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The changing role of the Bretton Woods Institutions

by
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Global Insight covers areas of topical interest and is meant to provide the reader with an initiation to the subject and its policy implications. The analysis is meant to be simple yet elegant, and without sacrificing depth, useful to a broad policy community. We welcome and encourage comments and suggestions.

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Introduction

While World War II still raged, 44 countries led by the US and Britain gathered at Bretton Woods in New Hampshire on 1-22 July 1944 to discuss economic plans for the post-war peace. The countries saw a need to better govern the international economy because of the anarchy of the inter-war period. Governments therefore sought to secure world peace through international economic cooperation. Such cooperation would be based on a world market, in which capital and goods would move freely, regulated by global institutions operating in the general interests of greater stability and predictability. Three regulatory institutions were envisaged: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (later known as the World Bank), and an International Trade Organisation (ITO), which came into being only as the General Agreement on Tariffs and Trade (GATT), but which became the WTO in 1994. Nevertheless, the IBRD and the IMF were formalised as organisations during the Bretton Woods conference and have gone on to play an important if not controversial role in the international political economy, especially in market regulation and surveillance and development processes.

This policy brief focuses on the influence of the Bretton Woods Institutions (BWIs) on development policy discourse by examining the underpinnings of their neoliberal orthodoxy. The central tenet of BWI thinking and the associated 'Washington Consensus' was getting the prices right. The state was conceived of as a problem rather than a solution. The universal policy prescription of the BWI adjustment programmes was to pursue policies that dictated decreasing state involvement in the economy through trade liberalisation, privatisation and reduced public spending, freeing key