element of exchange rate management, a substantially upgraded role for the Fund beckons. The theoretical case that economic welfare will be sacrificed if countries act in isolation is strong but any co-ordination system will have to overcome the problems that theoretical analysis identifies, of free riding, time inconsistency and short-term pressures for non-compliance. The form of co-ordination therefore needs to be one that can be readily monitored and which can impose genuine penalties on non-compliers. To carry this role through, the Fund would have to build very substantially on its current largely ineffective surveillance and consultation activities. However, countries may be more prepared to accept limits on their own behaviour if they believe that the behaviour of other countries is being similarly constrained. One possibility here is that the WTO, whose remit (by contrast with that of the GATT Secretariat) extends beyond border trade measures to involve it deeply in member-state policies which impinge upon trade, might orchestrate punitive trade action against countries that renege on commitments or refuse to abide by the co-ordination rules.

At the same time, BWI/WTO liaison will need to promote the expansion of world trade. That the heyday of the BWIs was associated with trade liberalisation and expanding trade suggests interdependence between the spheres of

interest of the BWIs and the WTO. Adjustment is generally easier to achieve in conditions of growing world markets. In turn, trade expansion is easier to achieve where foreign exchange and financial markets are orderly and governments are not preoccupied with inflation or unemployment.

Whereas the Fund's co-ordination task applies to macroeconomic policy, the World Bank also has a potentially important role in co-ordinating aid. Many studies of the effectiveness of aid have identified co-ordination failures as a significant weakness. It should also constantly have in mind that the central purpose of aid is to reduce poverty, and retain a lead position in finding more effective ways of achieving this purpose. Global environmental issues offer another area in which the Bank can make a significant contribution, as a conduit through which developed countries offer financial incentives for developing countries to pursue environmentally friendly policies.

The BWIs will be better placed to perform the roles described in this paper if their legitimacy is more widely accepted and if their aims and objectives are better understood. Greater democracy in decision-making and openness are important here. Recent Fund and Bank decisions, albeit under pressure, to make publicly available documents that were previously confidential indicate a tentative move towards more openness that may help offset the institutional inertia that comes with age, and expose them to closer, better informed scrutiny. In principle, however, the BWIs can be anything that their shareholders want them to be. The challenge is primarily one for their shareholders.