Debate heats up on New Bretton Woods

by Marcia Merry Baker

In the countdown to the April 16 Washington, D.C. meeting of 22 nations, the Willard Group, on the world financial crisis, the international debate on aspects of what should be a "New Bretton Woods" world monetary system has intensified. This process is reflected explicitly in the wording of two final amended clauses on U.S. Senate bill S. 1769, the "1998 Supplemental Appropriations Act for the International Monetary Fund," voted up by the Appropriations Committee in mid-March, and sent to the whole Senate for a vote. The text uses language mandating the creation of a commission to review the "future role . . . if any" of the IMF, *and* the convening of a "Bretton Woods conference." The relevant excerpts are:

> **Sec. 103: Advisory Commission**
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> (a) The President shall establish an International Financial Institution Advisory Commission.
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> (b) The Commission shall include at least five former U.S. Secretaries of the Treasury.
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> (c) Within 180 days, the Commission shall report to the appropriate committees on the *future role and responsibilities, if any,* of the IMF and the merit, costs, and related implications of consolidation or the organization, management, and activities of the IMF, the International Bank for Reconstruction and Development [World Bank], and the World Trade Organization.
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> **Sec. 104: Bretton Woods Conference**
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> Not later than 180 days after the Commission reports . . . the President shall call for a conference of representatives of the governments of the member countries of the IMF, IBRD, and WTO [World Trade Organization] to consider the structure, management, and activities of the institutions, their possible merger and their capacity to contribute to exchange rate stability and economic growth and to respond effectively to financial crises.

U.S. Treasury Secretary Robert Rubin, when interviewed on March 20 by CNN about potential changes in the IMF, replied, "I think there are a lot of things that we can do in the IMF that would make it a better institution. And I will tell you that [IMF Managing Director] Michel Camdessus wouldn't disagree with that. . . . I think there are issues of transparency. Just before, I—Just yesterday, I was working with a group of Republican senators on a number of suggestions and thoughts that they've had with respect to reforming the IMF. I think there's a lot we can do to make the system better."

On March 24 in Washington, Rubin answered questions after an address to a Chamber of Commerce meeting, and addressed the problem of the vast flows of "excess capital" from investors expecting bailouts. Rubin reiterated his oft-stated view: "It is a troubling issue. . . . I would not spend a nickel to help creditor banks."

International commentary

The need for controls on roving speculative money flows is one of the main points being addressed in the international debate over which of the original Bretton Woods measures to re-impose.

In Indonesia, a selective capital-flows control tax was reportedly under consideration by the new Cabinet, during their first week in session. The idea would be a 5% levy on certain purchases of foreign currencies, when speculation against the national currency, the rupiah, is involved.

In Thailand, a similar view was expressed in an editorial in the Bangkok daily *The Nation,* which, in the past, had been aligned with the opposing, London globalization-of-capital viewpoint. Titled, "Learn From Experience: Control Capital Flows," the editorial begins: "Sooner or later the government will have to decide whether or not it is going to regulate the movements of foreign capital. There is already a growing chorus of calls for short-term capital flows to be controlled. The question is how. Thailand's experience with an unmitigated flow of foreign capital was a bitter one. . . . It was this free flow of capital which played an important role in creating the bubble economy."

The Bangkok editorial covers Secretary Rubin's testimony on March 4 to the Senate Appropriations Committee on the need for a "new architecture" in global finance, commenting: "Despite its push for financial liberalization, the United States, as an economic superpower and global leader in financial services, has an open position on the control of short-term capital such as the activities of foreign-exchange speculators and hedge funds, but Washington is still cautious of any system that restricts short-term capital flows on the grounds that investors might eventually find ways around the controls. . . . [But] orderly economic growth achieved by controlling short-term capital flows should override the U.S. concern with potential loopholes. Thailand could join Chile and unilaterally control short-term capital, or the restrictions could be done at the global level or under the auspices of the Bank for International Settlements.

"The choice is clear, and the experience is telling. The Thai economy must never again be held hostage by hedge funds, currency speculators, or short-term stock investors. The temptation for short-term gains should never outweigh the need for sustainable economic growth, no matter what people like George Soros may say."