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Chapter 11

The Institutional Legacy of Bretton Woods

IMF Surveillance, 1973–2007

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The par value exchange-rate system designed in 1944 ended long ago, but the institutional legacy of Bretton Woods persists. That legacy can perhaps best be traced by examining the core mandate of the International Monetary Fund (IMF, or Fund) as embodied in its surveillance operations. The almost continual adaptation and renewal of this central function of the Fund reflects the conjunction of the principle of economic openness with the practice of pragmatic accommodation of enduring commitments to sovereign autonomy. From the beginning, political struggle shaped the development of the surveillance function; the resulting trajectory signaled a continuing attempt by the most powerful member states of the Fund to find the golden mean in a globalizing economy between binding monetary and financial rules and unbridled national discretion. That Fund surveillance operations survived the transition to flexible exchange rates suggests a normative quest unbroken since 1944. That they remain the subject of tough criticism, sharp debate, and regular reform efforts, even as memories of the original rules and purposes of the par value system fade, suggests the persistence of the Bretton Woods order. This chapter elaborates such a claim.

The postwar international economic order rested on dual commitments to national economic autonomy and deepening trade ties (see David Andrews, chap. 1 in

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this volume). The experience of competitive currency depreciation during the interwar period had left the strong impression that such an order entailed the development of consensual rules to guide the reopening of national payments systems and an institutional mechanism to monitor those rules and encourage monetary cooperation. Not coincidentally, in the first section of the first article in the founding IMF document, its member states agreed "to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems."[1] On this base developed what would become the surveillance mandate and mission of the Fund.

Like an academic department comprising tenured colleagues who do not necessarily all enjoy one another's company but who soon come to realize that some minimal level of compromise is in their personal interest, the actual process of monetary collaboration in the Bretton Woods order depended on the existence, but not always the effectiveness, of an administrative entity. Like a department chair, the autonomy of the Fund would be limited, both constitutionally and in evolving practice. It would, however, have to stand for certain principles. It would need privileged access to knowledge that could not always be fully shared. And it would have to be endowed with the authority to mediate and adjudicate, the technical ability at best to forestall and at least to manage crises, and, in principle if not in always in practice, the capacity to sanction. Like a department chair, it would also continually have to defend itself against charges that it had exceeded its authority or that its claims were illegitimate. For the delegated authority of the Fund to be considered legitimate in a world of integrating markets and still-sovereign polities, its behavior would have to remain consistent with an underlying and broadly shared sense of the rightness of its prescriptions, which would in turn have to be deemed universally applicable, at least in principle. In practice, the task of defending and deploying its authority would never be easy, straightforward, or finally accomplished, and the actual power of the Fund would remain ambiguous and variably applied.[2] Nevertheless, agreement on the normative foundation of the core mission of the Fund sufficient for it to evolve and adapt to changing circumstances represented a signal innovation in modern economic history.[3]

This chapter begins with an overview of the underpinnings and historical development of the key role of the Fund in national and systemic economic oversight. I then turn to the negotiations in the 1970s, when key players agreed that a disorderly monetary system was in no one's interest and when the term *surveillance* was first applied to the role of the Fund in facilitating collaboration among the member states. The chapter ends with an assessment of the meaning and remaining challenges associated with recent adaptations in the practice of Fund surveillance in a

1. Articles of Agreement of the International Monetary Fund.

2. On this theme, see Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (Ithaca: Cornell University Press, 2005).

3. For the pioneering argument along this line, see Benjamin J. Cohen, "Balance-of Payments Financing: Evolution of a Regime," *International Organization* 36, no. 2 (1982): 457–78.

world economy reshaped not only by vastly expanded markets for trade, the original objective of the system architects at Bretton Woods, but also by the dramatic opening of capital markets.

The Fund and the New International Monetary Regime

In international affairs, nothing ever really starts from scratch. The activities that now make up what the IMF calls its surveillance function developed on the intellectual base constructed mainly by British and continental European economists in the interwar period. Much of that construction occurred under the auspices of the League of Nations, and research on that theme is now advancing rapidly.[4] The question of how directly League operations affected what followed remains debatable.[5] After 1944, however, first the major powers, with the notable exception of the Soviet Union, and then gradually almost all states in the world accepted a legal obligation to collaborate with one another in the management of their exchange rates through the IMF. Analogous activities of the League never rested on such a foundation.[6]

4. The essential continuity between much of the activity of the League and the subsequent ever more fully elaborated work of the UN system was the subject of the very first article published in the journal *International Organization.* See Leland M. Goodrich, "From League of Nations to United Nations," *International Organization* 1, no. 1 (February 1947): 3–21. With respect to the economic and financial dimensions of this process, key works past and present include Wallace McClure, *World Prosperity as Sought through the Economic Work of the League of Nations* (New York: Macmillan, 1933); Martin Hill, *The Economic and Financial Organization of the League of Nations* (Washington, D.C.: Carnegie Endowment for International Peace, 1946); Neil de Marchi, "League of Nations Economists and the Ideal of Peaceful Change in the Decade of the 'Thirties,' " in *Economics and National Security,* ed. Craufurd D. Goodwin, 143–78 (Durham: Duke University Press, 1991); Patricia Clavin, "Money Talks: Competition and Co-operation with the League of Nations, 1929–1940," in *Money Doctors: The Experience of International Financial Advising, 1850–2000, ed.* Marc Flandreau, 219–48 (London: Routledge, 2003); Kathryn C. Lavelle, "Exit, Voice, and Loyalty in International Organizations: US Involvement in the League of Nations," *Review of International Organizations*, forthcoming.

5. For example, like others associated with the Fund in its early days—from Louis Rasminsky to Per Jacobsson—Jacques Polak began his career in the League and later became the highly influential head of the IMF Research Department. Together with Joseph Gold, his counterpart in the Legal Department, Polak always emphasized the break between the Fund and the less strongly institutionalized, less independent, and technically less proficient economic operations of the League. To be sure, the Fund Articles and own resources did give it a great deal of autonomy within the UN system. But the question of whether that was enough to sustain a more enduring claim to political legitimacy in a crisis-prone world economy would remain important. See James Arthur Salter, *Memoirs of a Public Servant* (London: Faber and Faber, 1961); Jacques J. Polak, "Fifty Years of Exchange Rate Research and Policy at the International Monetary Fund," *IMF Staff Papers* 42, no. 4 (December 1995), 734–61; Manuel Guitián, "The Unique Nature and the Responsibilities of the International Monetary Fund," Pamphlet Series 46 (Washington, D.C.: IMF, 1992); Louis W. Pauly, "International Financial Institutions and National Economic Governance: Aspects of the New Adjustment Agenda in Historical Perspective," in *The International Financial History in the Twentieth Century: System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James, 239–63 (Cambridge, UK: Cambridge University Press, 2003).

6. The following account of events leading to the implementation of the second amendment of the Fund Articles draws directly on Louis W. Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (Ithaca: Cornell University Press, 1997).

It is, of course, undeniable that Fund members later broke their commitment to a specific exchange-rate regime; the Canadian case recounted by Eric Helleiner (chap. 5 in this volume) is particularly illuminating of the complexities involved in even attempting to keep it. It is also true that, over time, many members made policy decisions that violated both the letter and the spirit of the Fund Articles—for example, by always refusing to seek prior approval from the Fund for specific actions on their exchange rates. But, like St. Augustine struggling against sin in his youthful years, they never abandoned the idea that they remained bound by a legal duty to collaborate on exchange-rate matters.[7] After 1973, moreover, this commitment involved them in the deepening dilemma of drawing clear lines around the precise nature of this collaboration and the range of policies necessarily involved in its fulfillment.

States acceding to its Articles of Agreement provided the Fund with a threefold mandate: to monitor and discourage restrictions on current payments, to provide short-term financing to ease the adjustment of payments imbalances, and to oversee orderly changes in exchange rates in cases of fundamental payments disequilibria. Members not yet prepared to accept the full obligations of the Bretton Woods agreement by declaring a par value exchange rate and making their currencies convertible were required under Article XIV to participate in what was called the consultations process of the Fund. This commitment was envisaged as the key device to pressure those members not yet prepared fully to open their current accounts and to accept the full convertibility obligations set out in Article VIII of the Articles of Agreement.[8]

In Harold James's terms, the Articles therefore entailed "a basic commitment to rule-guided liberalization inherent in the acceptance of convertibility."[9] This signaled a significant change, with currency conversion to take place under the purview of an intergovernmental referee designed to ensure against the kinds of beggar-thy-neighbor currency practices that had helped disrupt the interwar trading system. The custom and practice of international economic diplomacy had not typically attempted to confront the internal policy choices made by states, particularly leading states. As Robert Cox explains, this commitment blurred the boundary lines between the international and the domestic by making explicit "a general

7. Joseph Gold, "Duty to Collaborate with the Fund and Development of Monetary Law," in *Legal and Institutional Aspects of the International Monetary System: Selected Essays,* Vol. 1, 390–409 (Washington, D.C.: IMF, 1979); "Continuity and Change in the International Monetary Fund," in *Legal and Institutional Aspects of the International Monetary System: Selected Essays,* Vol. 2, 393–96 (Washington, D.C.: IMF, 1984).

8. Further pressures for payments liberalization and currency convertibility, which implied full acceptance of the obligations set out in Article VIII, were specified in the Articles that allowed transitional currency arrangements, Articles XIV and XV. See Joseph Gold, "The 'Sanctions' of the International Monetary Fund," *American Journal of International Law* 66 (October 1972): 737–62. For useful context, see Michael D. Bordo and Barry Eichengreen, eds., *A Retrospective on the Bretton Woods System* (Chicago: University of Chicago Press, 1993).

9. Harold James, *International Monetary Cooperation since Bretton Woods* (New York: Oxford University Press, 1996), 589.

recognition that measures of national economic policy affect other countries and that such consequences should be taken into account before national policies are adopted."[10] Translating that commitment into policy practice would often be an unmet challenge, but the reality that sovereign states thereafter felt compelled to justify to one another both certain actions and their effects represented a novel movement toward external accountability.

The most obvious of the policies requiring objective monitoring, and perhaps the easiest to subject to such accountability without engendering immediate domestic political opposition, were exchange-rate and exchange control policies—the obscure domains of finance ministers and central bankers. Against the background of a shared interest in restarting and then revving up the engines of international trade, the principle of multilateral economic surveillance would begin to be elaborated here.[11] In practice, mechanisms were needed to facilitate national economic adjustment in the context of the restoration and progressive liberalization of trade and, eventually, international investment.

As discussed elsewhere in this volume, the transition from the monetary arrangements of the war years turned out to be a long one. Even Britain and most continental European members came into conformity only with Article VIII in 1958. In the early 1990s, nearly half of the Fund membership, which now included almost all states, remained under so-called transitional arrangements, which mainly permitted exchange restrictions and differential currency practices. But then came the remarkable decade of policy liberalization, sparked by what Fund historian James Boughton calls a "silent revolution."[12] Less than two dozen members would remain in transition, and the world of the late 1940s would begin to seem very distant. How this came about merits our close attention.

The Duty to Collaborate, Yesterday and Today

In the early days, the terms, legal status, and final disposition of Fund advice emanating from formal consultations were often highly contentious.[13] In recent years, major issues concerned the confidentiality of that advice and its supporting analysis, as well as the fading nature of the dividing line between matters involving the current account in national payments systems and those clearly falling under the capital account—and therefore outside the formal jurisdiction of the Fund. At the

10. Robert Cox, *Power, Production and World Order* (New York: Columbia University Press, 1987), 256.

11. Harold James, "The Historical Development of the Principle of Surveillance," *IMF Staff Papers* 42 (December 1995): 762–91.

12. James Boughton, *Silent Revolution: The International Monetary Fund, 1979–1989* (Washington, D.C.: IMF, 2001). It is surely no coincidence that this broad movement coincided with the managing directorship of Michel Camdessus, who publicly and energetically championed the cause of financial market openness.

13. Margaret Garritsen de Vries, "The Consultations Process," in *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation, Vol. II: Analysis*, ed. J. Keith Horsefield and Margaret Garritsen de Vries, 230–35 (Washington, D.C.: IMF, 1969).

core of all such debates, again from the beginning, has been a political struggle to define and delimit the authority of the Fund and to adapt that authority to changing systemic circumstances. A parallel and related struggle has long characterized the evolution of the conditions associated with temporary financing provided by the Fund to members facing adjustment problems, a subject discussed by Jeffrey Chwieroth (chap. 4 in this volume).

As part of this process, Fund economists slowly built a base of knowledge that could be usefully brought to bear in helping members adjust their economies to deepening external involvement. From the earliest days of the Fund, this has centered on understanding and modeling macroeconomic interactions across ever more interdependent economies. Always a contentious process both internally and externally, the elaboration, testing, and promotion of an epistemic consensus capable of sustaining economic multilateralism goes to the core of the general mission of the Fund and the challenges it has faced in implementing it.[14]

The venue of consultations also shifted. Initially occurring with local representatives of member states in the Washington headquarters of the Fund, they later took place in national capitals with staff missions sent out from Washington. This shift allowed the staff to consult with higher levels of national policymakers and to improve the quality of analyses and ultimately the decisions of the Executive Board that concluded the process. Moreover, certainly by 1960 it was also the case that the effective limits of Fund powers were clearer. The Fund could encourage economic liberalization, but even when its financial resources were in play it could not force unwanted policy changes. It could, however, play the role of scapegoat for policy changes desired by leaders but resisted by constituents.

Such a realization was in the background as consultations procedures evolved during the 1950s to include the routine analysis of general fiscal and monetary policies, as well as other domestic policies having a direct or indirect impact on exchange rates and international payments balances. This logical expansion in the scope of Fund interests reflected, in the words of the Fund historian, an "understanding that no general precedents were being set . . . and that comments from the Fund might be helpful to the authorities of some countries in putting through politically unpopular policies."[15] As Article XIV consultation procedures would actually develop, fears that the expansion of the Fund mission could come only at the expense of national political authority were assuaged through flexibility in practice. Even when the resulting recommendations for policy change were linked with the simultaneously evolving practice of Fund conditional lending, enduring responses depended on willing cooperation. The utility of the scapegoat role of the Fund, moreover, confronted distinct limits—limits that would be tested repeatedly from the 1950s onward. That the Fund arguably exceeded these limits during the Asian crises of the late 1990s cast a pall of illegitimacy over the IMF national and systemic oversight roles.

14. See Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca: Cornell University Press, 2004), 45–72.

15. de Vries, "Consultations Process," 241.

That very possibility was certainly imagined in the early days of Fund consultations, and it helps explain one of the first symbolic moves toward even-handedness, or what Fund officials called symmetry in its mission. Clearly, the dual standard of obligatory consultations for members availing themselves of Article XIV opt-outs and no such obligation for others became a source of concern early on. In an obvious effort to bolster the legitimacy of the consultations process, in 1960 the United States agreed to submit itself to voluntary consultations under Article VIII against the backdrop of a shifting international monetary environment.[16]

As Andrews notes (chap. 1 in this volume), a key sticking point between the principal negotiators at Bretton Woods, and especially during the ratification debates that followed, involved the issue of official controls on short-term capital movements in a pegged exchange-rate system. Although Keynes had moved away from his earlier view that finance should be kept strictly within the national realm, he continued to believe strongly in the right of the state to impose capital controls as and when it alone perceived the need to do so. His U.S. counterpart approached the matter differently. Although willing to concede that "disequilibrating" capital flows were both conceivable and undesirable, Harry White envisaged a monetary order that would actively discourage all types of financial restrictions that impede trade and the international flow of "productive" capital.[17]

White's position obviously reflected the expectation that, as the major creditor in the postwar system, the United States stood to benefit from as liberal an environment for international investment as could be created. In the face of undesired capital outflows, the Americans preferred that a country undertake adjustment (in its exchange rate and/or in underlying domestic policies) instead of routinely seeking official financing, whether from the Fund or from other countries. Controls would be permissible, however, as long as they were not intended to restrict trade. Certainly the expectation, however, was that their use would be temporary and subject to some kind of multilateral accountability mechanism. This expectation developed naturally into the consultations process of the Fund and also into analogous peer-review mechanisms that would evolve over time. After 1962, these included the G10 forum associated with the Fund General Arrangements to Borrow and Working Party 3 of the Organisation for Economic Cooperation and Development (OECD) Economic Policy Committee. These would eventually be matched by national and system-oversight exercises in regular meetings of the G7[18] finance ministers, and much later in the larger

16. Ibid., 247.

17. Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca: Cornell University Press, 1996), 36. The view that capital controls should be discouraged later became the U.S. position, a development students of the subject have often attributed to the resurgent influence of the New York financial community. Rawi Abdelal paints a nuanced picture and argues that the U.S. position on capital controls typically had an ad hoc character, in contrast to the rule-oriented position of the key Europeans, and especially the French. Rawi Abdelal, *Capital Rules* (Cambridge, Mass.: Harvard University Press, 2007).

18. France, Germany, Italy, Japan, the United Kingdom, the United States, and Canada.

G20,[19] the Financial Stability Forum, and elsewhere. Often, the same people would take part in similar discussions in all these venues.[20] In the case of the Fund, however, a universal legal obligation to participate would emerge.

Meanwhile, in the day-to-day experience of the IMF, the difficulty of making clear distinctions between illegitimate exchange restrictions and legitimate capital controls soon became apparent. Among the leading industrial states, however, tensions related to such difficulties gradually began to ebb after the restoration of currency convertibility in Europe in 1958 and in Japan in 1963. Indeed, when the postwar dollar shortage became a dollar glut, the problem quickly turned on its head.[21] That the United States itself would eventually resort to capital control experiments is now a footnote in a vast body of historical and political research stimulated by the end of the par value system. For present purposes, it is sufficient to recount how the legalization of managed floating ultimately transformed the Fund consultation process into an institutional practice bearing the label *surveillance*.

The Inception of Fund Surveillance

In 1972, following the temporary collapse of the par value exchange-rate system the previous year, an ad hoc intergovernmental task force on international monetary reform was drawn from the major constituencies of the IMF Board of Governors and staffed by the finance ministries and central banks of the leading monetary powers. This Committee of Twenty, in turn, commissioned a group of technical experts to examine the problem of speculative capital flows. Despite difficulties encountered in specifying the extent of the problem, the final report of that group in 1974 conceded that disequilibrating flows could continue to disrupt even flexible exchange-rate arrangements. It concluded, however, that although capital controls could not be forsworn, they should not become permanent features of any new system because of their potentially damaging effect on trade and beneficial investment flows. In this connection, the group also recommended that governments seek to draft a new code of conduct for the use of capital controls and that the code be monitored by an international agency.

The outcome was not a wholly new monetary order; instead, all that proved politically feasible was an amendment to the IMF Articles of Agreement that legalized floating exchange rates while abandoning the effort to define disequilibrating capital flows. That outcome proved to be contingent on a rearticulation of the key normative compromise hammered out at Bretton Woods—that states were accountable

19. Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States of America, and the European Union.

20. See Robert Solomon, *Partners in Prosperity* (Washington, D.C.: Twentieth Century Fund, 1991).

21. See Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958–1971* (Chapel Hill: University of North Carolina Press, 2004).

to one another for the external consequences of their economic policies even as they remained politically responsible only to their own citizens.

Whereas pegged exchange rates were once intended to be the main transmission belt for responsive policy actions, the now-burgeoning international capital markets increasingly provided the actual stimulus for adjustment. After the abrogation of the rules of Bretton Woods, however, the risk of disorderly adjustment was palpable. At a time when special import surcharges, temporary tariffs, and accusations of currency manipulation provided grist for daily headline mills, such a risk did not seem abstract. Haphazard growth in financial markets and international monetary disarray appeared quite capable of restoring not the world of the 1950s but of the 1930s. The Depression studies of the League were dusted off, and practical discussions turned to the ready-made consultations apparatus of the Fund.

Although the Fund itself had been ignored at critical points of decision in the early 1970s, its Executive Board began to reemerge as a potentially useful forum in 1974. After extended debate that year, it found consensus on a set of Guidelines for the Management of Floating Exchange Rates. That the guidelines were weak surprised no one privy to the debate. Executive directors from countries letting their exchange rates float, for example, refused to go along with the revived idea that the Fund had to be consulted before national decisions on the choice of exchange-rate regimes were made. Still, the renewed drive to bring related discussions back to the Fund was significant. Also significant was the fact that the guidelines made explicit the understanding that the appropriate purview of the Fund extended to broader policies that had external monetary effects, such as capital restrictions, various types of fiscal interventions, and interest-rate policies.[22] The very existence of the guidelines also served as a reminder that only the forum of the Fund provided the near-universal membership necessary for the reestablishment of legality in the arena of exchange rates. But after its abridgement in 1973, it would require a binding new treaty to restore the legitimacy of a central role for the Fund in the international economic order.

Such an effort remained complicated in substantial part by the absence of a consensus among the leading monetary powers on the wisdom of completely free international capital movements. Given the strong preference all evinced for autonomy in setting their basic economic policies, without such a consensus there was no chance—theoretical or political—of reaching a comprehensive new agreement on global monetary and financial order. Still, the momentum engendered by exploratory talks was sufficient to propel a second-best solution.

In August 1975, the United States took the lead in pushing for the restoration of international monetary legality on whatever minimal basis could now be achieved. The United States, the United Kingdom, France, the Federal Republic of Germany, and Japan first attempted to reach agreement among themselves on key issues, the most contentious of which was the nature of the exchange-rate system.

22. This tentative step toward extending Fund responsibilities to the capital account represented an important plot twist in a long and continuing tale. See Abdelal, *Capital Rules*.

Because France and the United States had previously articulated the most divergent positions on that issue, after a series of frustrating discussions their exasperated colleagues agreed to go along with any agreement those two members were able to hammer out between them.

Although their positions had been moderating over time, France remained the key proponent for a return to some version of a fixed rate system, whereas the United States insisted on maintaining its ability to let the dollar float. Not coincidentally, France was inclined to support capital controls, whereas the United States most vociferously was not. Differing positions on the appropriate distribution of the costs of adjustment between deficit and surplus countries were central to the subsequent negotiations, but doctrinal differences on the nature of the relationship between state institutions and the market were obviously also at work. The distance between the two positions was narrowed, however, after a series of secret meetings in fall 1975 between the undersecretary of the U.S. treasury, Edwin Yeo, and the deputy finance minister of France and future managing director of the IMF, Jacques de Larosière.

On the surface, the negotiations between Yeo and de Larosière seemed a search for a technical bridge between the U.S. and French positions. Under the surface, however, they were about what international monetary struggles are always about—power and differing perceptions of fairness in the distribution of adjustment burdens.[23] The two sides needed a text that would accommodate their very different notions on how the domestic adjustments necessitated by external economic involvement should be managed. Again, on the surface, the negotiations concerned an arcane legal text, the diverse interpretations of which might promote a broad consensus. But underneath, they constituted an important and readily understandable struggle to determine whether post-1973 international monetary arrangements would be more balanced between the interests of creditor and debtor states.

The underlying contest was straightforward. In line with traditional French views, de Larosière believed that as the issuer of the system's main reserve currency, the Americans had too much discretion; they could finance their external deficits too easily and postpone fundamental adjustments too freely. Yeo had some sympathy for the view that external discipline would not necessarily be a bad thing for the United States in principle. Nevertheless, very much like the situation confronting his successors today as they struggle to correct global payments imbalances, in practice Yeo's bargaining position was constrained by a solid domestic conviction that it was not only appropriate but essential for other countries, especially those with persistent payments surpluses, to bear more of the costs of adjustment.

In the United States, such a view had been advanced for many years by Henry Reuss, a Wisconsin Democrat and the influential chairman of the Banking Committee of the House of Representatives. On international monetary matters, his position was that any constraints on the ability of the United States to redistrib-

23. On this theme, see David Andrews, ed., *International Monetary Power* (Ithaca: Cornell University Press, 2006); Jonathan Kirshner, ed., *Monetary Orders* (Ithaca: Cornell University Press, 2003).

ute those costs should be resisted. Reuss also frequently noted, however, that floating exchange rates—the primary tool to effect such a redistribution—could destabilize the world trading system by making it easier for countries to manipulate their currencies. With an eye on the Congress that would have to ratify his handiwork, the way around the conundrum for Yeo was to advocate not stable exchange rates, as the French preferred, but a stable system of exchange rates. But how would such a stable system be maintained in the absence of a binding rule, such as a commitment to repegging? The U.S. answer was twofold: (1) by leaving it up to individual countries to create the conditions for domestic price stability and (2) by formalizing and expanding the IMF mandate to exercise surveillance over the adjustment process. Whether such an answer was realistic remains a matter of debate to this day, a theme to which I return later in the chapter. Nevertheless, in the face of U.S. intransigence and accepting the infeasibility of repegging exchange rates at a time when wide differences existed in national levels of inflation, in the end France accepted it—although de Larosière insisted that the word *firm* precede *surveillance* in the final text.

That noun, derived from the French term for "watching over," was chosen carefully. Two years prior to the Yeo–de Larosière negotiations, Congressman Reuss questioned its appropriateness when it was first proposed to his committee. He worried that it implied the possibility that the United States itself might at some point be constrained by an IMF empowered to exercise surveillance. Paul Volcker, then undersecretary of the treasury, replied, "Now I do not object to 'surveillance.' I think a country operating on a floating rate should be subjected to some international rules and surveillance."[24] Other terms, like management and regulation, were considered but rejected because they more clearly suggested deference by nation-states to a higher authority. To Arthur Burns, the powerful chairman of the U.S. Federal Reserve, surveillance had the right connotations, a conclusion Reuss eventually came to accept.

On April 1, 1978, the amended IMF Articles were finally ratified by 60 percent of the member states, accounting for 80 percent of the votes on the Executive Board. Legality was restored but to a set of monetary practices very different either from those designed at Bretton Woods or from those that had subsequently evolved under the Bretton Woods label.[25] Still, the fact that so much political energy had been expended to get to that point indicated a basic line of continuity. Certainly Keynes and White would have understood the reasons behind the normative understanding reached again in the mid-1970s. In any event, it was their own institutional brainchild that embodied such an understanding and carried it forward into the new world of practice.

24. U.S. Congress, House, Subcommittee on International Finance of the Committee on Banking and Currency, *International Monetary Reform*, Hearings, 93rd Cong., 1st sess. (Washington, D.C.: Government Printing Office, November 13 and December 5, 1973), 22.

25. For further analysis, see Joseph Gold, *Exchange Rates in International Law and Organization* (New York: American Bar Association, 1988), chap. 9.

The Evolution of Surveillance

The text of the new Article IV enjoined the Fund to "oversee the international monetary system in order to ensure its effective operation" as well as to "exercise firm surveillance over the exchange rate policies of members, and . . . adopt specific principles for the guidance of all members with respect to those policies." Moreover, those principles were to "respect the domestic social and political policies of members, and when applying these principles, the Fund shall pay due regard to the circumstances of members." For their part, the Fund members were required to "collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." This referred both to the way underlying economic policies were conducted and to the necessity of avoiding exchange-rate manipulation. Moreover, members were enjoined to "provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, [to] consult with it on . . . exchange rate policies." This put all Fund members on an even footing; whether their currencies were fully convertible or not, all were now obliged to participate in Fund consultations. Finally, the text committed members to "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members."[26]

On paper, the new Articles of Agreement seemed to give the Fund a significantly expanded role; in practice, the resistance of member-states to the granting of effective new powers was intense. In the postratification discussions by the Fund Executive Board about the design of a substantive code of conduct that would make the new Article IV operative and replace the loose 1974 guidelines on floating, deep divisions immediately appeared. In a series of background papers, Fund staff subtly pushed for a broad interpretation to revive the Bretton Woods notion of prior consultation before changes in exchange rates that were not floating, to permit the Fund to take a view on whether an exchange rate was "wrong" or creating "disorderly" market conditions, and to facilitate Fund inquiries into a wider range of domestic policies.[27] A second approach, identified with continental European members, rejected prior consultation but called for the Fund to promote broad policy objectives by, for example, taking a view on the correctness of particular exchange rates.[28] Countering both of these views, the United States, Canada, and Britain favored an approach that would defer to market forces, narrowly construe the meaning of market disorder, and concentrate the Fund mandate about the avoidance of exchange-rate manipulation by governments. In the face of these differences, it was obvious that a set of clear, encompassing principles would be impossible to design. On the basis of a suggestion

26. Article IV, sections 3 and 1 (iii).

27. Margaret Garritsen de Vries, *The International Monetary Fund, 1971–1978, Vol. II* (Washington, D.C.: International Monetary Fund, 1985), 840.

28. A key concern was that the United States would export inflation via an inappropriate exchange rate. For relevant background, see Hubert Zimmermann (chap. 9 in this volume).

from the Canadians and the British, therefore, all that could be agreed at this initial stage was that a 1974-style guidelines approach might allow specific principles to evolve from practice. Following extended study and debate along these lines, and cognizant of fundamental consensus only on the illegitimacy of currency manipulation and on resistance to Fund meddling in the internal affairs of members, the First Surveillance Decision finally emerged from the Board in April 1977.[29]

Echoing themes expressed at Bretton Woods, the 1977 decision really articulated only one formally binding principle—that members avoid manipulating either exchange rates or the system as a whole in order to avoid adjustment or to gain a competitive advantage. Two nonbinding principles complemented it: (1) that members should intervene in exchange markets to counter disorderly conditions and (2) that members should take into account in their intervention policies the interests of other members. Beyond this interpretation of the new Article IV commitments, the significance of the 1977 decision lay in its explication of a now-obligatory mechanism for monitoring adherence. It specified that Fund surveillance of exchange-rate policies would take place within the framework of a "comprehensive analysis of the general economic situation and economic policy strategy" of members, thus explicitly widening the purview of the organization.[30]

In exercising its renewed and expanded mandate for bilateral surveillance, the 1977 decision called on the Fund to recognize that member objectives included not just international adjustment but also "sustained sound economic growth and reasonable levels of employment."[31] In addition, in a weak replacement for the former and too frequently ignored requirement that a member consult with the Fund prior to changing its exchange rate, the decision gave the managing director the authority to question, at his own initiative, the exchange-rate policies of members and report to the executive directors on the answers.[32] Finally, the decision authorized periodic global reviews of exchange-rate and related economic developments, a task that culminated in the publication of the Fund *World Economic Outlook* and, more recently, the *Global Financial Stability Report*. Harking back to the annual League *World Economic Survey* and paralleling their successor analyses produced by the Department of Economic and Social Affairs in the UN, those publications now provide the most visible face of the Fund multilateral surveillance role.

29. Decision No. 5392-(77/63), April 29, 1977, in International Monetary Fund, *Selected Decisions,* no. 15 (Washington, D.C.: IMF, April 30, 1990), 10.

30. Ibid.

31. Ibid. On the logical inseparability of exchange-rate matters and other aspects of macroeconomic policy, see Richard Cooper, "IMF Surveillance over Floating Exchange Rates," in *The International Monetary System*, ed. Richard Cooper, 149 (Cambridge, Mass.: MIT Press, 1987). On the basis of such reasoning, the "enhanced" surveillance role of the Fund evolved for certain developing member states, a role that would bring it directly into dialog with private bankers in those states during the 1980s. See Joseph Gold, "IMF: Some Effects on Private Parties and Private Transactions," in *Prospects for International Lending and Rescheduling*, ed. Joseph J. Norton (Dallas: Southern Methodist University Institute on International Finance, 1989), sec. 13.02[3].

32. In later years, this authority justified the involvement of the managing director in the restricted discussions on economic policy coordination held outside the Fund, for example, in the forum of the G7.

The Second Amendment to the Fund Articles and the Surveillance Decision of 1977 replaced the rules agreed at Bretton Woods with what has since been called "soft law."[33] The Fund members now agreed that the modicum of policy coordination conducive to international economic prosperity could best be promoted not by specific rules but by procedural adaptation. In subtle ways, such an approach actually extended the legal jurisdiction of the Fund. In particular, consultations formerly voluntary under Article VIII were now required. Moreover, all consultations were to end with a summing-up by the managing director, which, after any amendments by directors, was to become a formal legal statement of the Board. More significantly, despite the apparent narrowness of the 1977 decision, the explicit recognition that broader macroeconomic policies had an important impact on exchange rates in the increasingly liberal policy environment of the 1980s and 1990s actually widened considerably the scope of the concerns of the Fund. This turned out to be a key development. Because national financial policies later moved broadly in the direction of liberalization, the consequences for exchange rates meant that the Fund would have a keen interest in the international capital markets thereby promoted. Even though its explicit mandate remained confined to the current account of national payments balances, that interest gave the Fund a natural, if controversial, role to play in overseeing developments in the capital accounts of its members.

That the formal surveillance mandate of the Fund would meet resistance was always certain. External advice on politically sensitive economic policies is not always welcome. Ameliorating that resistance, however, was the broad acceptance by the Fund membership of a certain point of view. At a time when market signals, especially financial market signals, were increasingly allowed to guide national economic policymaking, and, moreover, in a world lacking a consensus on exchange-rate arrangements, multilateral economic surveillance was more, not less, necessary. The most fundamental reason behind this consensus later became crystal clear.

In a world of states, markets channel national power. They buffer political choices by diffusing and depersonalizing responsibility for their consequences. Just as independent central banks buffer governments while remaining part of the state, markets buffer the state without inevitably usurping ultimate political authority. The day-to-day workings of markets may obscure the fact that political choices have been made, but they do not substitute for them. Stable markets required the collaborative deployment of the political authority of states. A crucial part of that deployment involved the construction of an oversight and crisis-management capability. That construction necessarily reflected the outcome of a political struggle, but the apparatus emanating from that struggle could succeed in its task only if it could somehow be conceived of as beyond politics. Andrews

33. Joseph Gold, "Strengthening the Soft International Law of Exchange Arrangements," in *Legal and Institutional Aspects of the International Monetary System: Selected Essays,* Vol. 2, 515–79 (Washington, D.C.: IMF, 1979).

(chap. 6 in this volume), in his discussion of the reemergence of central bank collaboration as the par value exchange rate system was deteriorating, speaks directly to this point. Whether plausible or not, central banks make just such a claim to neutrality. Fund surveillance operates in the same conceptual landscape. Its architects knew instinctively that in a globalizing economy the political buffer of the market itself required a buffer. Nothing confirms this insight more clearly than policy responses to the international financial crises that have marked the past quarter century.

Surveillance and Crisis Management

In a sense, the Fund has always been involved in financial crises; under a regime of pegged exchange rates, every major exchange-rate realignment constituted a crisis of sorts for the particular governments involved. But only after the end of the par value system did the role of the Fund as crisis manager become fully developed. In the midst of the developing-country debt crisis that began in 1982, the Russian and eastern European economic transitions that began later in the decade, and the perfect storm of crises associated with East Asia, Russia, and Argentina from the late 1990s onward, that role came to constitute a primary rationale for the continued existence of the Fund. In addition to the financing it could offer when market liquidity suddenly dried up, its surveillance function logically encouraged members in crisis to turn to the Fund.[34] As for the Fund itself, cues from creditor states and heightened competition from other international institutions certainly provided consistent pressure not to back off.

Crisis management implies the need for speed and suppleness, but the Fund is a bureaucratic institution guided by precedents and encumbered by its tradition of consensus decision making. After 1982, one innovation made it possible for the Fund to bridge the gap between systemic needs and organizational constraints. Partly by force of personality and partly by the willing acquiescence of leading member states, the managing director became increasingly prominent in the actual surveillance operations of the Fund. In fact, the managing director and the increasingly sophisticated analytical team behind him came to be seen as key proponents of a putative understanding about appropriate national economic policies in an era of heightened international capital mobility.

During the past ten years, however, rancorous debates about international crisis management and prevention have turned that phrase into a catch-all target. The Fund and especially its managing director became favorite scapegoats—for indebted members, for aggrieved private financial entities, for nongovernmental

34. A lively debate about who actually calls the shots in such a context has persisted ever since the publication of Benjamin J. Cohen, *In Whose Interest?* (New Haven: Yale University Press, 1986). Recent contributions include Erica Gould, "Money Talks: Supplementary Financiers and International Monetary Fund Conditionality," *International Organization* 57 (summer 2003): 551–86; James Raymond Vreeland, *The IMF and Economic Development* (New York: Cambridge University Press, 2003).

organizations (NGOs), and even occasionally for its leading members.[35] In the wake of the Asian crisis, the legitimacy and the wisdom of capital controls reemerged as points of serious normative contention. More ominously for a system that proponents still claimed to be multilateral, many states began to protect themselves from monetary disorder, unilaterally by building up vast and costly national reserves and bilaterally negotiating special swap arrangements between central banks. Even more ominously, and echoing themes from the pre-Bretton Woods era, burgeoning payments imbalances increasingly gave rise to accusations of currency manipulation.

Just as there existed no authority above states capable of forcing national adjustments in the systemic interest during the interwar period, there now existed no authority capable of countermanding debatable national policies. What persisted, however, was the combination of delegated legal authority and a distinct presumption of the value of economic openness that together continued to underpin the Fund surveillance mandate. In April 1995 and in the aftermath of the latest Mexican crisis, that mandate was once again renovated slightly when finance ministers and central bank governors from the leading members of the Fund met for their regular semi-annual meeting in Washington. Seeking stronger and more effective IMF surveillance, the relevant 1977 Decision was amended. To the traditional list of developments that trigger special discussions between the Fund and a member was added "unsustainable flows of private capital."[36] Shortly thereafter, the Fund was formally authorized to guide countries in the gathering and dissemination of a wider range of economic and financial information. Although following the information standards set by the Fund was to be voluntary, the goal was to render private capital more accessible and more stable for members in need. The IMF was also directed, "in the context of promoting broader market liberalization, to pay increased attention to capital account issues . . . and to give more attention to the soundness of financial systems."[37] Whereas its surveillance mandate had once been limited to exchange-rate matters with the narrower objective of restoring and expanding freer trade, the Fund was now explicitly asked to monitor and encourage constructive openness in national capital accounts. A subsequent effort led by Managing Director Michel Camdessus again to amend the Fund Articles explicitly to expand its jurisdiction to cover not just the current account of its members but also the capital account foundered on the shoals of the Asian and South American crises. The Fund surveillance procedures, however, now became fully attuned not only to the cause of freer trade but also to the objective of supportive capital market liberalization. The debacles of recent years in Korea, Indonesia, Turkey, and especially Argentina, which implicated the Fund and cast a shadow on the latter

35. For excellent background, see Barry Eichengreen, *Financial Crises and What to Do about Them* (Oxford: Oxford University Press, 2002); *Capital Flows and Crises* (Cambridge, Mass.: MIT Press, 2003); Ralph Bryant, *Turbulent Waters: Cross-Border Finance and International Governance* (Washington, D.C.: Brookings Institution Press, 2003).

36. International Monetary Fund, *IMF Survey* (Washington, D.C.: IMF, May 22, 1995), 156.

37. International Monetary Fund, *IMF Survey* (Washington, D.C.: IMF, October 23, 1995), 314–15.

objective, did not in the end prove sufficient to break the normative foundation on which its evolving surveillance mandate rested. To be sure, they did occasion consternation and emotional overreaction among normally sober-minded economists.[38] But when calm returned, the advice of the Fund to members in transition was not to reinforce barriers around capital markets but to open those markets gradually in finely timed sequence with other adjustments in national economic structures and policies.[39]

In any event, the return to a world economy characterized by capital controls did not occur. A few numbers will put the turbulence of recent years into perspective. According to IMF data, net private capital flows to all emerging-market countries averaged $130 billion (USD) per year between 1990 and 1997 and $79 billion per year during the crisis years of 1998 to 2002. In 2007, however, they totaled $631 billion, of which $352 billion came in the form of foreign direct investment. With emerging markets and developing countries in net current account surplus ($639 billion) by then, however, open capital markets continued mainly to facilitate the recycling of net financial resources in the direction of industrial countries, especially the United States.[40] U.S. consumption remained the motor force at the core of the world economy, and the struggle to build a better, more durable, and fairer system continued.

Contemporary Challenges

Despite persistent external criticism concerning the scope, terms, and effectiveness of IMF surveillance, member states have never moved to abolish it. To the contrary, formal reviews have been undertaken regularly since 1977, and the conclusion is nearly always the same—Fund surveillance remains central and should be enhanced and reformed.[41] When the Fund Executive Board reviewed surveillance policies and practices in 2000, for example, it distinguished between core issues for obligatory surveillance (exchange-rate policies and their consistency with other financial and macroeconomic policies with potential systemic implications) and

38. For example, Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton, 2003).

39. See Thomas D. Willett, *International Financial Markets as Sources of Crisis or Discipline: The Too Much, Too Late Hypothesis*, Essays in International Economics no. 218 (Princeton: International Economics Section, 2000); Sebastian Edwards and Jeffrey A. Frankel, eds., *Preventing Currency Crises in Emerging Markets* (Chicago: University of Chicago Press, 2002); Michael Mussa, *Argentina and the Fund: From Triumph to Tragedy* (Washington, D.C.: Institute for International Economics, 2002).

40. International Monetary Fund, *World Economic Outlook* (Washington D.C.: IMF, September 2006), table 1.1; International Monetary Fund, *Global Financial Stability Report* (Washington, D.C.: IMF, April 2007), fig. 1.

41. Despite often withering criticism, close observers from quite different perspectives often come to comparable and not incompatible positions. See, for example, Ralph Bryant, *Crisis Prevention and Prosperity Management for the World Economy* (Washington, D.C.: Brookings Institution Press, 2004); Devesh Kapur and Richard Webb, "Beyond the IMF," paper prepared for the G-24 Technical Group, March 2006; Ngaire Woods, *The Globalizers: The IMF, the World Bank and Their Borrowers* (Ithaca: Cornell University Press, 2006).

noncore issues. A few years later, it advocated more attention to exchange-rate issues, fuller oversight of financial-sectors and risk management systems, more intensive analysis of regional issues and their global consequences, and improved measures of the effectiveness of Fund advice—all of which seemed quite logical after the Asian and Argentinean crises and the more generalized liquidity and banking crises roiling the system.[42]

Debates continue both inside and outside the Board about precisely what advice the Fund should give to weaker members. Especially controversial was advice impinging on the structure of national markets, on the governance of national economies, and on policies targeted at entrenched poverty. A perennial source of frustration inside the Fund, however, is the apparently limited impact of both bilateral and multilateral surveillance on the most systemically significant members.[43] Heightened attention both inside and outside the Fund has lately also been given to increasing the transparency of the surveillance process, heightening the candor of Fund advice, and (sometimes by the same critic in the same breath) encouraging humility among Fund management and staff. In truth, such enhancements typify the modest incrementalism that has characterized the evolution of Fund surveillance from the beginning. Member states and critics always seem to want more from the Fund, although what they mean by that are enhancements that are often mutually exclusive. In any event, no one is fully prepared to endow this or any other intergovernmental institution with the actual supranational power necessary to match the most ambitious aspirations for its legal authority.

In fact, the boldest critiques of Fund surveillance and its limitations often come from insiders troubled by widening international payments imbalances. In recent years, few observers were sanguine about the implications of large U.S. fiscal and current account deficits. Indeed, U.S. officials themselves warned of the dangers. Likewise, the high level of mainly U.S.-dollar denominated reserves built up by China, Japan, and other East Asian states after the crises of the late 1990s were widely viewed as costly, inefficient, and potentially destabilizing for the system as a whole. The fact that the IMF offers similar diagnoses but cannot force policy adjustments remains a testimony to the inherent constraints on surveillance, not to its irrelevance. Skeptics have simply to ask themselves whether the system would be better off in the absence of a forum grounded in a formal legal obligation by member-states to one another where even recalcitrant members have no choice but to explain key economic policy choices.

Prominent voices have recently reiterated Keynes's famous admonition that the Fund must be less in the business of banking and more in the business of "ruthless truth-telling," that it had to become an "independent umpire" articulating and

42. International Monetary Fund, *Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision* (Washington, D.C.: IMF, July 2, 2004); see also International Monetary Fund (Independent Evaluation Office), *The IMF's Multilateral Surveillance* (Washington, D.C.: IMF, July 14, 2005).

43. See, for example, Bessma Momani, "Assessing the Utility of, and Measuring Learning from, Canada's IMF Article IV Consultations," *Canadian Journal of Political Science* 39, no. 2 (2006): 249–69.

"policing" the "rules of the game."[44] Such advocacy is well-intended but far from novel. The more serious challenge to Fund surveillance is the potential erosion of normative solidarity represented by a proliferation of regional competitors and alternative forums with selective memberships and weak or nonexistent secretariats.

After the emergence of the euro, European members understandably shifted their attention away from Washington toward Frankfurt, even as they resisted substantial reductions in their relative share of Fund quotas or the consolidation of their seats on its Executive Board. More recently, key east and Southeast Asian states have begun constructing a regional system for voluntary consultations, technical assistance, and temporary financing.[45] Parallel efforts in Africa and Latin America periodically gain and lose momentum. Ted Truman asks the key question: "Can the global monetary system function effectively with more than one set of understandings, conventions, and rules, for example about the trade-off between financing and adjustment or about the ultimate goals of capital account liberalization?"[46]

Convinced that its traditional negative answer to such a question remains correct, the strategy of the Fund and its members during the past decade remained one of pragmatic and incremental adjustment. A signal development in its surveillance mandate occurred in June 2007, with the amendment of the 1977 Surveillance Decision. In essence, the amendment formally widened the scope of policies to be taken into account by the Fund in its bilateral surveillance activities. To the previous three principled commitments—the avoidance of exchange rate manipulation, interventions to counter disorderly market conditions, and the need to take the interests of other members into account during such interventions—was added a new proscription against "exchange rate policies that result in external instability."[47] Against a changing background, where disruptive moves in exchange rates were ocurring not necessarily because of overt manipulation but most obviously because of abrupt shifts in capital flows, the basic idea was to give the Fund clearer authority to encourage countries to move toward more sustainable current accounts and less vulnerable capital accounts. Such encouragement necessarily entailed inquiring into a broader set of economic policies capable of weakening external balance sheets. In short, without amending the Fund's Articles of Agreement to include the obligation of members to move toward open capital accounts, as had been proposed a few years earlier, the normative scope of members' actual commitments to

44. Mervyn King (Bank of England), "Reform of the International Monetary Fund," speech prepared for the Indian Council for Research on International Economic Relations, New Delhi, February 20, 2006; David Dodge (Bank of Canada), "The Evolving International Monetary Order and the Need for an Evolving IMF," lecture prepared for the Woodrow Wilson School of Public and International Affairs, Princeton University, March 30, 2006; Edwin M. Truman, *A Strategy for International Monetary Fund Reform*, Policy Analyses in International Economics 77 (Washington, D.C.: Institute for International Economics, 2006).

45. C. Randall Henning, "Systemic Contextualism and Financial Regionalism: The Case of East Asia," unpublished paper, August 2005.

46. Truman, *Strategy for International Monetary Fund Reform,* 31.

47. International Monetary Fund, Executive Board, Decision on Bilateral Surveillance over Members' Policies, June 15, 2007.

one another was widened and the legitimacy of the Fund's deeper inquiries into the sources of disruptive changes in exchange rates was acknowledged.

Aside from deeper national-level surveillance, the Fund is now also following regional developments more closely and producing distinct analyses that fall in between country reports and systemic reports. Finally, and again aiming to foster collaborative adjustments in the policies leading to the largest current account disequilibria and potentially most significant disruptive external spillovers, the Fund began experimenting with *multilateral consultations* involving the members most directly implicated. Because a complete separation between developments in current accounts and accommodating changes in capital accounts cannot in practice be maintained, multilateral surveillance reports now routinely cover financial stability concerns and a full range of capital market issues. Effectively preparing the ground for this new system-level practice, the Fund managing director has since the late 1980s regularly briefed the G7 finance ministers and central bank governors on the world economic outlook and related policy issues. Not coincidentally, his presence at G7 meetings has long sent the message that the Fund should remain the key forum for broadly multilateral collaboration on macroeconomic policies.

Partly to reinforce that message, the Fund has worked to develop closer contacts at the management and staff levels with other agencies, including the Bank for International Settlements (BIS), the World Trade Organization, and the United Nations and its specialized agencies.[48] Along the same line, Fund surveillance procedures and practices are now much more transparent.[49] Whereas before the mid-1990s the gist of some surveillance reports might be published in the dense Fund *Annual Report*, today, full staff reports and summings up of Board discussions on members are disseminated widely. Because burgeoning capital markets now provide the key link in the process of encouraging constructive policies, the Fund is expanding its systemic oversight to cover those markets

48. On the BIS, see David Andrews (chap. 6 in this volume); Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973* (Cambridge, UK: Cambridge University Press, 2005). In the wake of the east Asian crises of the late 1990s and subsequent concerns about the legitimacy of its advice, the Fund intensified its activities at the UN, from which it had long ago struggled to carve out its own institutional autonomy. The larger issue facing the UN and the Bretton Woods institutions was rendering overlapping mandates and programs more coherent. See Louis W. Pauly, "Financial Crises, the United Nations, and Transnational Authority," in *Complex Sovereignty*, ed. Edgar Grande and Louis W. Pauly, 120–45 (Toronto: University of Toronto Press, 2005); United Nations, *Delivering as One: Report of the Secretary-General's High-level Panel on UN System-wide Coherence in the Areas of Development, Humanitarian Assistance, and the Environment* (New York: United Nations, November 9, 2006).

49. The obvious conflict here is that greater publicity might prompt member states to restrict what they say to the Fund during surveillance exercises. Just before he became Fund deputy managing director, Stanley Fischer outlined the rationale for greater openness. Depicting its surveillance role as one of mobilizing public pressure for systemically constructive policies, he asserted that to be more effective the Fund should ensure that it is seen to be the world "premier macroeconomic policy analysis institution," which it could not do "while hiding behind the shelter of confidentiality." Stanley Fischer, *IMF Essays in a Time of Crisis* (Cambridge, Mass.: MIT Press, 2004), 44.

more intensively.[50] None of these activities would make sense or could be broadly justified if there was nothing left of the legacy of Bretton Woods.

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In the first article on the Fund published in the journal *International Organization*, the pioneering political economist Klaus Knorr noted that primary purpose of the IMF was to help restore an expanding world economy. He captured the zeitgeist just after the Fund officially opened its doors in 1946, when adverse circumstances unforeseen at Bretton Woods suggested that it might not be able to function as intended. The dearth of global liquidity was too severe, commitments to freer trade too fragile, and political crises too deep. Nevertheless, Knorr warned, it would be a mistake to underestimate the potential importance of the Fund and its sister institution, the World Bank.

> Here or there [the IMF and the World Bank] will be able to relieve temporary maladjustments and channel funds into deserving projects. Above all, they must not be underrated as facilities for continuous consultation among the financial experts of many nations. But will they become vital underpinnings of a prosperous world of multilateral exchange? No definite answer to the question is, of course, possible now. By their own efforts, these institutions cannot bring about such a world. And they can make their full contribution to it only if the world political crisis subsides, if the world recovers from the ravages of war, if the major industrial nations manage to ban severe and protracted depressions, and if the [International Trade Organization] will thrive on its positive principles rather than be emasculated through excessive use of its numerous escape clauses. Admittedly this is a formidable set of conditions.[51]

Knorr's essential question remains open. That it does so, however, may be interpreted as a signal achievement. Certainly it would be difficult to sustain the argument that his "formidable set of conditions" has not been met. Economic openness far beyond the scale envisaged sixty years ago is a fact, and the autonomy of more interdependent states is easier to discern in theory than it is in practice. The world economy that greater openness has produced may remain fragile and full of injustice, but it is hard to imagine the architects of Bretton Woods being entirely displeased with their legacy. A normative consensus on the political value of economic openness ultimately propelled the Fund to a more prominent role than many expected

50. International Monetary Fund, *Managing Director's Report on Implementing the Fund's Medium Term Strategy* (Washington, D.C.: IMF, April 5, 2006). In the mid-1980s, the Fund began to produce annual reports on developments and prospects in international capital markets. The idea now was to combine the departments doing this kind of work and integrate their capital markets surveillance more systematically into the *World Economic Outlook* and the *Global Financial Stability Report* and, in turn, into routine bilateral surveillance. Because its own resources were less in demand when market conditions were calm, the Fund also sought ways to reduce its own financial dependence on lending operations.

51. Klaus Knorr, "The Bretton Woods Institutions in Transition," *International Organization* 2 (February 1948): 38.

in the late 1940s. A collective repudiation of the Fund could certainly still occur, perhaps occasioned by a catastrophic crisis of confidence in multilateralism itself, by more widely shared perceptions of the illegitimacy of Fund decision-making, by unchallenged currency manipulation, or by a system-changing shock beyond the capacity or the will of even cooperative states themselves to address. More readily imaginable, perhaps, is the Fund and its surveillance mandate withering away quietly, eroded by a formalism divorced from meaningful policy impact or by gradual displacement by new structures within more closed regional blocs. Skeptics would have us believe that the Bretton Woods order, and not just the exchange-rate system bearing that historical label, is no more. To the contrary, the account provided in this chapter and throughout this book evokes the riposte tradition attributes to a stubborn Galileo: "But still, it moves."

The Spirit of Bretton Woods Paul A. Volcker. The Bretton Woods Mission: Before, Then, Now Richard A. Debs. Rethinking Multilateralism for Our Future World James D. Wolfensohn. Leadership of the bretton woods institutions. The Innovative Monetary Fund Christine Lagarde.Â Bretton Woods at 75: Rethinking Multilateral Cooperation for the Modern Era Arminio Fraga. Has Globalization Peaked? Renewing the Prospect and Promise of Global Integration Catherine L. Mann.Â Global Financial Cooperation as a Legacy of Bretton Woods Randal K. Quarles. Coordination in the Future Regulatory Environment Axel A. Weber. Strengthening and Deepening the International Financial Architecture Jean-Claude Trichet. While the Bretton Woods system is no longer in place, it fundamentally changed the international monetary order.Â The roughly three decades that coincided with the monetary arrangements of the Bretton Woods system is often thought of as a time of relative stability, order, and discipline. Yet considering that it took nearly 15 years following the 1944 conference at Bretton Woods before the system was fully operational and that there were signs of instability throughout the era, perhaps not enough has been made of the relative difficulty in trying to maintain the system. Excerpted from: â€œIMF Surveillance and the Legacy of Bretton Woods,â€ in Bretton Woods Revisited, edited by David Andrews, under review. - Louis Pauly, University of Toronto. The opinions expressed in this article/multimedia are those of the author(s) and do not necessarily reflect the views of CIGI or its Board of Directors. At a conference in Bretton Woods, New Hampshire, from July 1 to 22 1944, 44 countries drew up rules for the global economy. Prof. EugÃ©nia da ConceiÃ§Ã£o-Heldt, the reform rector of the Bavarian School for Public Policy at the Technical University of Munich (TUM) is the editor of a special volume marking the anniversary. Her main conclusions: While China's ambitions for power do not pose a threat to the achievements of Bretton Woods, the rise of populism could have significant effects.