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Bretton Woods, Old and New: An Interview with Professor Richard N. Cooper

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Richard N. Cooper, Maurits C. Boas Professor of International Economics at Harvard University, reflects on his experience in the 1960s and 1970s in and out of the U.S. government, during which he witnessed both the heyday and the collapse of the Bretton Woods system of pegged exchange rates. He also discusses whether a "new Bretton Woods" is possible or desirable.

Keywords: Bretton Woods system; International Monetary Fund (IMF), Special Drawing Rights (SDR).

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Introduction

Richard N. Cooper is Maurits C. Boas Professor of International Economics at Harvard University. He is a member of the Trilateral Commission, the Council on Foreign Relations, the Executive Panel of the U.S. Chief of Naval Operations, and the Brookings Panel on Economic Activity. He has worked in the U.S. government as senior staff economist at the Council of Economic Advisers (1961-1963), Deputy Assistant Secretary of State for International Monetary Affairs (1965-1966), staff member of the National Security Council (1969), Under Secretary of State for Economic Affairs (1977-1981), and chairman of the National Intelligence Council (1995-1997). He was also chairman of the Federal Reserve Bank of Boston (1990-1992) and Vice-Chairman of the Global Development Network (2001-2007). His books include *The Economics of Interdependence* (1968); *Boom, Crisis, and Adjustment* (coauthor, 1993); and *What the Future Holds* (co-editor and contributor, 2002). Robert Yee interviewed him on May 6, 2016. The transcript has been edited for clarity.

Involvement with the Bretton Woods System in the 1960s

What federal jobs did you hold (up to 1971) and what were your chief responsibilities during that time?

I worked for the Council of Economic Advisors in the Kennedy administration, roughly from March 1961 until September 1963. I was the senior staff economist for international economics. Among my other responsibilities were concerns with trade issues. [We] launched the Kennedy round [of reductions in tariffs and trade restrictions], and drafted and passed the Trade Expansion Act of 1962. But also a big issue was the U.S. balance of payments, both as a short-run policy issue and as a longer-term concern [focusing on] the viability of the international monetary system. Robert Triffin had been a colleague of James Tobin[1] at Yale, and he just published a book called the *Gold and the Dollar Crisis*. He argued that the system that was then functioning was not sustainable, which became known in a specialized literature as the Triffin Dilemma. James Tobin was my boss at the Council of Economic Advisors. We were involved both with short-run balance-of-payment management issues, but also what we were going to do about the longer term.

That was my introduction to these policy issues. Then, I went as an assistant professor to Yale, mainly to [work with] Tobin, who returned to Yale after a year at the Council. And then I went back to work for the government, this time for the State Department, in 1965. I just worked for a year — 14 months, '65 to '66 — but by that time we were in the Kennedy round of trade negotiations. My main responsibility was monetary issues. Once again, I was working on the balance of payments, [including] U.S. balance of payments issues, but also at this time, the British balance of payment issues because the British pound was in some trouble. And then we had a more formal committee on what to do about the Triffin Dilemma, [i.e.,] the longer-term structure of the monetary system. And out of that came the SDR.[2] I was not in government when the SDR was negotiated, mainly and ultimately by [Henry] Fowler, the Secretary of the Treasury. That was in '67, so I had gone back to Yale. But I participated in the early design work on the SDR, and then Fowler negotiated it.

[1] Tobin (1918-2002) was a longtime Yale University professor who would later win the Nobel Memorial Prize in Economic Sciences. Triffin (1911-1993) was a Belgian-American economist who worked at the Board of Governors of the Federal Reserve, the International Monetary Fund, and the Organisation for European Economic Co-operation before Yale.

[2] Special Drawing Right of the International Monetary Fund.

Then I came back into government in 1969, to work on the National Security Council staff, again on economic issues, working for Henry Kissinger, who was the National Security Advisor to President Nixon. And it was in that period that we actually activated the SDR for the first time. First, it was formally created, [by] formal amendments to the International Monetary Fund Articles of Agreement. And then we had tight money and capital inflow into the United States, shortage of dollars, and so it was agreed by the governors of the [International] Monetary Fund to make the first issue of SDRs, which took place actually in '70, '71, and '72. It spread over three years, but the decision was made in '69. The issuance took place on January 1, in each of the three subsequent years.

Well, this was a classic case of "too little too late." We had the structure in place for dealing with the problem, but it was too late, in a sense, and it was too little, [since] the issuance was quite small compared with the needs. There had always been some opposition to the SDR in Europe, especially in Germany. So discussions were always a struggle.

I then went back to Yale in September 1969. So I was not in the government at the time of, what the Japanese called, the *Nixon shokku* of August '71. The interesting thing about that, which is not usually appreciated particularly by people working on the international side, is that it was overwhelmingly a domestic issue, not an international issue. The international dimensions were a sideline and in fact, at the famous meeting that took place in Camp David,[3] there was nobody from the international side of the American government present (if you don't count the Secretary of the Treasury). It was driven by John Connally, who was then Secretary of the Treasury. [Prof. Cooper states he doesn't know who was present, but tries to list those in attendance.] Herb Stein of the Council of Economic Advisors was present. I think Arthur Burns, who was then Chairman of the Fed, was also present. But Kissinger was not present, and no one [else] from the State Department was present.

The big deal that came out of there was wage and price controls for the U.S. economy. It was really supplementary to that that Nixon decided — because there was the general view that the dollar was overvalued, but the U.S. was not in control of its exchange rate. Other countries controlled the dollar exchange rate. Under Connally's initiative, the U.S. imposed import surcharges on all dutiable imports. Some products are duty free by law, and so the President did not have authority to impose duties on those products. But on all dutiable products, he put a 10 percent surcharge on. Almost incidental to that, a sort of byproduct, was ceasing gold convertibility. By that time, the gold convertibility was only for foreign monetary authorities, and not for anyone else. And so that was the last residue of the gold standard. Nixon suspended the convertibility of gold and blamed the international speculators. If you look at his speeches, "speculator" was mentioned I don't know how many times. Of course, it's a common human trait when you're in trouble to blame somebody else for your troubles; that's a universal phenomenon. Nixon was not exempt from that, and he even blamed the international speculators for the need to put on the wage and price controls.

As an economic policy package, the cessation of gold convertibility of the dollar for monetary authorities was a minor part of that package, but it was a complementary part, in a way. We didn't want a run on the dollar under those circumstances. The main international component, which of course created outrage in all of our trading partners, was the import surcharge. Canada immediately pleaded for an exemption, on various grounds, which you can imagine, but Nixon denied it. That all happened in August of 1971. At that moment, I went back to work for Henry Kissinger on a *pro bono* basis. (I was not in the office, but I was

[3] On August 13, 1971, two days before Nixon publicly announced that the U.S. government would cease converting dollars into gold at the rate of $35 per troy ounce that had existed since 1934.

frequently on the phone.) [I focused] on how to deal with the international aspects of this package and essentially defined occasions to get the foreign policy establishment into the dialogue, so that it wasn't completely dominated by John Connally on the U.S. side. That was finally done and [French President Georges] Pompidou met with Nixon . . . and Kissinger was present, and they more or less worked out what needed to be done. Then it was finally put together in a [December 1971] meeting in Washington of finance ministers called the Smithsonian Agreement, which Nixon declared hyperbolically to be the most important monetary moment in history. It was in that agreement that the dollar was devalued by varying amounts against different currencies, [including] the Japanese yen, the German mark and the French franc.

Nixon also agreed, largely to accommodate Pompidou, to change the price of gold from $35 per ounce to $42.22, which required legislation. Nixon promised to try to do that. And the import surcharge was removed — that was the *quid pro quo.*

I guess I should mention two other things. One is that the U.S. went into a recession in 1970-71, so our interest rates had been very high in 1969, resulting in capital inflows to the U.S. All of that reversed, so there was capital outflow because of low U.S. interest rates by 1971. And coincidentally, a number of countries came to the U.S. Treasury for gold . . . including, surprisingly, Britain. The reason, as the British said, was that we had agreed on a quota increase in the International Monetary Fund. In those days, countries had to put up 25 percent on any quota increase in gold, and Britain had very thin gold reserves. The pound had been under a lot of pressure in the late '60s. [It] finally, devalued in '67, and so the British balance of payments was in somewhat better shape and they had acquired dollars. To make their gold subscription to the IMF, they came to the U.S. for gold. This put gold on the agenda in a way that it wasn't before, and I think that it's what partly resulted in the cessation of convertibility.

It was expected to be temporary — that should be documentable from the internal documents . . . My recollection is that that was expected to be temporary, but in fact that there was never an appropriate occasion to go back to [gold] convertibility. The reason is that the negotiated changes in exchange rates were too little. They were judged to be too little by the Treasury staff at the time, and they were judged by to be too little by the IMF. But Nixon wanted to get rid of the foreign policy flak that all of this created, and so they agreed on the exchange rate changes. But there was a general view that more change was needed and under those circumstances it would have been a mistake to go back to convertibility to the dollar. So they never did it. Here we are forty-odd years later, and it's still suspended. It's just one of many examples of temporary expedients that last for a long time. So that the story of my involvement. I went back to the in the government again in the Carter administration.

Were there any times you were vocal about certain aspects that were not implemented by Kissinger or Connally?

My main concern about the balance of payments started mainly in the Kennedy administration. I never took the balance of payments issues seriously, as a number of politicians did. I'm not a politician; I'm a technocrat. I thought it was a manageable problem and so my concern . . . at the Council of Economic Advisors was not to do too much damage to our other policies in the name of correcting the balance of payments. There were all kinds of proposals that were made. We talked about the import surcharge [and] something in the trade area. (We didn't want to do that. That would have been a move in the wrong direction.) The Treasury Department talked about the possible need to bring American dependents home from Germany. We had a lot of troops in Germany, and it was expensive to maintain them there because they were paid in dollars. They typically had their families with them, which was a peacetime deployment.

The Secretary of the Treasury at one point talked about pulling the dependents home. What was that all about? That struck me as a bad thing to do. There were all kinds of things. We did impose the interest equalization tax; that was imposed by Kennedy [in] July of 1963, just a few months before he was assassinated. That was designed to impose a tax on outward movements of certain outward movements of capital, not direct investment, in order to inhibit export of capital from the United States.

And in the Johnson administration, there were "voluntary restraints," put on capital movement by banks, for example. So there was some guidance by the government, largely on capital movements. But generally the thrust of [these issues was decided above] me in the Kennedy administration, where I was a very junior person in a rather senior position, but not a policy-making decision [maker]. I was entirely advisory, but I did sit in meetings — cabinet-level meetings chaired by the Secretary of Treasury — so I was involved in the policy discussions.

My main concern was to keep our eye on the ball. We had a very good colleague in the White House, Francis Bator.[4] He was the Deputy National Security Advisor under Lyndon Johnson and [was] really in charge of both economic and European — not Soviet, but Western European — affairs. I was an ally of him, and the main agency responsible for balance of payments was the Treasury, so within U.S. government the pressure was largely coming from the Treasury, but how serious they were depended on the individuals involved.

Balance of payments was my main focus in the Kennedy administration. I did both trade and balance of payments issues (international monetary issues) in the Council of Economic Advisors. In the State Department, my main responsibility was international monetary affairs, including international investments, but I was an active convincer on the trade issues and participated in the staff meetings where the trade issues were discussed [i.e., the Kennedy round]. Michael Blumenthal was our main negotiator, and spent his time mainly in Geneva. He later became Secretary of the Treasury in the Carter administration, but I got to know him in the Johnson administration.

The "Collapse" and Persistence of the Bretton Woods System

You once mentioned to [CFS Senior Fellow] Kurt Schuler that the closing of the gold window was a big diplomatic issue because the U.S. did not prepare its allies for the closure.

Well, it's true that, as I explained, the Camp David meeting that took place was heavily focused on domestic policy. No one from the foreign policy establishment (neither the White House nor the State Department) was involved in those discussions. And then the package was announced by Nixon, and so there was as far as I know, Connally [may have] called his colleagues to warn them ahead of time, but knowing Connally, I doubt it, but I don't know that for a fact. He may have called them and given them a few hours' notice — that would have been the courteous thing to do — but Connally was not a courteous person; he was largely a tough Texan and basically xenophobic and so my guess is, but I don't know that for a fact, that they got no notification or a minimal notification. And as I said, the big issue for foreigners was not the cessation of gold convertibility — although that was a shock to some people who were concerned with monetary affairs — it was the import surcharge. That was the operational part of the package that most concerned the poor countries, because suddenly their exports were subject to this charge. And that's what created the foreign policy flak.

[4] Currently Lucius N. Littauer Professor of Political Economy Emeritus at Harvard University.

Should the U.S. have invited foreigners to the Camp David meetings, or maybe given them more notice?

Well, it would have prepared them. The courteous thing to do if you have a big policy change that directly affects foreigners (as this did) or even if it indirectly affects them (that depends on the nature of the personal relationships across boundaries) is to give some notification. Well, you can back up and you say, depending on the issues, you actually want to consult them. That is to say, "Well, we're thinking about this" or "What do you think about that." This was done with some sense of urgency, and as I said, it was overwhelmingly domestic. So consultation would never have been thought of, probably, in this case. But then at a minimum, you want to notify them so they're not caught by surprise, because as soon as the announcement takes place they're going to be inundated question from their own press, from the international press. And so you want to notify them so they're not caught by surprise and have a little bit of time to prepare of their responses, so they have reasonable responses. That's just the courteous thing to do with your partners. So we should have done [it with] Japan, the European countries, and with Canada of course.

Were there any other issues we should have briefed them on?

Well, if you go back, we could have had a much bigger issue of SDRs under the circumstances, but I think we got the maximum we could get. As I said, there was resistance in Europe, particularly in Germany and France, but for quite different reasons. The Germans fundamentally were opposed to them, although they were brought along and they agreed. But they were fundamentally not sympathetic with the idea of SDRs. The French still had a kind of gold-bug sentiment. It was known that there was a lot of gold held privately in France, and the French still were chafing, I guess, that they didn't have enough gold. This was largely [French president Charles] De Gaulle, who was out of the picture by now. He left the government in '69, and was succeeded by [Georges] Pompidou. Pompidou was less hung up by on the gold issue than De Gaulle was. Although he was Gaullist, he was less hung up on the gold issue. As I said it was largely at Pompidou's insistence that the U.S. "contribution" to the Smithsonian Agreement (with "contribution" in quotes) would be to change the price of gold, which Nixon and Connally agreed to do. It was by this time, wholly symbolic, and you probably know we still carry this gold. We still have a lot of gold, and we carry it on the books at $42.22 an ounce, which is the price that Congress agreed to back in '72 even though the market price is above $1,000. So that's the official price.

The Smithsonian Agreement went into effect in December [1971], but already markets were restless. We were in a regime of fixed rates — fixed but adjustable rates, that was the Bretton Woods system. So we just adjusted the rates, but they didn't hold. And again, I forgot the exact sequence, but Canada floated. Canada had floated the Canadian dollar during the 1950s in violation of the Bretton Woods agreement (people tend to forget that) and Canada fixed in '62, if I recall correctly, so they went back to Bretton Woods rules. But again Canada floated again in the early '70s. That was not so much of a surprise, but a bigger surprise was that Britain floated the pound, as I recall, in [June] '72. And so the financial markets were in some turmoil.

Finally in March of '73, the general floating began. When I say "general" I mean among the major currencies, so that's the Japanese yen, German mark, (the [British] pound was already floating,) and the French franc. And of course, the dollar, as expected, depreciated at first, but that was a complicated year, '73. I was out of government, [and] was an outside observer. We had the Yom Kippur War, the big oil price increase, and meantime we had big run-ups in copper prices, nonferrous metal prices, grain prices. And so in spite of U.S. wage and price controls, oil prices were going up slowly and suddenly at the end of the year as a result of OPEC decision, they jumped by nearly a factor of four, so that they went from around

$3 a barrel to $11.50 or something. And the world went into recession in '74 and '75. And paradoxically, under those circumstances, the dollar appreciated. And so it depreciated on the initial floating in early '73, and I don't remember the timing exactly, but certainly by '75, the dollar was stronger again.

The Europeans were in some turmoil because they had a Common Agricultural Policy with common target prices, and now the European currencies were not only floating against the dollar, but they were floating against one another. So it was called metaphorically "the snake in the tunnel," to have European currencies [limit fluctuations] against one another [while] they were floating against other currencies (meaning the dollar and the yen basically). And so there were various frantic activities in Europe over the exchange rate issue from '73. This was an intra-European effort. And finally it was put together in '79 in what was called the European Monetary System. And I was back in government by that time and monetary issues were not my main responsibility, but I continued to keep a hand in them.

People talk about the "collapse of Bretton Woods," but I don't like that phrase. In fact, the Bretton Woods system is still with us in fundamental respects. But what did collapse is the fixed exchange rate part of the system and the residual gold convertibility part of the system. Those two things disappeared and even on the exchange rates, it was [only] among the major currency that exchange rates floated. Most developing countries now faced the practical task of deciding what to do, and most of them decided to fix again to some or one of the major currencies. The U.S. dollar was the most important, but for some it was the British pound and of course [there was also] the French franc area. And so most developing countries at the time, we're talking mid '70s, still had some fixed exchange rates against some major currency. So even in that respect the Bretton Woods didn't collapse, but people talked about the collapse of Bretton Woods. That's a common exaggerated metaphor.

In 2014 you gave a presentation, "Bretton Woods @ 70: Regaining Control of the International Monetary System" at the [Austrian] Federal Ministry of Finance. Following this Bretton Woods "collapse," what were some of the initial reactions? Some believed that the gold window would be reopened in the future (at a new peg). Was this ever a plausible belief?

No. When I said gold convertibility was suspended, it was expected to be temporary. But given the subsequent circumstances, the fact that the agreed depreciation was too little, and then the general floating, it never became an issue (practically speaking, of reopening the gold window). And we actually had a big, big global effort to reform the international monetary system in '72 to '74, [which] focused on the International Monetary Fund. John Williamson has written a book on that, [which] came out in late '70s. The bottom line was that it was a basically a failure. Robert Solomon has also written on that.[5]

So the principals, the finance ministers of the world, with agreement of their bosses, formally amended the articles of agreement for a second time now. The first amendment was for the SDR in '67. This is the Second Amendment [to the IMF Articles of Agreement] of '78, which essentially changed the rules of the Bretton Woods system and acknowledged in effect [how] the gold role greatly diminished. It didn't disappear altogether, but was greatly diminished, and the fixed exchange rate regime was over. Countries were free, subject to some general rules, to choose what exchange rate regime they wanted. So that was finally all done in '78. And then of course, the negotiations took place earlier and finally went into effect by '78. So that is the new Bretton Woods system, which we still have today.

[5] John Williamson, *The Failure of World Monetary Reform, 1971-74* (Sunbury-on-Thames, England: Nelson, 1977); Robert Solomon, *The International Monetary System, 1945-1976: An Insider's View* (New York: Harper & Row, 1977; updated edition 1982).

It doesn't work perfectly, but works reasonably well. I think there's still an issue, which the Chinese actually raised seven years [ago] in March of 2009, about whether the system should rely on any national currency. The U.S. dollar was and is the most important, with the euro also becoming an important international currency. That issue is still under discussion, but without any real fire behind it. [Nicolas] Sarkozy when he was president of France and chairman of the G20, he said he was going to move reform of the monetary system to the top international G20 agenda. I was again involved in advising the French minister of finance, who had the operational responsibility [and] made a proposal, but [it] essentially got pushed out by other considerations. And I think it's fair to say there's not much enthusiasm for it anywhere. The Chinese talk about it, some French talk about it. It's hard to find Americans besides me and few others who talk about it. John Williamson is still interested.

The Bretton Woods Conference

What do you believe has not been emphasized in historical accounts of the Bretton Woods conference? Did the most recent books – CFS Senior Fellow Kurt Schuler's The Bretton Woods Transcripts[6] and *Dr. Benn Steil's* The Battle of Bretton Woods[7] *- do the importance of the event justice?*

Well, first, the Bretton Woods transcripts had just been published a few years ago. I reviewed them for the *Journal of Economic Literature*. They're a little bit disappointing in the sense that the main decisions were made in the working committees, and the transcripts are of the [commission and full committee] sessions, not of the working committee meetings. The transcripts have a *pro forma* character about them, and the key decisions and hence the debates on the key decisions were made in the working groups, so they don't show up in the transcripts.[8]

Benn Steil says in that book something that I had never heard before and is not consistent with my personal experience, which is that it was an *objective* of U.S. policy to move the dollar to the front and center of the international monetary system. So Steil is very strong on that; he says that this was the objective of Harry Dexter White in that book. That was a surprise to me because I worked with the Treasury for half of a century, and it's true that the Treasury was protective of the international role of the dollar, but at no time (and I knew a whole series of secretaries of treasury and under secretaries for international affairs) in my experience, was this an objective of U.S. policy. So I went to one of several conferences on the seventieth anniversary of the Bretton Woods conference. There was one in Vienna sponsored by the central bank of Austria, and there was another guy, [Ed Conway], who essentially challenged Steil on this point and said that he was misreading the information in the Bretton Woods

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[6] Kurt Schuler and Andrew Rosenberg, *The Bretton Woods Transcripts*, Center for Financial Stability, 2012.

[7] Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order,* Princeton, New Jersey: Princeton University Press, 2013.

[8] Recently the full contents of the so-called Morgenthau Diaries, previously available only in a few libraries on microfilm, have been released online by the Franklin Delano Roosevelt Library and Museum. Roosevelt's Secretary of the Treasury Henry Morgenthau, Jr. kept detailed records of his official activities, which included heading the U.S. delegation at the Bretton Woods conference. The Morgenthau Diaries contain transcripts of the delegation's private strategy sessions and meetings with foreign delegates, and give a taste of the back-room dealing that went into some decisions at the conference. See http://www.fdrlibrary.marist.edu/archives/collections/franklin/?p=collections/findingaid&id=535&q=&rootcontentid=189777.

Conference.[9] He pointed out that Steil had made a big deal of a substitution in language in the Bretton Woods Agreement for gold (the gold dollar) of July 1944 and this Steil interpretation says that it was Harry Dexter White's effort to get the dollar into a central role. And he pointed out that the person who actually introduced that into the language formal language was not Harry Dexter White at all, but Dennis Robertson, a British economist who was a member of the British delegation. And the reason that [Conway] questioned [Steil's account], which is entirely consistent with my reading of the transcripts, is that the Indians and the Egyptians (both of whom were still British colonies at that time, but they were separately represented at Bretton Woods) built up large sterling balances during the war. They wanted the Bretton Woods conference to settle the sterling balance issue and, in particular, make the sterling balances convertible into dollars, which Britain was in no position to do, which Keynes and the British delegation understood. This was Dennis Robertson's device of deflecting attention [and] pressure on this convertibility of sterling into gold, which the British could not have supported economically at that time. It was the new version of Keynes' objections to the Versailles treaty on German reparations, where he thought that the magnitude of German reparations were just unsubstantially large. This was if you like, by broad historical analogy, now is Britain [was] in the [same] position. It wasn't the reparations but it was the large sterling balances that had been built up during the war, [which] Britain obviously needed to deal with somehow, but could not deal with in a few years. So it was Robertson who suggested substituting the term dollar for gold in the Bretton Woods agreement, and not Harry Dexter White at all. So in the view of this historian (and I'm not a historian, I have just experienced a certain amount of what is history, but I'm not a historian), Steil just got it completely wrong.

The other thing Steil at least arguably got wrong [was that] Steil convinced himself and tried to convince his readers that Harry Dexter White was a Soviet spy. He has some circumstantial evidence of several types, but he doesn't make a distinction (which I think is actually critical) between spy and informant. You can be an informant without being a spy. And then Steil had Harry Dexter White's diary (or something apparently, [White] did writing to himself) and he cites the final sentence, including some ruminations on the Soviet Union, which ends up identifying the Soviet Union as the economic system of the future. And then there's a squiggle at the end which Steil interprets as an exclamation point and [Conway] argues, [it] is really a question mark and of course the meaning of the sentence is completely different, if it's a question mark or [otherwise]. Steil interprets it unambiguous in one way, and [Conway] threw up a slide, which showed the picture, and sure enough it's a squiggly exclamation point which could well be a sloppy question mark, you know; who knows? Anyway, Steil developed his thesis and, as is often the case, gathered the evidence that supported his thesis, which a close reading of the evidence does not do. So, my advice to anyone who reads Steil is that there's a lot of good stuff, but read it with a grain of salt, with a certain degree of skepticism.

A New Bretton Woods?

Could you describe your proposal to change the current world [monetary] system?

Sarkozy called for a new Bretton Woods conference; I reacted very negatively to that. My view was, don't call for a conference, make a proposal. And if you have a better way to do things, let's discuss it. You know,

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[9] Edmund Conway, "Seeing the Woods for the Trees – Preconceptions and Misconceptions about Bretton Woods," pp. 41-49 in *Bretton Woods @ 70: Regaining Control of the International Monetary System,* Oesterreichische Nationalbank Workshop Proceedings No. 18, February 27-28, 2014. Since the conference in Vienna that Cooper attended, Conway has published a book on the Bretton Woods conference titled *The Summit: The Biggest Battle of the Second World War — Fought behind Closed Doors* (London: Little, Brown, 2014).

[at] the official level, if it seems to pass muster with officials, then roll it out and have a big public discussion, and so forth. So, the French never came up with the proposal and so I made a proposal. First I made it to the Deputies of the G20 and I made it on several occasions. It's been published in a journal called *Central Banking*, I'm thinking in 2011, which was the year of the G20.[10] So I made a proposal and sometime later, the International Monetary Fund had a conference, maybe a year and a half ago, which I spoke [at] and talked about my proposal there, and I explained that I am not wildly enthusiastic about my proposal. I'm not a big advocate of it. It's just the best I can think of under the circumstances, and it was really designed to get something on the table and get people thinking about and if they don't like it, you know what alternative? And my bottom line is griping does not represent a policy, and there's been a lot of griping in recent years. If you have a proposal to make, make it. You can start with my proposal and modify it however much or you can start with something completely different. And if you don't have a proposal, stop griping. And that's my basic view; I do not like particularly official griping.

And the only person I'm aware of who has thought of this systematically, probably even more than I have, is a man called [José Antonio] Ocampo. He's at Columbia University; he's a Colombian by nationality, very good guy. He brings the perspective of developing countries. He has a number of things that I don't especially care for, but anyway he's very thoughtful and it's worth reading. So he has at least one central paper and there are several variants of it, which give his views on the current monetary system and the directions it ought to take.

Why have many leaders, like Sarkozy, not put this to the front of the agenda?

Well, Sarkozy did try it. First he called [for] that at the World Economic Forum.[11] He called for a new Bretton Woods conference, and that's when I had the negative reaction: don't call for a conference, make a proposal, then we'll see if a conference is worthwhile, but make a proposal. But the French did not make a proposal. And then we had the G20, and it was his turn to be chairman of the G20 — this is in 2011; the Koreans had been [chairman] in 2010, the Brits had been in 2009, this year [2016] it's China. Sarkozy said high on his agenda was going to be reform of the international monetary system, and then it was up to French Ministry of Finance to fill that out. The Ministry of Finance is first-rate, I have to say — very, very good guys. But here their boss was saying, "This is on my agenda," and they didn't know what to do with it, so they called me. And that's how I got involved with it, but it didn't go to any place.

You get, again, griping by the Chinese. The Chinese had more than gripes. The first statement by Governor Zhou [Xiaochuan], of the People's Bank of China, was a very thoughtful statement, actually.[12] I could have written it twenty years earlier; the surprise was the source. This senior Chinese official came out with this in March of 2009, a long time ago. It's actually a very level-headed statement, and it was not a proposal. It simply raised the issue. So it was a sophisticated gripe—again, it was not a proposal.

And my proposal actually builds on that it. So the SDR plays a central role and then we need an adjustment mechanism too. There was a proposal in Korea in 2010 at the G20 on the adjustment mechanism and the threshold was, any current account surplus or deficit in excess of 4 percent should require adjustment.

[10] Richard N. Cooper, "Reform of the International Monetary System: A Modest Proposal," June 24, 2011, http://scholar.harvard.edu/cooper/publications/reform-international-monetary-system-modest-proposal; "The Perils of a Weak Monetary System," *Central Banking,* 24 May 2011.

[11] Speech of January 27, 2010, http://www.voltairenet.org/article163780.html.

[12] Zhou Xiaochuan, "Reform the International Monetary System," March 23, 2009, http://www.bis.org/review/r090402c.pdf.

The Koreans proposed it, but in consultation with the U.S., and the Americans thought (at least I've been told, I'm on the periphery of all this now) that the Chinese were on board. But anyway, when it got to the Seoul summit, both the Germans expectedly and the Chinese [unexpectedly] disagreed with this proposal, so it went no place. The language that came out of the Seoul summit was very general on the need to address global imbalances, but without a hint on how we're going to address global imbalances.[13]

So there are these two issues: One is what is the source of international liquidity, and that's what Governor Zhou [Xiaochuan] raised back in 2009; and then [the other is] what's the adjustment process, that was the topic of the Seoul summit. Sarkozy was supposed to cover both, but didn't. My proposal covers both [liquidity] and the adjustment process, which I think actually is more difficult.

What was in your proposal that was significant? Did you advocate for an improved ICU [International Currency Union]?

Well, we have the SDR, so we don't need [the ICU]. The starting point is the SDR as it exists, but with changes in the rules that govern issuance of SDR to monetary authorities only. It would require an amendment of the IMF articles, and if you're going to do that, then should put in some other stuff too. But as it is now, there's a quinquennial review.[14] The decision is made, whether or not to issue on the basis of long-term needs of the international system for international liquidity.

I would have had the issue framed, not in terms of needs, but in terms of demands. And I would have had every country put forward its desire over the next five or ten years for increases in liquidity. I would have them consolidate all those demands. Then I would have an international discussion about them. Some of the demands undoubtedly would be excessive, but anyway, once that discussion scaled them back then I would actually issue that amount of international reserves. And if one took those demands seriously, there would be no need for further increases in dollars or euros or RMB ([as] the Chinese are talking about now) for international reserves; SDRs would satisfy the whole demand, at least in the longer run. And the allocation would not be according to the demands; the allocation would be according to quotas. (Ocampo has a different scheme for allocation, which favors the developing countries,[15] which I'm not enthusiastic about.) But the allocation would not be related to the demands — that's important. So the demands would not be influenced by the assumption that I'm going to get that allocation. The allocation would be decided, but the totals would be determined by the demands.

And then the question comes, if a country's reserves ended up far short (and then you need some operational rules about what that meant or over what period of time) of the reserves that the country said several years ago that it was demanding or [if they end up being] far in excess, that would trigger an adjustment process. So I linked the two, both the provision of international liquidity and the international adjustments. I don't think you can have a reform of the monetary system without linking those two things. And as I say, the more difficult of those two was actually the adjustment process of international liquidity. So my proposal encompasses both, and it focuses on process and compliance, but it has penalties at the

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[13] G20 (Group of Twenty), "The G20 Seoul Summit Leaders' Declaration," November 12, 2010, http://www.g20.utoronto.ca/2010/g20seoul.html.

[14] Every five years the IMF reviews the overall level of its "quotas" (capital subscribed by member countries), and the distribution of quotas among member.

[15] Described for example in José Antonio Ocampo, "Building an SDR-Based Global Reserve System," *Journal of Globalization and Development,* v. 1, no. 2, article 14, http://policydialogue.org/files/events/Global_Reserve_Sytem_Ocampo_JGD.pdf.

end of the process, if the process hasn't worked, and the penalties inevitably, I think, involve trade restrictions against the offending countries. Think Germany. Germany is running a current account surplus of 8 percent of GDP. It's exporting its unemployment, and the Germans can't add. They said they want the rest of the world to be like Germans — hard-working, good savers and so forth — and that doesn't add up. It's not a viable world economy. Not all countries can run a current account surplus of 8 percent or even 5 percent of GDP.

The SDR, as it exists today, is limited to [use by] official bodies — "monetary authorities" is the technical term, [which] includes the World Bank and the regional development banks. Part of [the idea of] this conference would be to open it up to private use, and that of course involves some major reconceptions of the SDR. Now, the private sector these days could use the SDR as a unit of account and there's nothing to prevent them. And it's noteworthy that it hasn't been done. I don't know if that's literally true, but it is morally true; there might be a few examples generally. I mean, it's well defined; it's completely well defined, and priced minute by minute 'cause it's related to just four currencies (soon to be five), all of which are market-determined except for the RMB. [The RMB] comes in [to the basket] next October. So I think a topic for the conference would be, do we want to, assuming we do this for official governments, do we want to extend it to the private sector? And if so, how? And at what pace? So that's an issue that I raised, I don't make a proposal on that score. So that's down the road.

Do you see any issues with the addition of the RMB?

I think it's a mistake. I told the Chinese, I thought it was a mistake. I don't why they pushed it at this time. The famously patient Chinese turned out to be not patient at all, like in many domains. [Currencies comprising the SDR are] supposed be freely usable, but [the RMB] is not freely usable on capital account. It is easier to use than it was ten or twenty years ago, but it is certainly not freely usable. And so this is one of those fudges which they struck. The Chinese agreed to make it freely usable for monetary authorities. So in principle monetary authorities can buy and sell Chinese government bonds freely. But you and I can't. Even Chinese residents can't. So, this is fudging the [term] "freely usable."

The truth is, the way the SDR is now, it makes no difference whatsoever. It's only if you have my ambitions of going private at some point that this would become a big issue. But at the moment, there's only one operational consequence of adding the RMB to the SDR. It is that the interest rate that SDR debtors pay will go up, which is ironic, because China always says it favors developing countries in its international positions, but it insisted on this. No official objected seriously. And so the operational consequence is that developing countries who have used SDRs will, after October, have to pay a higher interest rate on [them] (because it's a weighted average of the interest rate of the currencies). And all of the other [currencies in the basket] happen at the moment [to have] lower [interest rates] than the Chinese currency.

What is the future of international monetary agreements?

There's no basis at the moment, no consensus within the economic profession on these issues. In fact, there's a big fundamental disagreement and there's not enough urgency in the operational system to force the issue. And so the tendency of policymakers under those circumstances is to kick the can down the road, and grumble. So we have a lot of grumblers who don't like the role the dollar. Tell me the alternative, make a proposal, that's my refrain, and nobody comes forward with the proposal. [They] just grumble about the role of the dollar.

Do you foresee that maybe in the future, there should be an overhaul of the system?

Well, I don't think the system as it exists now is catastrophic; I don't think it's not viable. Since there are a lot of other issues that engage the attention of senior policymakers in the world, this seems to be a relatively low priority issue. I have argued in a different paper, we had this big financial crisis, [and] in my view, it had nothing to do with the international financial system to a first approximation. I put myself in opposition to the former Governor of the Bank of England, in this regard, who said it was due to global imbalances, and I argued that it was not due to global imbalances at all. They played their role, but the crisis itself was not triggered by global imbalances. I think that's not just a mistake, but it's a serious mistake. I don't know what he meant by that, I just think it's a serious mistake.

You hear that from time to time, and that gets back to the adjustment process. The term "global imbalances" is actually vague, and if you probe it, some people clearly don't know what they are talking about, that's the only way to put it. And other people mean current account imbalances, so I've written about the current account imbalances, and why they're not unsustainable, in my view. The imbalances have actually gone down, in general, compared with 2005/2006, but I don't think they played a decisive role. They played an incidental role in lowering the interest rates on U.S. mortgages, but they did not play the decisive role in triggering the financial crisis, in my view.

So my challenge to people who say the existing system is unsustainable is to tell me *why* it's unsustainable. Bill Cline at the Peterson Institute some years ago argued that it was unsustainable, [16] and I just thought he was wrong. This gets into quantitative issues.

Thank you, Dr. Cooper. I really appreciate your time.

I'll be interested to see what comes out of all of this. If I could be of further help, you can get back in touch with me.

[16] For instance, in Alan Ahearne, William R. Cline, Kyung Tae Lee, Yung Chul Park, Jean Pisani-Ferry, and John Williamson, "Global Imbalances: Time for Action," Peterson Institute for International Economics Policy Brief PB-07-4, March 2007, https://piie.com/sites/default/files/publications/pb/pb07-4.pdf.