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The Americans in World War II had two objectives: to beat the Germans and Japanese militarily and to replace Britain economically. In 1944 the US hosted an international conference at Bretton Woods, New Hampshire to create a new international economic order which would have the US at its centre.

This new order was based on the US\$ (rather than the British pound) and it created two international financial institutions: the World Bank and the International Monetary Fund (IMF), both based in Washington DC near the White House. The World Bank provides long-term loans and the IMF helps governments with short-term economic crises.

The conference was held at the Mount Washington Hotel, one of the US's most luxurious hotels. Owing to the war, the hotel had been closed for two years. The organizers had one month in which to get it reopened, repaired and redecorated. The 700 delegates started to arrive while the maintenance teams were still finishing their work.

The Bretton Woods conference was the beginning of what is now the common pattern of international conferences. First, it was held in very pleasant circumstances. For the delegates coming in from war torn countries, Bretton Woods was a wonderful location. It was only a stop on the railway line. It had no store or even a main street. But the hotel was self-sufficient. It had its own power plant, dress shops, beauty parlour, bowling alleys, barber shop, two cinemas and a swimming pool. Diplomats have continued to live well at international conferences.

Second, the conference was huge: 700 delegates and support staff from 44 countries. The United Nations now has 191 countries.

Third, the conference was chaotic. For example, thanks to the Americans English replaced French as the language of international diplomacy. But the Russians did not speak English; neither did their interpreters. The French spoke English but complained about the quality of the interpreters. The UN now has to operate in six languages, though English and French are the main working ones.

Finally, with such important international issues at stake, feelings were running high. When the American delegation met in their first private session, they surveyed how the other countries were likely to vote on key matters.

The American head of delegation said "The most troublesome will be Australia who is participating to all extent far beyond the proper role of its size and importance". Australia had been hit hard by the Great Depression (with 30 per cent unemployment) and so it was anxious that it would do well in the new international economic order to be created at the conference. It did not want to be tricked by the Americans, British and Russians into accepting deals that undermined its economy. It had done well in the old economic order (until the 1930s) and it wanted to do even better in the Bretton Woods era. Australian delegates did not worry whom they offended in the safeguarding Australia's national interest.

The old international economic order had been run from London. 17th and 18th Century British traders went in search of markets and did deals with local rulers. Later on in the 19th century, British influence was solidified by direct British rule and a formal "empire" was created. The British "tribe" dwelling around the globe provided what was then the world's best financial network.

International trade was based on the gold standard with London at its centre. All currencies were linked back to gold. If a country imported more than it exported, then money left the country. This reduced the money supply within the country, which depressed the prices of goods and labour. This in turn meant that the country's exports were cheaper and so were more attractive for foreign buyers. Thus, the economy picked up, which then meant in due course a fresh problem because imports were running ahead of exports. And so on.

The gold standard was abandoned in the Great Depression of the 1930s. All countries devalued their currencies to lower their export prices and so attract foreign customers. British supremacy was further eroded by the financial impact from involvement in the two World Wars.

Meanwhile, the US had developed quickly in the late 19th/ early 20th Centuries behind a wall of tariffs and other protective measures. By 1939, the US produced about a third of the world's manufactures, which was more than twice the production of Nazi Germany and almost 10 times that of Japan.

By the late 1930s, US companies were interested in foreign markets. But many of these were behind the wall of British "imperial preferences". The British Empire was based on sterling (the world's main currency) and priority for British investment and colonial exports were all within the Empire. Thus, the US had to remove that system of British imperial preferences. The UK was vulnerable to US pressure because it was reliant on US aid to fight the Axis Powers.

Meanwhile, the war went on longer than the US expected - in World War I, the war ended a year after the US intervened. The US became worried that the war's long-term financial result would be a post-war world consisting of bankrupt countries heavily in debt to the US. That would put the US in the prime financial position but it held out little hope for continued US expansion if there were no foreign markets for US goods. There was also the risk that bankrupt

countries would be unstable and so there could be fresh threats from Nazi or Communist movements and governments.

Thus, the international economy had to be rebuilt. This would be done best with the US at the financial centre - in 1945 the US commanded 40 per cent of the world's economy - with the US dollar (rather than the UK pound) as the basic currency, and with countries committed to free trade (thereby ending the system of imperial preferences).

The US had got itself out of the Depression by the "New Deal", which resulted in the government becoming far more involved in the US economy than ever before, and the war further encouraged that involvement.

The World Bank and International Monetary Fund (IMF) were established as part of the Bretton Woods system. The World Bank provided, via grants from developed countries, a system of long-term loans to help economic development. The World Bank's lending policy was conservative: it liked infrastructure projects (such as roads and dams). The biggest World Bank loan in the late 1940s was to Australia to help finance the Snowy River scheme.

The IMF was concerned about short-term liquidity problems in government expenditure and national income. The US dollar was linked to gold: US\$35 equalled the price of one ounce of gold. This was the cost between the US Reserve and foreign central bankers (such as Australia's Federal Reserve). There was little point in collecting US dollars to buy gold since central banks could do nothing with it; gold earned no interest. US dollars, by contrast, could be used to buy goods and services overseas which could then assist a country's economic development.

The Bretton Woods system – in which Australia had an active role in creating – formed part of the basis of the 1950s as a golden period of economic growth. The system removed the fear of another 1930s-style Great Depression. It was one of the most productive conferences held last century.

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