

Andrew Bailey: A central banker's view of global challenges and expectations for the Bretton Woods Institutions' response

Remarks by Mr Andrew Bailey, Governor of the Bank of England, at King's College, Cambridge, 17 January 2025.

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I am going to interpret my theme quite broadly this evening. That said, let me start – appropriately as we are at King's – with a quote from Keynes at Bretton Woods – on the importance of monetary stability as a prerequisite for reconstructing the world economy (with thanks to Martin Daunton for using it in his recent book on World Economic Government):

"Without currency agreements you have no firm ground on which to discuss tariffs. In the same way plans for diminishing the fluctuation of international prices have no domestic meaning to the countries concerned until we have some firm ground in the value of money... It is very difficult while you have monetary chaos to have order of any kind in other directions."

The focus on monetary frameworks and currency arrangements reflected the tension at the time between on the one hand national sovereignty and discretion and on the other hand multilateral frameworks. However, while monetary stability remains the bedrock today, the agenda has of necessity broadened out substantially in terms of economic policy. These days, global co-operation focuses more on ensuring a well-regulated financial system. That reflects the perennial tension between the national scope of governments and the more global scope of markets. Solving that tension requires multilateral frameworks and institutions.

Another theme concerns the Bretton Woods institutions themselves. We can't be misty eyed about Bretton Woods. On monetary stability, it was a halfway house solution to dealing with the implications of free international convertibility to gold for domestic economic management. It couldn't be implemented in full for some time, and didn't survive for long when it was. To borrow Dani Rodrik's phrase, Bretton Woods was shallow multilateralism with a small role for the Fund and the World Bank, and it didn't pass the test. Subsequently, global financial integration and its scale has become much more extensive and created its own instability. In doing so, this has required a reassessment of multilateralism and the Bretton Woods legacy, and brought the Fund and Bank to centre stage. They have been evolving, in response – but perhaps, so far, not fast or far enough. Understanding the drivers of global financial stability, and acting to preserve them is the new frontier.

But, we now live in a world where public institutions are under much more strenuous challenge to their legitimacy. The challenge now is to reinforce the institutions and their governance in terms of accountability and thus legitimacy. Otherwise, a democratic deficit exists which damages effectiveness. Can the institutions support the necessary multilateralism – to go back to the tension with national sovereignty? Can they embody the multilateral authority to speak truth to national power? There is nothing new about this challenge. But it has taken on greater force in a world of so-called populism which

embodies at least three pertinent features: first a greater emphasis on domestic production and the distribution of wealth relative to stability and the benefits of openness; second, a tendency to attribute unfavourable conditions to outside forces in a context of low trust societies; and third, with this decline in trust institutions are viewed as distant, unresponsive and acting for the benefit of powerful and uncontrollable interests.

It is a mistake to dismiss these features as not a reflection of the real world as we see it. Other people do see it that way. The challenge for international organisations is to be seen as part of the solution, not the problem.

I'm going to use the rest of my time to try to put these issues into the current context and draw out some priorities to go forward.

The theme of balancing national interests with international co-operation runs through the last 80 years. How do we preserve and develop the view that international co-operation is the best way to protect national interests? The argument was won at Bretton Woods because of the terrible context of global war.

The issue is again with us today. Moreover, the whole issue of the benefits of international co-operation has become more pressing as markets – in goods and finance – become larger and more global, with a sense of diminished national control and greater exposure and susceptibility to shocks.

The question then becomes, how can multilateral institutions build influence in this context, to put themselves in a position to influence the balance of national interests and international co-operation? What is their comparative advantage? I think the answer lies in putting more emphasis on the surveillance role, and the effectiveness of the messaging of that work. In a more shock prone world, with the international monetary and financial system potentially being profoundly altered by a series of major transformative trends, the returns on effective surveillance will be much greater. Forewarned is forearmed. Prevention is more effective than cure. The Fund's voice remains a powerful one, but unless its surveillance activities keep pace with a changing world, risks and vulnerabilities could be missed. None of us will be forgiven for missing the next crisis.

In particular, to return to where I started, financial surveillance needs to be a particularly high priority for us all, including the IMF. There remain, and will do so, financial vulnerabilities to be fixed. We are seeing major changes in the form of financial intermediation as the role of non-banks grows. But – and just as Hyman Minsky predicted – there is a growing resistance to regulation and rule-making as memories of the Global Financial Crisis recede. We have to continue to win our arguments, and it is becoming more challenging. Bilateral and multilateral surveillance are an important tool here. We will have to lay out the risks and vulnerabilities with more prominence and thereby directly challenge the naysayers.

Now, let me be clear, the Fund's surveillance analysis is very high quality – the WEOs and GFSRs are excellent, and they are just the tip of the iceberg. But I think the work can and should evolve in a number of areas in response to a more shock-prone uncertain and complex global economic and financial system, with a focus on resilience

building, spillovers, more systemic and macro-prudential assessment, and greater financial market surveillance.

Let me return to the main theme of balancing national interests and international co-operation. I want to draw out an element of the issue of national interests. It is the saddest and most dangerous. We are seeing the return of destructive nationalism, most obviously in Russia. I was an economic historian, not a central banker, when I was next door at Queens'.

Of course, history doesn't end, and we are being reminded of that. Bretton Woods was an important part of the response to the most destructive and tragic nationalism of modern times. At Queens' I was taught history by Richard Overy, who has written extensively on modern warfare. Recently, Richard has written a book called "Why War?" which seeks to understand the human propensity for conflict, no small task. He quotes the father of new realist political science, Kenneth Waltz, who wrote: "Theorists explain what historians know: war is normal". Richard sets out four broad motives for war: resources, belief, power and security. I mention this because as well as powerful and more detailed surveillance, for multilateralism to have impact it has to speak to the big issues. A criticism of the early history of the Fund and Bank is that they were often invisible. To be fair, Bretton Woods was not designed with the Cold War in mind, so the world moved on very quickly. But, since resources, belief, power and security cannot be separated from economics, with the rising threat of destructive nationalism we have to go back and determine what role the multilateral institutions should play to re-establish – and explain the value of – economic co-operation.

Another dimension to the issue of balancing national interests and international co-operation is the question of how many poles are there in the system? Bretton Woods is often portrayed as the transfer of authority from one single pole (Britain) to another (the US), the creation of a new era. It also gets portrayed likewise as the wrestle between Keynes and Harry White.

At the time, the importance of enabling this transfer of poles was cast in terms of avoiding going forwards the dangerous nationalism of the 1930s. Very quickly, the issue became the different one of whether collective international co-operation could embrace capitalist and communist systems, it couldn't.

Over time, the issue moved on to the tension between advanced countries and those in the developing and emerging ones, and it is this tension that has been a persistent feature of the Fund and the Bank in their more mature and influential era since the 1970s. Even if issues around voting shares remain to be resolved, the Fund has been able to evolve its toolkit in order to lend more money to vulnerable countries. Today, the issue of whether / how much the world is multipolar is complicated by the question of whether it is possible to frame effective international co-operation in a world where the two largest economies, the US and China, have such different philosophical underpinnings. This strikes me as more fundamental than the traditional Bretton Woods issue of how to design a system which creates appropriate discipline for creditor and debtor nations, though I don't want to deny the importance of that issue. The conclusion I draw here in terms of making multilateralism work is that we have to do all we can to make it work, and that this should be an acknowledged objective. Not least because many of the challenges we face cannot be fixed within national borders. We may end

up with shallow multilateralism, and that may or may not be a helpful outcome. What we can't do is give up in the face of a more difficult environment.

This brings me, finally, back to the point about speaking truth to national power. Clearly the context matters a lot. Global co-operation has a greater chance of success when economic benefits are widely shared, as are the risks perceived to be – i.e. we are all in this together, and know that we are so – and we exist in conditions of broad economic stability. We can hope, but hope is not a winning strategy. A world where there is greater actual and perceived risk of unequal outcomes and instability is one where collective action is harder and less likely to succeed.

At least up to a point, because I think the lesson of Bretton Woods as it played out is that the influence of collective action is non-linear. In other words, when the situation gets really bad, take the financial crisis, the call for international collective action and the willingness to submit to it, grows almost exponentially. It takes a good crisis as they say. But this is not a basis on which to run good policy. And this is the risk we face today – the vulnerabilities are growing, and the necessary solutions are global, but they are not sufficiently great to tip into crisis multilateralism. And we don't want that to happen.

As so we come back to the issue of how to influence by speaking truth to national power successfully, in a world of hostility to institutions. I will end with one thought on this, which I recognise may come across as too pious by half. We have to speak with humility and humanity. We don't know all the answers, and that is not a failing. The world is highly uncertain – and shock prone – and that is reality. By building its surveillance offer and working with members on how to build ex ante resilience, the Fund can be seen as a trusted problem solver which can be turned to in moments of crisis, rather than an institution which calls out where things went wrong and mops up after the crisis occurs. We serve the people as a whole at all times. I say this because when we look back at the last 80 years, it has not always been viewed this way by society as a whole.

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