Ahead of the 80th anniversary of the Bretton Woods Conference, the following institutions have prepared this statement:

Institute for Economic Justice (South Africa), Centre for Social and Economic Progress (India), Centre for Sustainable Finance at SOAS, University of London (UK), BRICS Policy Center (Brazil), Boston University Global Development Policy Center (USA) and Heinrich Böll Foundation (Germany)

Bretton Woods Revisited: Creating a Monetary and Economic Order Fit for the 21st Century

In July 1944, delegates from 44 countries participated in the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire to agree on a post-war order for the international monetary and financial system that would enhance macroeconomic stability and enable a battered European economy to recover from World War II. The resulting Bretton Woods agreement led to the establishment of a system of fixed but adjustable exchange rates centered around the US dollar and capital controls, as well as the creation of the World Bank and the International Monetary Fund (IMF).

While the fixed exchange rate system withered in the early 1970s and capital controls have been increasingly dismantled since the 1980s and 1990s, the current global monetary and financial system, and the institutions that govern it, are still shaped by the outcomes of the Bretton Woods Conference. Its hierarchical structure is characterized by asymmetries between borrowers and lenders and is increasingly out of sync with development priorities. The current system has also proven to be incapable of responding adequately to the climate and ecological crisis threatening humanity and the global economy.

Eighty years after the Bretton Woods Conference, concerted efforts are needed to reform the global economic and financial architecture to make it fit for the challenges of the 21st century. We call for a new Bretton Woods Conference under the auspices of the UN that substantially reforms the international monetary and financial system to reflect the changing global realities and challenges. In the following, we propose reforms in eight critical areas of the international economic and financial architecture.

1. Enhancing voice and representation at international financial institutions

Global economic governance can only be effective if there is fair representation. While the weights in the global economy have shifted significantly since the establishment of the Bretton Woods institutions, representation has changed very little. Because of this, the Bretton Woods institutions lack legitimacy and are thus constrained in responding to urgent, complex crises.

Therefore, we call for comprehensive governance reforms at the IMF, the World Bank and other international financial institutions to bring shares and votes of these institutions into line with the realities of the 21st century. At the IMF, an overhaul of the quota formula – through which members' capital contributions to the Fund are calculated – is needed. At multilateral development banks (MBDs), the voting power of member countries should be adjusted through selective capital increases, making shareholder capital subscriptions more reflective of the changed economic realities and making MDBs more responsive to the changing needs of borrowing countries.

We call for terminating the so-called 'gentlemen's agreement' that the IMF Managing Director will be a European and the President of the World Bank will be an American. All senior appointments at the Bretton Woods institutions and other international organizations should be based only on merit, not nationality. Furthermore, the heads of the IMF and World Bank should be elected through a double majority procedure, where successful candidates must obtain both a majority of weighted votes according to countries' shares in the institution and the support of a majority of member countries, making the process more inclusive while protecting the interests of major shareholders.

Apart from the IMF and the MDBs, there are several other international standard setting bodies such as the Bank for International Settlements and the Financial Stability Board that wield enormous power. The governance structure of these institutions must also be rebalanced and made more inclusive.

2. Bolstering the global financial safety net (GFSN) and making it climate- and nature-proof

The GFSN – the current system of liquidity support for times of crisis comprising the IMF and regional financial arrangements (RFAs) – remains inadequate and patchy, with countries building up large foreign exchange reserves as an insurance against crises. A bigger, more equitable GFSN would free resources that can be then used by these countries to foster development locally. The IMF and RFAs must step up their efforts to be able to better respond to the climate and environmental crisis and support countries particularly vulnerable to climate and environmental change.

Member countries of the IMF and RFAs should provide significant new resources for new facilities to expand the financial support available through the GFSN, with quota-based increases at the core of IMF resource mobilization. Moreover, existing and newly created RFAs should be strengthened in a stepwise manner. The current resources of the RFAs in emerging market and developing economies (EMDEs) need both an increase and geographic expansion, as many countries lack access to a variety of swap and credit lines at the regional and multilateral level. The most glaring gap in RFA coverage is in Africa. While African Union member countries agreed in 2014 on the establishment of a new African Monetary Fund, many countries are yet to sign and ratify the Articles of Agreement. Significant gaps also exist in South and Central America and the Caribbean, Eurasia, and South Asia.

Furthermore, the IMF should re-examine the conditionalities attached to its lending facilities to make them more development-oriented and flexible as well as less onerous, while promoting ownership by the borrowing countries. Access and flexibility of existing tools such as the IMF Flexible Credit Line and Precautionary and Liquidity Line for tackling potential balance of payments pressures needs to be enhanced and de-linked from quotas to provide greater access to lending from the IMF to vulnerable countries.

Crucially, access and funding for the IMF's emergency facilities – the Rapid Financing Instrument and Rapid Credit Facility – must be improved to address the needs arising from future pandemics, commodity price shocks, conflict situations and climate disasters. Moreover, the IMF should establish a multilateral swap facility that would be open and unconditional to all countries. This could be funded by rechanneled Special Drawing Rights

(SDRs) – an international reserve asset issued by the IMF – from countries not using their allocations.

The IMF should work with central banks and RFAs in a manner that respects the roles, independence and decision-making processes of each institution, taking into account regional specificities in a flexible manner. These institutions should cooperate closely during crises while allowing for complementarity and diversity of approaches to governance, surveillance, program design and conditionality over the longer run.

3. Establishing an international sovereign debt workout mechanism and initiating an ambitious debt relief initiative to solve the current debt crisis

One of the biggest gaps in the current global financial architecture is the lack of an international sovereign debt workout mechanism to ensure a systematic and timely approach to an orderly, fair, transparent and durable sovereign debt crisis resolution. The haphazard response to the current debt crisis illustrates the inadequacy of the current non-system for global debt governance. There is an urgent need for establishing a sovereign debt restructuring mechanism overseen by the UN.

A multilateral sovereign debt workout mechanism should be administered by a newly established institution independent from creditors and debtors that ensures a transparent and comprehensive treatment of a country's debt stock in a single process. Sovereign debt restructurings must be based on enhanced and independent debt sustainability analyses (DSA) that account for critical development investment needs, as well as the potential of climate and other shocks.

Sovereign debt restructurings must compel all creditor classes to participate and deliver a level of debt relief necessary to mobilize financing for climate and development goals. Private and commercial creditors should grant commensurate debt reductions alongside public creditors with a fair comparability of treatment. To ensure enforceability of restructuring outcomes, all parties must respect the decisions of the independent body.

While work on a multilateral sovereign debt workout mechanism should commence now, short-term solutions are also needed to solve the sovereign debt crisis that is obstructing critical investments in climate action, the UN 2030 Sustainable Development Goals (SDGs) and development in large parts of the Global South. We call for an ambitious, concerted and comprehensive debt relief initiative – adopted on a global scale – can free up resources to support recoveries in a sustainable way, boost economies' resilience and foster a just transition to a low-carbon economy.

4. Scaling up climate finance and aligning all financial flows with the Paris climate goals

Article 2.1(c) of the Paris Agreement states the objective to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." To that end, the international financial system and the institutions that govern it must align their policies and lending with this goal.

International standard setting bodies – including, among others, the Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Financial Stability Board, the IMF, the Institute for International Finance, the International Association of Insurance Supervisors, the International Accounting Standards Committee, the International Federation of Accountants, the International Organization of Securities Commissioners, and the Organisation for Economic Cooperation and Development – need to take a decisive stance on addressing climate-related financial risks and supporting the alignment of financial flows with low-carbon, resilient development.

Multilateral financial institutions must immediately stop all fossil fuel financing and step up financing for climate action. Despite commitments to tackle the climate crisis and align portfolios with the Paris goals, MDBs continue to be involved in fossil projects.

The Network of Central Banks and Financial Supervisors for Greening the Financial System (NGFS) – a group that brings together 138 central banks and supervisory institutions from around the world – has recognized climate and environmental change as a systemic risk to financial and macroeconomic stability. Together, NGFS members must now move beyond risk mitigation to a more proactive stance in supporting the alignment of financial sectors with sustainability and climate goals.

5. Strengthening the role of public development banks at the international, national and subnational level

To finance structural transformations and sustainable development, a greater role of public development banks is needed at the international, national and subnational level. With the large investments required to finance the transition to low-carbon, net-zero and resilient economies, and the challenges in mobilizing private capital, public development banks and funds ought to play a much larger role, both in developing and advanced economies. At the international level, MDB reform needs to be advanced, including deep governance reforms and optimization of capital adequacy frameworks. On the back of governance and policy reforms, MDB capital should be increased to significantly enhance concessionary finance in SDGs and climate action.

Moreover, MDBs and international development finance institutions (DFIs) should work closer with public development banks at the national or sub-national level and help them unleash their potential. Specifically, MDBs and DFIs can support national and subnational public development banks by offering technical assistance to build strong governance structures and providing equity capital or credit enhancements to enable them to obtain higher credit ratings to refinance themselves at more favorable conditions. Moreover, MDBs and international DFIs can support developing countries in establishing new green investment banks (GIBs) or help existing public development banks reinvent themselves as GIBs.

6. Moving towards a multilateral currency and reserve system centered around SDRs

The US dollar centric global monetary system (or non-system) is inherently unstable. The dominance of the US dollar means that the monetary policy of a single central bank has a disproportionate impact on global monetary conditions and the global financial cycle.

SDRs – the value of which is based on a basket of five currencies: the US dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling – should be given a greater role in the international monetary system. SDRs constitute the only true global money, backed by all IMF members. And yet, SDRs have remained one of most under-utilized instruments of international cooperation.

SDRs should be issued regularly in proportion to the increase in the global demand for foreign exchange reserves. Mechanisms should be established for both automatic, additional disbursements of SDRs in times of crisis and rechanneling of SDRs held by countries that don't need them through MDBs. Beyond that, SDRs should become the major instrument to finance IMF programs, and the IMF should entirely become an SDR-based institution, as originally envisaged by Jacques Polak, the IMF's chief economist who helped create SDRs in 1969.

MDBs and international DFIs should increasingly provide most of their financing in local currency to reduce currency risk of recipient countries. As a rule, lending should only be in international currency if it supports an activity that generates international currency income.

7. Enhancing international capital flow management and introducing an international financial transactions tax

Unchecked global capital flows have contributed to the volatility of the global financial system. There is a need for enhanced capital flow management measures (CFMMs) supported by the IMF and RFAs. While the IMF's institutional view on CFMMs adopted in 2012 and the review conducted in 2022 provides more flexibility on CFMMs, the IMF should proactively support EMDEs in regulating the in- and outflow of capital to protect their balance sheets and exchange rates – and to moderate inflows during 'surges' of capital. Such ideas date back to the origins of the IMF and are implied in the Articles of Agreement. The IMF and RFAs should create mechanisms for greater international policy coordination to manage capital flows across regions and between EMDEs and advanced economies. In particular, the IMF should also address adverse spillover effects of the policies of advanced economies on EMDEs.

Furthermore, an international financial transactions tax (IFTT) should be introduced to help curb the volatility and the disruptive consequences of short-term capital flows. An IFTT would also provide a new and substantial source of revenue for financing the SDGs and climate action.

8. Building a global tax architecture for equitable and inclusive sustainable development

To enhance the ability of countries to generate domestic tax revenue, there is a need for improving tax transparency and mechanisms to share banking and financial account information across borders. Moreover, there is a need for a universal minimum corporate income tax rate. While more than 140 countries have already signed the Global Minimum Tax treaty, which imposes a minimum rate of 15 percent on the profits of multinationals, further efforts are needed to address free riding and tax evasion.

Along with an IFTT (see above), other international sources of tax income should be created, such as fuel charges in international aviation and shipping. A greater reliance on global taxation treaties and mechanisms would create new sources for development financing and reduce reliance on official development assistance.

In the intricate web of international finance, the deficiencies within the current taxation framework cast a long shadow over the developmental aspirations of emerging economies. Critical sectors like healthcare, education and infrastructure – pivotal to the pursuit of sustainable development – lack vital resources due to systemic weaknesses. The African continent, in particular, grapples with the staggering toll of illicit financial outflows, exacerbating the looming specter of debt crises. According to a United Nations report, Africa loses over $89 billion annually to illicit capital flight, a figure that dwarfs the continent's financing gap. This outflow is largely facilitated by the labyrinthine mechanisms employed by Multinational Corporations (MNCs), which exploit base erosion and profit shifting tactics to syphon profits from developing nations with impunity, often sheltering their gains in tax havens. Moreover, the relentless pursuit of tax competition among nations vying for MNC favor precipitates a perilous race to the bottom, eroding overall tax revenue and imperiling sustainable development agendas.

Against this backdrop, the imperative for a binding UN Framework Convention on Taxation looms large, heralding a clarion call for the establishment of progressive tax regimes and a cohesive global tax governance architecture. Such a convention must be intrinsically linked to broader governmental obligations, encompassing human rights, the SDGs, egalitarian principles and environmental stewardship. A robust treaty-based framework for global tax governance is indispensable to stem the tide of tax competition, profit manipulation and illicit financial flows. A crucial first step in this endeavor would be the development of a global wealth tax on the wealthiest 1 percent.

Creating a monetary and economic order fit for the 21st century

The multiple challenges facing the world economy today cannot be adequately dealt with by the international and monetary financial system we have. It is imperative that we make a concerted effort to substantially reform this system and create one that is fit for purpose. The 1944 Bretton Woods Conference was an unprecedented moment of collective action. Another such moment – in which world leaders advance a new, forward-looking vision for the global financial architecture – is overdue.

Authors:

Ulrich Volz, Centre for Sustainable Finance at SOAS, University of London

Kamal Ramburuth, Institute for Economic Justice

Janak Raj, Centre for Social and Economic Progress

Paulo Esteves, BRICS Policy Center

William Kring, Boston University Global Development Policy Center

Sarah Ribbert, Heinrich Böll Foundation

Contact:

Sarah Ribbert, Heinrich Böll Foundation, ribbert@boell.de