National Inequalities and the Political Economy of Global Financial Reform

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Acknowledgements: For their helpful comments, I thank Jonathan Kirshner and José Antonio Ocampo. I am also grateful to the Social Sciences and Humanities Research Council of Canada for helping to finance some of research in this paper.

Other papers in this project examine how existing international rules contribute to national economic inequalities. Some of them also offer recommendations for global governance reform that could counterbalance the negative impacts that existing international rules may have on national inequalities. Building on their insights, this paper explores two political economy questions relating to the reform process, with a special focus on global financial governance: What kind of model for global financial governance might be supportive of efforts to address national equalities? What are the political variables that drive and shape the process of global financial reform?

The paper suggests that an examination of the origins of the postwar global financial order can provide useful perspective in answering these questions. It is often forgotten that the key architects of the Bretton Woods system also worried about national inequalities and that their proposals for global financial reform were explicitly designed with these concerns in mind. After providing a brief overview of that history, the paper explores how they linked concerns about national inequalities to an innovative "autonomy-reinforcing" model of global financial reform: one that sought to strengthen multilateral cooperation in ways that bolstered national policy space. It suggests that this "embedded liberal" model may be useful today for those seeking to reform global financial governance in ways that might support efforts to address national inequalities.

The paper then turns to examine how an analysis of the origins of Bretton Woods might also help us to understand how global financial reform takes place. It explores the role of three political variables—ideas, inter-state power relations, and institutional legacies—in shaping the reform process in the early 1940s. Although the world has changed in many ways since that time, these three variables remain relevant to the prospects for a revived "autonomy-reinforcing" model of global financial governance today. The final section of the paper suggests that those seeking this kind of reform need to strategize accordingly.

Bretton Woods planning as a precedent

The Bretton Woods negotiations are often portrayed as very technical discussions about international money and finance, but it is important to recall that the negotiators placed these discussions in the context of broader social concerns, including concerns about economic inequality. I have highlighted elsewhere how some of these concerns focused on inter-country inequality, notably the growing gap in living standards between industrial and non-industrialized countries.[1] Equally important, however, were their concerns about intra-country inequality.

Policymakers from the United States, the dominant power in the negotiations, were particularly interested in this issue. The domestic inequalities associated with the Gilded Age in the U.S. during the late nineteenth and early twentieth centuries had triggered a growing political backlash that culminated in Franklin Roosevelt's New Deal of the 1930s. A core goal of the New Deal was to provide greater economic security to low-income Americans as well as to impose new taxes and other constraints on the country's wealthy elite, particularly the financial elite. Many of the U.S. officials involved in the Bretton Woods negotiations were committed to these New Deal values and their proposals for the postwar international financial order reflected these values.

Roosevelt himself set the tone with his famous "Four Freedoms" speech of early 1941 in which he committed to promote "freedom from want" everywhere in the world as a postwar goal. As Elizabeth Borgwardt (2005 4, 78) highlights, Roosevelt's commitment to this idea stemmed from his desire to "internationalize the New Deal" and its commitment to provide all citizens with greater economic security. The promise of "freedom from want" was then embedded in the Atlantic Charter that Roosevelt and British Prime Minister Winston Churchill announced in August 1941, a document that is widely recognized as the first official statement of the Anglo-American goals for the postwar world.

This idea found its way into the U.N.'s founding charter in 1945 whose preamble noted that the peoples of the U.N. determined to promote "better standards of life in larger freedom."[2] The Universal Declaration of Human Rights, adopted by the U.N. General Assembly in 1948, reiterated the idea and with greater precision: "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control" (Article 25).[3]

When U.S. Treasury Secretary Henry Morgenthau presented the first draft plans for the postwar global financial system to Roosevelt in the spring of 1942, he invoked the U.S. President's broad goals. As Morgenthau put it, the plans were designed to create "a New Deal in international economics" (U.S. State Department 1963, 172). Like Morgenthau, the Treasury official leading the detailed drafting of these plans, Harry Dexter White, was also an "ardent New Dealer" and he too referred to Roosevelt's goals in his early drafts (Van Dormael 1978, 42). In his words, the new international fund being proposed was designed to facilitate "the attainment of the economic objectives of the Atlantic charter" and member countries of his proposed international bank would be required to "subscribe

[1] See Helleiner 2014.
[2] http://www.un.org/en/charter-united-nations/index.html
[3] http://www.un.org/en/universal-declaration-human-rights/index.html

publicly to the 'Magna Carta of the United Nations'" that set forth "the ideal of freedom for which most of the peoples are fighting the aggressor nations and hope they will be able to attain and believe they are defending." This latter provision, noted White, "would make clear to the peoples everywhere that these new instrumentalities which are being developed go far beyond usual commercial considerations and considerations of economic self-interest" (Helleiner 2014).

Two years later, at the Bretton Woods conference itself, Morgenthau continued to highlight very prominently Roosevelt's goal of addressing poverty within all countries of the world as a driving force behind the negotiations. As he put it in his opening speech, one of the core goals of the meeting was to establish, "a satisfactory standard of living for all the people of all the countries on this earth." He justified this objective in the following way: "Prosperity, like peace, is indivisible. We cannot afford to have it scattered here or there among the fortunate or to enjoy it at the expense of others. Poverty, wherever it exists, is menacing to us all and undermines the well-being of each of us" (U.S. State Department 1948, 81-2). The last sentence about the dangers of poverty was also very similar to a statement that the International Labor Organization (ILO) had endorsed a meeting two months earlier that "poverty anywhere constitutes a danger to prosperity everywhere" (Alcalde 1987, 141). At the end of that ILO meeting, Roosevelt had gone out of his way to praise that statement, noting that "this principle is a guide to all of our international economic deliberations" (Roosevelt 1944, 1).

New Deal rhetoric about constraining elite behavior featured less prominently in the U.S. plans for the postwar order than this goal of addressing poverty, but it was still present.[4] In his four freedoms speech, Roosevelt spoke of "the ending of special privilege for the few" as one of the key foundations of "a healthy and strong democracy." As he put it, this was one of, "the simple, the basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world." He continued: "The inner and abiding strength of our economic and political systems is dependent upon the degree to which they fulfill these expectations."[5]

When discussing the Bretton Woods proposals, Morgenthau also sometimes invoked New Deal ideas about constraining the power of private financial elites. For example, in his final speech at the Bretton Woods conference, Morgenthau noted that the new international institutions being proposed by the conference would, "limit the control which certain private bankers have in the past exercised over international finance" (U.S. State Department 1948, 1118). Afterwards, he also boasted that one of his objectives in the Bretton Woods negotiations was, "to move the financial center of the world from London and Wall Street to the United States Treasury, and to create a new concept between nations in international finance" (Gardner 1980, 76). Another U.S. official involved in Bretton Woods planning, Adolf Berle, had advocated earlier in 1941 for public international development lending on the grounds that it would mark, "the

[4] The same imbalance can be found in targets supporting the U.N. Sustainable Development Goals to reduce inequality which are heavily focused in improving the relative position of the poor rather than constraining elites.
[5] https://fdrlibrary.org/four-freedoms

beginning of a system in which finance is the servant of exchange and development" (Helleiner 2014, 50). When proposing cooperative provisions to control capital movements (described below), White also noted that these would mean, "less freedom for owners of liquid capital," restrictions that he justified on the grounds that they, "would be exercised in the interests of the people" (Horsefield 1969, 67).

The broad goals of the New Dealers were echoed by policymakers from Britain, the other major power that played a very significant role in the Bretton Woods negotiations. When Britain's foreign minister, Antony Eden, outlined Britain's postwar goals in May 1941, he echoed the Roosevelt's commitment to improved living conditions for poor in the postwar world. As he put it, "Social security must be the first objective of our domestic policy after the war, and social security will be our policy abroad no less than at home" (Broad 1955, 154). Eden explicitly drew a parallel between this commitment to "social security" and Roosevelt's idea of "freedom from want."

Eden's words drew directly on the thinking of John Maynard Keynes who was the lead official developing Britain's postwar international financial plans. Although Keynes did not share the more populist anti-elite sentiments of some American New Dealers, Jonathan Kirshner reminds us that he was a critic—for economic, political, and philosophical reasons—of the large national disparities of income and wealth that existed within Britain and other industrialized countries during his time (Kirshner 1999, 319). In his very first reflections on postwar planning in late 1940, Keynes developed the ideas that Eden subsequently invoked: "Mr. Bevin said recently that social security must be the first object of our domestic policy after the war. And social security for the peoples of all the European countries will be our policy abroad not less than at home" (Helleiner 2014, 209).

Keynes' reference to the ideas of the trade unionist and Labour politician, Ernest Bevin, was important. Bevin had emerged as an influential member of Churchill's inner War Cabinet and he had been arguing in the fall of 1940 that postwar international economic plans must prioritize social security for all citizens. As he put it in a private letter at the time,

> It seems necessary to look for a binding form of peace not in the Customs Union or economic groups, although these will emerge, but in those matters in which all human beings, irrespective of nationality, have a common interest. These are security against poverty, care in sickness and trouble, protection against injury, provision for old age… In short, international policy should be based not on the increase and safeguarding of the total trade and income of individual countries, but on the provision by international cooperation of the needs of human individuals (Bullock 1967, 201-2).

Bevin subsequently successfully pushed for the inclusion in the Atlantic charter of a commitment to, "the fullest collaboration between all nations in the economic field, with the object of securing for all improved labor standards, economic advancement, and social security" (Borgwardt 2005, 304). Roosevelt welcomed the language because he felt it reinforced his idea of "freedom from want." Indeed, when developing his Four Freedoms speech, Roosevelt had been following discussions in the British press at the time about the need to defeat Hitlerism with an economic bill of rights that established minimum standards for housing, food, education, and medical care (as well as free speech, free press, and free worship) (Rosenman 1952, 265).

Support within Britain for these ideas was widespread in expert circles. For example, prominent British economists associated with the Royal Institute of International Affairs urged in June 1941 that postwar international economic plans needed to be judged according to the following standard: "The release of all peoples from poverty and its evil consequences" (Helleiner 2014, 213). The popular reaction in Britain to the Beveridge report of late 1942 only reinforced British official support for the goal of building a postwar international order that strengthened social security at home. That report had explicitly translated the aspirations of the Atlantic charter into specific domestic recommendations for, "a Plan for Social Security designed to abolish physical want, by ensuring for all citizens at all times a subsistence income and the means of meeting exceptional expenditure at birth, marriage and death".[6]

In addition to prioritizing social security, British officials also followed their U.S. colleagues in occasionally making reference to the need to constrain elite behavior in postwar international financial plans. Keynes' discussion in April 1942 of the need for postwar capital controls provides one example: "Surely in the post-war years there is hardly a country in which we ought not to expect keen political discussions affecting the position of the wealthier classes and the treatment of private property. If so, there will be a number of people constantly taking fright because they think that the degree of leftism in one country looks for the time being likely to be greater than somewhere else" (Keynes 1980, 149). Like White, Keynes believed that these kinds of private flows needed to be constrained to allow governments to better serve national goals.

Although the Americans and British played the lead role in the Bretton Woods negotiations, policymakers from other countries were also deeply involved and many of them shared the U.S. and British concerns about national inequalities. In Canada, for example, the financial official Robert Bryce (1941, 2) explicitly invoked U.S. ideas when writing about postwar international economic plans in December 1941:

> We must achieve freedom from want, as Roosevelt said, "everywhere in the world"… It does not take a political expert to forecast that following an Allied victory, many nations will embark upon "New Deals." Quite apart from the development of socialism itself, the social temper seems sure to require forthright and vigorous action to provide work and security under all circumstances.

His colleague Louis Rasminsky was even more blunt in May 1942:

[6] "Social Insurance and Allied Services: Summary of Report by Sir William Beveridge (17/11/1942)", p.1, London School of Economic Archives, BEV 8/46.

> This is in fact a revolutionary war and the object of economic policy after the war will not be to make the institutions of a capitalist or semi-capitalist society work with a minimum of friction but to make sure that…the fruits of production are widely distributed…This point of view [must be] kept constantly in the foreground (Helleiner 2006, 76-7).

National inequalities and the embedded liberal model

What kind of model of global economic governance did the Bretton Woods negotiators propose to address their concerns about national inequalities? In a famous article, John Ruggie (1982) described the model as one that sought to combine strengthened multilateralism with a commitment to support interventionist economic practices that had become influential across the world since the 1930s. He coined the phrase "embedded liberalism" to describe the vision underlying this model.

The innovative nature of this embedded liberal model deserves underlining. The multilateral dimensions of the Bretton Woods regime signaled a sharp break from the closed economic blocs and conflictual international economic relations of the 1930s. But they also represented a significant departure from the liberal international financial regime of the pre-1930s period. The latter had been characterized by informal "rules of the game" and a kind of networked financial governance involving central banks and private financiers. The Bretton Woods architects established a stronger, more legalized multilateral "constitution" for the postwar international financial system under which all countries committed to maintain stable exchange rates and current account convertibility.

They also created two new public inter-governmental financial institutions—the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)—tasked with promoting international financial cooperation, upholding rules and responsibilities of membership, and providing public short-term balance of payments finance and long-term lending. The institutions, which were designed to be open to all members of the United Nations, were very novel in their design.[7] The only existing international financial institution at the time was the Bank for International Settlements (BIS), a Swiss-chartered bank which acted more as an informal "club" of central bankers that was not directly accountable to governments and whose founding members in 1930 included just six central banks and one private U.S. banking group.

These strengthened multilateral features of global financial governance were predicated upon what Ruggie (1982, 393) calls "domestic interventionism." In contemporary language, national governments were to be granted greater "policy space" than they had under the gold standard in order to intervene in their domestic economies in ways that had become popular since the 1930s. This commitment to policy space was closely linked to the goals outlined in the previous section. Governments needed greater policy autonomy because they were, in Ruggie's (1982, 388) words, "assuming much more

[7] It is sometimes forgotten that the formal title of the Bretton Woods conference was the "United Nations Monetary and Financial Conference."

direct responsibility for domestic social security and economic stability… emands for social protection were very nearly universal, coming from all sides of the political spectrum and from all ranks of the social hierarchy (with the possible exception of orthodox financial circles).”

In what ways would greater policy space enable governments to guarantee “social security” or “freedom from want”? Ruggie himself highlights a key macroeconomic channel. Although countries committed at Bretton Woods to stable exchange rates and current account convertibility, their domestic economies would be cushioned “against the strictures of the balance of payments” by multilateral rules allowing adjustable exchange rates and capital controls as well as by the IMF’s provision of short-term balance of payments support (Ruggie 1982, 395). Under the gold standard, the burden of adjustment to changing balance of payments conditions often fell disproportionately on the poor in the form of wage adjustments, unemployment, and/or cutbacks to government spending. The Bretton Woods order provided governments with greater policy autonomy to insulate their citizens from external shocks and to pursue macroeconomic policies aimed at domestic objectives, including equity-oriented ones.

Both Keynes and White also discussed how capital controls could enhance government policy autonomy in other relevant ways. For example, in discussing the need for capital controls in his first plans of early 1942, White highlighted the difficulties that could be posed by capital outflows initiated by a “desire to evade the impact of new taxes or burdens of social legislation” (Horsefield 1969, 67). In September 1941 (and echoing to his April 1942 comments already noted), Keynes (1980, 30-1) expressed similar concerns when explaining why capital movements needed to be regulated after the war:

> Social changes affecting the position of the wealth-owning class are likely to occur or (what is worse in the present condition) to be threatened in many countries. The whereabouts of ‘the better ‘ole’ will shift with the speed of the magic carpet. Loose funds may sweep round the world disorganizing all steady business.

If greater national policy space was needed to pursue equity-oriented goals, strengthened multilateral cooperation was also critically important to reinforce this space. The significance of the IMF’s provision of short-term loans has already been noted. Because of the controversies surrounding the IMF’s tough and intrusive lending conditionality in more recent times, it is important to reiterate that the IMF’s lending role was originally designed to bolster policy autonomy rather than undermine it (and no provision for conditionality was included in its original Articles of Agreement). Although Keynes hoped for a larger, more generous, and more ambitious fund, both he and White agreed on this core idea. The priority assigned to policy autonomy was also apparent in the IMF’s rules for approving changes to exchange rates which stated that the Fund, “shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.”[8]

[8] Article 4 section 5(f) of the IMF’s Articles of Agreement.

The IBRD was also designed to boost the capacity of countries that were either war-devastated or simply poor to raise the living standards of their citizens. It would do this by mobilizing long-term capital for their reconstruction and development. This goal was aimed partly at raising incomes in these countries as a whole, and thereby reducing inter-country disparities. But the IBRD's mandate also spoke to intra-country inequalities by linking back to Roosevelt's concern that all citizens of all countries had "freedom from want." It was hoped that the encouragement of flows of long-term capital would help strengthen the capacity of national governments to eliminate poverty within their borders. In the words of the IBRD's charter, the encouragement of international investment was designed to assist in raising "the standard of living and conditions of labor" in member countries (Article 1(iii)).

Both Keynes and White also saw multilateral cooperation between countries exporting capital and those importing it as critically important for buttressing the effectiveness of national capital controls. Because this proposal is less well known, it deserves more explanation. Keynes (1980, 52) first discussed this idea in his 1941 drafts of postwar international financial plans where he called for a, "uniform multilateral agreement by which movements of capital can be controlled *at both ends*." In White's first drafts in early 1942, he echoed Keynes's idea, noting that, "without the cooperation of other countries such control [of capital flows] is difficult, expensive and subject to considerable evasion." He added: "The consequence of cooperation in this matter among the member governments would give each government much greater measure of control in carrying out its monetary and tax policies" (Horsefield 1969, 66-7).

White's proposals in this area were more specific than Keynes'. Initially, he proposed that all members of his proposed international Fund would be required to help enforce the capital controls of other member countries in ambitious ways:

> Each country agrees (a) not to accept or permit deposits or investments from any member country except with the permission of that country, and (b) to make available to the government of any member country at its request all property in form of deposits, investments, securities, safety deposit vault contents, of the nationals of member countries (White 1942, 10).

In a subsequent draft a few months later, White explicitly noted the distributional impact of this proposal (using the language partially quoted above already):

> Such an increase in the effectiveness of control means, however, less freedom for owners of liquid capital. It would constitute another restriction on the property rights of the 5 or 10 percent of persons in foreign countries who have enough wealth or income to keep or invest some of it abroad, but a restriction that presumably would be exercised in the interests of the people— at least so far as the government is competent to judge that interest (Horsefield 1969, 67).

In mid-1943, White scaled back these ambitious ideas somewhat, making cooperation mandatory only if the IMF requested it and requiring governments to make "information" available about foreign-owned property instead of the property itself (Horsefield 1969, 96).

These proposals for cooperative controls were also popular beyond the U.S. and Britain. For example, when Canada and China each developed plans for the postwar international financial order in mid-1943, they both included similar provisions in this area as those of White (Horsefield 1969, 118; Helleiner 2014, 195). Around the same time, Mexican officials also told White that, "It would be very helpful to Mexico to have international cooperation in the control of capital movements across their borders, should circumstances arise requiring control."[9]

But White's proposals were strongly opposed by the U.S. financial community which succeeded in watering them down considerably. The final IMF Articles of Agreement *permitted* cooperation between countries to control capital movements, but *required* cooperation only in one very limited way: contracts that were contrary to the exchange controls of other member countries had to be "unenforceable" in the territories of any member.[10] The failure of this initiative to establish strong cooperative controls—and of subsequent efforts to implement such cooperation—contributed to the difficulties that governments encountered in their efforts to control capital flows in the postwar years (Helleiner 1994).

Towards "autonomy-reinforcing" global financial governance today?

The discussions about cooperative controls and public international lending reveal how both Keynes and White saw a complementary relationship between the strengthening of national policy space and the bolstering of multilateral cooperation. Their stance has important contemporary relevance.

Debates about how best to address rising national inequalities in the context of today's global economy often present two stark alternatives. On the one side is the "globalist" position that favors stronger global economic governance because the nation-state is seen as too small and ineffective to address global systemic causes of growing national inequalities. On the other side is a more "nationalist" stance that rejects this idea in favor of stronger national economic controls on the grounds that the global economy and existing global economic governance arrangements are contributing to growing national inequalities and/or constraining the policy space that is needed to address them.

The Bretton Woods architects rejected the binary nature of this debate. From their perspective, strengthened multilateral cooperation was a tool for bolstering the national policy space that was needed to address national inequalities. In other words, stronger

[9] Quotation is a U.S. summary of the views expressed by Mexican officials, 'Memorandum of a Meeting on the International Stabilization Fund in Mr. White's Office, May 25, 1943, 1943", p.2, U.S. National Archives, Record Group 56, Intra-Treasury Memoranda of Harry Dexter White, 1934-45, Box 20, File: D4-27.

[10] Quote from Article 8 section 2(b) of the IMF Articles of Agreement.

global economic governance was not seen in opposition to national autonomy but rather complementary and reinforcing of it.

From a current vantage point, the distinctiveness of this position is that it highlights the need to differentiate between different kinds of global economic governance. In the contemporary context, global economic governance is usually depicted as undermining national autonomy. But the Bretton Woods vision suggests that it need not be. As Dani Rodrik has noted, the Bretton Woods variety of multilateralism was more compatible with national policy space than the kind of global economic governance that has characterized the more recent age of globalization (Rodrik 2011).

Rodrik (2011, xvii) himself suggests the term "shallow" multilateralism to refer to the Bretton Woods variety. That description fits the trade arrangements embodied within the weak General Agreement on Tariffs and Trade (GATT) in the early postwar years well. It may, however, be less useful as a description of some of the ambitious financial ideas of the Bretton Woods architects, such as cooperative capital controls which, if they had been implemented, would have involved quite "deep" forms of cooperation. An alternative label for the Bretton Woods multilateral vision might be "autonomy-reinforcing" global economic governance.

This variety of global economic governance is potentially just as important as it was at the time of Bretton Woods, if not more so. Recent debates about capital controls provide one example of its significance. Since the 2008 financial crisis, support for capital controls has grown in international public policy circles, including within the IMF.[11] In their paper in this project, LaGarda, Linares, and Gallagher show how concerns about rising national inequalities provide one of the new rationales for capital controls. But supporters of capital controls are also often acutely aware of a problem noted by Bretton Woods' architects: the difficulties of making national capital controls effective. Indeed, this problem is even more acute in today's integrated global economy than it was at the time of Bretton Woods.

In this context, it is not entirely surprising to see renewed interest in the Bretton Woods ideas about controls "at both ends." For example, some IMF staff have recently called attention to Keynes and White's proposals for cooperation as a tool for enhancing the effectiveness of capital controls. As Ostry, Ghosh, and Korinek (2012, 22) put it,

> Both Keynes and White firmly held that rules for managing capital flows would be much more effective if movements of capital "could be controlled at both ends" than if a patchwork of unilateral policies ruled the day…Global financial integration has progressed a long way in six decades, but multilateral oversight of both source and recipient countries to assist in the management of capital flow volatility remains a worthy objective, and one likely to be essential to safeguard the stability of the international monetary system.

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[11] Gallagher 2014; Grabel 2015.

This new IMF interest in cooperative control mechanisms provides an important illustration of how national policy space could be reinforced—rather than undermined—by stronger global cooperation. It also demonstrates how the content of global economic governance can serve very different purposes. Not so long ago in the mid-to-late 1990s, IMF management pushed—unsuccessfully, in the end—for stronger global rules to promote financial liberalization among all IMF members (Abdelal 2007). The goals of that earlier initiative were very different from those underlying the new IMF staff interest in cooperative controls. While the former initiative sought a kind of "autonomy-constraining" form of global economic governance, the latter is advocating an "autonomy-reinforcing" variety. In both cases, multilateral practices would be strengthened and deepened, but their purposes are quite distinct from each other.

Although the new IMF work on cooperative controls has not yet generated specific international reform initiatives, there have already been some specific contexts where the idea of cooperative controls has *already* been implemented in limited ways. These contexts include the international efforts to clamp down on illicit capital outflows from developing countries via the World Bank's Stolen Asset Recovery program and other multilateral initiatives to curtail international financial flows linked to money laundering, terrorist finance, tax evasion, corruption, and bribery. In these various cases, governments have sought to contain undesirable financial flows through complex new multilateral cooperative arrangements which involve the very provisions that Keynes and White discussed in the early 1940s: information-sharing, the blocking of flows, and/or repatriation of assets.

Given the difficulties involved in making unilateral controls effective, these cooperative mechanisms are critically important for bolstering the national policy space of the countries concerned. Cooperation is particularly important in contexts where states have weak administrative capacities to enforce controls. These initiatives thus demonstrate how new efforts to protect national policy space from illicit financial flows are associated with, and necessitate, the construction of stronger multilateral practices with new "autonomy-reinforcing" purposes.

Many of these initiatives are also directly relevant to the issue of addressing national inequality. Financial flows linked to tax evasion or illicit capital flight are often major contributors to worsening national inequality. As Keynes and White suggested, these capital movements can be associated with the protection and/or augmentation of the wealth of the rich. Equally important, they can undermine the position of the poor by triggering public services cutbacks (in the case of tax evasion) or broader national economic troubles that affect them disproportionately (in the case of capital flight from poorer countries).

Concerning the latter, it is interesting that White invoked the special problems that capital flight posed for poorer countries when justifying capital controls in his early 1942 drafts of the Bretton Woods agreements:

> Less hectic and less dramatic yet in the case of some countries during some stages of their development capable in the long run of even greater harm, is the steady drain of capital from a country that needs the capital but is unable for one reason or another to offer sufficient monetary return to keep its capital at home (Helleiner 2014, 110).

The prospects for, and problems caused by, that kind of "steady drain" of capital from poorer countries have become much more acute today with the proliferation of tax havens.

For these reasons, it is important not to assume that the strengthening of global economic governance in the current era will always undermine national policy autonomy. This point has important implications for the choices within Rodrik's (2011, xviii) well-known globalization paradox that "We cannot simultaneously pursue democracy, national determination, and economic globalization." Rodrik is critical of those who favor "global governance" as a solution to the paradox, a solution that he suggests reflects their willingness to abandon the nation state and reject the "Bretton Woods" solution of embedded liberalism that prioritized national policy space. But contemporary efforts to regulate financial flows highlight how the prioritization of national policy space often requires strengthened global governance in order to be effective.

Rodrik's (2011, 2264) own discussion of the details of his preferred global financial order also seems to point to this conclusion. Although such an order would prioritize national policy space, he argues that it, "would certainly involve an improved IMF with increased resources." It would also include the imposition of a new, "small global tax on financial transactions," that, "would generate tens of billions of dollars to address global challenges." In addition, Rodrik highlights the need for a new international financial charter "focused on encouraging financial transparency, promoting consultation and information sharing among national regulators, and placing limits on jurisdictions (such as financial safe havens) that export financial instability." All of these reforms would involve strengthened and new kinds of multilateral cooperation.

Thomas Piketty's proposals to address rising national inequalities raise the same issue in the other direction. Piketty (2014 471, 515) calls for a "progressive global tax on capital" as well as strengthened "international financial transparency" and information-sharing to support this tax initiative. Piketty (2014, 516) contrasts this "global" reform program with more "defensive" and "nationalist" policies associated with trade protectionism and capital controls. But the binary contrast he draws between globally-oriented proposals and more defensive, nationalist ones seems overdrawn. After all, his proposals are designed to protect and boost the redistributive capacity of what he calls the national "social state." Intensified global cooperation, in other words, is serving the defensive and nationalist goal of protecting and strengthening policy space.

The embedded liberal model of global financial governance first developed by the Bretton Woods architects thus has considerable contemporary relevance. At its core, this model seeks to address national inequalities by strengthening forms of multilateral cooperation that can boost the policy space of national governments to pursue equity-oriented goals. Those forms of cooperation may include the ones identified during the Bretton Woods negotiations, such as cooperative capital controls or the provision of various kinds of lending. But they may also include other kinds of multilateral cooperation, including those highlighted by Rodrik and Piketty, such as initiatives to introduce a global financial transactions tax, efforts to enhance international financial transparency and information sharing, and plans to constrain jurisdictions that "export financial instability."

One further example of "autonomy-reinforcing" cooperation involves initiatives to strengthen the administrative capacity of poorer states. For example, as part of building the new embedded liberal order during the 1940s, Harry Dexter White and other U.S. officials prioritized the provision of technical assistance to poorer countries that was designed to strengthen these countries' institutional capacity to protect their policy autonomy. Assistance focused on issues such as the establishment of new central banks, the consolidation of national currencies, new legislation to support capital controls and adjustable exchange rates, and the strengthening of research capacity. These U.S. officials highlighted how different their advice was from the more orthodox advice offered by earlier U.S. "money doctors" who had urged policies that constrained policy autonomy such as adherence to the gold standard (Helleiner 2014). The contrast highlighted once again how international cooperation can serve either to reinforce policy autonomy or to undermine it.

What shaped global financial reform?

A study of the origins of Bretton Woods is useful not just in highlighting how past policymakers linked concerns about national inequalities with this new "embedded liberal" model of global financial reform. The history also provides insights into some of the political variables that can drive and shape the process of global financial reform. The Bretton Woods negotiations are widely seen as the most ambitious initiative to reform global financial governance that has ever been undertaken. What made this initiative possible?

To begin with, ideas mattered. Ruggie highlights how the shared commitment to the new embedded liberal vision among Anglo-American officials helped to facilitate the success of the negotiations. Their sense of shared social purpose extended beyond the general embedded liberal vision to many of the more technocratic ideas about how to implement it, such as the need for capital controls, adjustable exchange rate pegs, and public international lending. More recent research has shown how support for these ideas was also widespread among officials from many of the other 42 governments involved in the negotiations (Helleiner 2014).

The ideational consensus among the Bretton Woods negotiators was a product of some unique circumstances. It is important to remember that the Bretton Woods plans were developed among military allies fighting a momentous war. This wartime context encouraged the forging of a sense of common purpose. Indeed, the early proposals of both White and Keynes had an explicit propaganda purpose of outlining an attractive alternative to the public German proposals for a "New Order" in international economic relations. This role was also evident at the end of the Bretton Woods conference itself when Morgenthau told the delegates:

> We must offer this [the Bretton Woods agreements] to the men in the armies and on the sea and in the air. We must offer them some hope that there is something to look forward to a little better than in the past and I like to think that Bretton Woods is the hope in somewhat concrete form (U.S. State Department 1948, 1126).

The severity of the Great Depression also played an important role in undermining the legitimacy of old policy paradigms in global financial governance and created an opening for a new common vision. That opening was filled very effectively by some remarkable "normative entrepreneurs," of whom Keynes and White stand out for their intellectual agency during the Bretton Woods negotiations. As John Ikenbery (1992) has noted, these entrepreneurs promoted their new embedded liberal vision very effectively through the cultivation of a transnational expert coalition of supporters. The highly technical nature of global financial issues gave this "transnational epistemic community" considerable autonomy to shape the outcomes of the negotiations.

The Bretton Woods negotiations were shaped not just by this commitment to shared ideas but also by inter-state power relations. The fact that the U.S. was such a dominant power at the time was very important to the success of the negotiations. Not only was the U.S. able to throw its weight around to secure agreements, but other states were also willing to defer to many of its preferences because they recognized that the U.S. would emerge from the war as the key banker to the world. In addition, America's pre-eminent economic position provided U.S. officials with a strong incentive to assume the lead role in rebuilding a more open and stable global economy that would benefit its economy and leading businesses.

Although power was very asymmetrically distributed at the time, U.S. officials recognized the importance of cultivating the support of other key powers. Britain was particularly significant at the time and its power provided Keynes with many opportunities to try to shape outcomes both before and during the 1944 conference. Some less powerful countries also boosted their influence in the negotiations through coalition-building. Particularly important were Latin American governments which made up 19 of the 44 governments represented at the Bretton Woods conference. Because the conference made decision with a one-country-one-vote rule, they were able to flex their muscle by voting as a bloc (Helleiner 2014).

The third key political variable that helps to explain the success of the Bretton Woods negotiations is an institutional one. Historical institutionalist scholarship has demonstrated how global governance is rarely redesigned in a "big bang" fashion. Instead, successful reforms to global governance are usually more incremental, building directly on previous institutional innovations and legacies that have shaped political preferences and provided precedents, templates, and opportunities to enable further reform (Fioretos 2012; Fioretos et al 2016). The Bretton Woods agreements were no exception to this pattern.

Although they are often portrayed as a dramatic process in which the global financial order was transformed *de novo*, the Bretton Woods negotiations actually built carefully on a set of incremental institutional innovations that predated the formal negotiations. One was the 1936 Tripartite Accord between the Britain, France, and the U.S. that established the precedent of a new kind of multilateral financial cooperation that endorsed adjustable exchange rate pegs. But more important were a set of institutional innovations designed in the inter-American context in the late 1930s (Helleiner 2016).

These innovations emerged from a shift in U.S. policy towards Latin America that was associated with Roosevelt's Good Neighbor Policy. The Good Neighbor Policy had initially been focused on the idea of renouncing U.S. military intervention in the region. In the late 1930s, however, U.S. officials increasingly embraced a more active idea of pioneering a new kind of financial partnership with Latin American countries that was designed to promote the latter's economic development. The motivations for this shift in U.S. policy included a complex mix of economic goals, strategic fears of growing German influence in Latin America, and New Deal idealism.

The new financial partnership included bilateral public lending programs to Latin American governments for both short-term currency stabilization and long-term development purposes. These programs anticipated the lending functions of the IMF and IBRD, and helped to set a key precedent for the U.S. plans of the Bretton Woods institutions. In 1939-40, U.S. officials went one step further to design (in cooperation with Latin American governments) a new Inter-American Bank (IAB) that could offer these kinds of loans through a public multilateral institutional setting. The IAB combined the lending functions of the future Bretton Woods institutions into one body and its governance structures anticipated core features of those institutions. U.S. deliberations surrounding the IAB's design also discussed other issues such as capital flight from poorer countries that later were addressed in the Bretton Woods plans. Although Congressional opposition prevented the IAB's ratification, its design served as a kind of "first draft" for White's Bretton Woods plans of early 1942 (Oliver 1975, 99).[12] White had in fact been at the center of the IAB's drafting as well as other U.S. public lending initiatives in the late 1930s.

The Bretton Woods negotiations thus involved less innovation than is sometimes suggested. Their success built directly on an institutional pre-history of incremental innovations that helped set the stage for the Bretton Woods reforms. These institutional legacies generated not just precedents and templates for reform but also new experiences and relationships that helped shape preferences and build support for the subsequent Bretton Woods negotiations. For example, the new U.S. public lending programs to Latin America in the late 1930s benefitted U.S. exporters and internationally oriented manufacturing firms in ways that contributed to a widening of domestic political support

[12] See also Helleiner 2014 ch.2.

for a more internationalist U.S. foreign economic policy at the time. White's extensive involvement in Latin America in the late 1930s also built relationships with Latin American officials that helped him later cultivate support in that region for the Bretton Woods proposals (Helleiner 2016).

Strategies for contemporary reform

This brief historical analysis highlights how the reform of global financial governance in the early 1940s was shaped by a unique combination of factors. The political environment today is obviously different in many ways, but each of the three core political variables revealed by the Bretton Woods history—ideas, inter-state power relations, and institutional legacies—remains relevant in determining the prospects for reform today. Those seeking to construct a more "embedded liberal" model of global financial governance can strategize accordingly.

In the ideational realm, contemporary reformers should benefit from the fact that national inequalities have already become an issue of major concern in countries across the world, with politicians of many political stripes promising—often with quite populist rhetoric—to address the trend. The emerging consensus on the need for action was confirmed in 2015 when world leaders endorsed the U.N.'s new Sustainable Development Goals (SDGs). Included in this endorsement was SDG 10, which called for inequality to be reduced not just "among countries" but also "within" them.

Equally important is the fact that SDG 10 outlines a target that appears to link the commitment to reduce national inequality to the cause of global financial reform: "Improve regulation and monitoring of global financial markets and institutions and strengthen implementation of such regulations."[13] The next political step is to translate this vague wording into a more specific vision for global financial reform that can attract wide support, particularly among the technocratic experts who dominate policymaking in the global financial sphere.

The Bretton Woods experience calls attention to the important role to be played in this process by normative entrepreneurs with a capacity and talent for building transnational expert coalitions. In the early 1940s, that role was assumed by national policymakers, such as Keynes and White. But a much wider range of groups participate actively in expert debates about global financial reform today, including officials in international organizations, scholars outside official circles, think tanks, and other non-governmental groups. Intellectual leaders from these various groups can play key roles in advancing detailed global financial reform agendas that are linked to the broader cause of addressing national inequalities.

The Bretton Woods history also highlights the importance of the context of inter-state power relations. Although its global economic power has diminished since the time of the Bretton Woods negotiations, the U.S. remains the key power in the world financial system for a number of reasons, including the international importance of its financial

[13] Target 10(5) of SDG 10.

markets and the dollar as well as its influence within key institutions of global financial governance. As at Bretton Woods, U.S. preferences are thus crucially important to the prospects for global financial reform along more embedded liberal lines.

In this context, it should be significant that concerns about national inequality trends have assumed high political salience within the U.S. in the current age. The key task for reformers is to mobilize that salience into support for transformations in global financial governance. A recent example of how U.S. power can support change of this kind is the landmark 2014 multilateral tax agreement among over fifty jurisdictions for automatic information-sharing relating to foreign-earned capital income. As Lukas Hakelberg (2016) explains, this breakthrough in international tax cooperation was made possible because of U.S. threats to deny access to its markets and clearing systems to non-complying jurisdictions. U.S. authorities were encouraged to flex their international power in this way by growing domestic distributional concerns about “fairness” in taxation.

The election of Donald Trump as U.S. President in 2016 is widely seen as a setback for multilateral economic cooperation because of his nationalist “America First” rhetoric and priorities. But this common wisdom may accept too readily the dichotomy criticized earlier in this paper between “globalists” and “nationalists.” It is certainly true that the Trump administration appears skeptical of global economic governance that constrains U.S. policy autonomy. Less clear, however, is its view towards multilateral economic cooperation that is “autonomy-reinforcing.” If that kind of cooperation helps Trump to bolster American policy autonomy, he might be less inclined to dismiss it.

Consider the case of capital controls. Prominent analysts have speculated that the Trump administration might consider their use as part of its prioritization of American policy autonomy. As Benjamin Cohen (2016) puts it, “If protectionism is really on his agenda, then we must assume that capital controls are, too.” Both Daniel Drezner (2016) and Nouriel Roubini (2017) have also speculated that capital controls might be seen by Trump officials as way to fend off dollar-strengthening capital inflows generated by the U.S. policy mix of expansionary fiscal policy and monetary tightening. If controls were imposed for that purpose, the Trump administration might quickly recognize that their effectiveness could be enhanced through cooperation with capital-sending countries.

Although lobbying U.S. policymakers is critically important for reformers, the Bretton Woods negotiations showed how lesser powers can also influence global financial reform. The growing influence of nationalist populist movements across Europe—responding partly to national inequality trends—might lead governments in that region to support more “autonomy-reinforcing” reforms to global financial governance. The BRICS countries also may be a particularly important constituency to cultivate not just because they are emerging powers but also because of the priority that they place on the protection of policy autonomy. Their potential role in promoting a more embedded liberal model of global financial governance was evident in their recent push for the IMF to become more supportive of capital controls. As Kevin Gallagher (2014) has shown, the BRICS played a key role in securing a moderate shift in 2012 in the official IMF position by using their growing diplomatic influence and by allying with normative entrepreneurs who developed new intellectually powerful rationales for capital controls.

China has also emerged as a key player for those seeking boost the policy space of poorer countries through the provision of development finance. Not only does it have enormous lending capacity as the world's largest creditor, but the Chinese leadership has also already displayed a keen interest in supporting development abroad through its growing bilateral lending and its support for the creation of new multilateral development banks such as the Asian Infrastructure Investment Bank and the New Development Bank. Chinese President Xi Jinping (2017) has been very explicit in outlining his concerns about poor countries' "uneven development space" as well as about the persistence of extreme poverty in the world. Echoing Roosevelt in the early 1940s, Xi (2017) noted his views about latter in a prominent speech to the World Economic Forum in early 2017: "700 million people in the world are still living in extreme poverty. For many families, to have warm houses, enough food and secure jobs is still a distant dream. This is the biggest challenge facing the world today."

The significance of institutional legacies in the Bretton Woods negotiations also contains important lessons for contemporary reformers. In contrast to the 1940s, reformers today benefit from being able to draw upon existing international financial institutions that could support new patterns of financial cooperation. Their task need not be that of institution-building but rather simply of "converting" established international bodies to take on new roles that are more supportive of embedded liberal values. As historical institutionalist scholars have shown, this strategy of "conversion" is in fact a common mechanism by which transformations in global governance take place (Fioretos 2012; Fioretos et al 2016).

Some officials within existing international financial institutions already seem quite open to the idea of seeing their institutions converted in this way. As noted earlier, some IMF staff have been reviving Keynes and White's ideas about cooperative capital controls and promoting the IMF's potential role in fostering this kind of cooperation. Since the 2008 financial crisis, regulators working within the new Financial Stability Board (FSB) have also begun to support international regulatory principles that endorse greater national policy space. One example is their acceptance of the widespread turn towards host country rules and subsidiarization in bank regulation. Another comes from their recognition that new derivatives clearing houses are likely to be increasingly governed by location rules requiring trades to be cleared locally. These trends signal a kind of "cooperative regulatory decentralization" trend that is very compatible with a more "embedded liberal" model of "autonomy-reinforcing" global financial governance (Helleiner and Pagliari 2011).

Because of its unique governance structure and mandate, the FSB might in fact play a particularly useful role in an embedded liberal model of global financial governance. Although it has a formal charter, the FSB was established as a kind of "network of networks" rather than a more powerful international institution like the IMF.[14] It has few staff and no formal power to challenge the policy autonomy of its members. Its effectiveness rests primarily on its capacity to mobilize transgovernmental networks of financial officials to develop and promote voluntary international regulatory standards as well as to foster transparency, consultation, information-sharing, and capacity building. These tasks echo many of the ones that Rodrik prioritized for his preferred model of global financial governance. The FSB has even shown a willingness take on another role that Rodrik mentions: threatening non-member jurisdictions, such as offshore financial centers, with penalties if they refuse to abide by minimum international principles (Helleiner and Paglairi 2011).

The Bretton Woods experience contains one final strategic lesson for reformers: the need for patience. Some advocates for change invoke the Bretton Woods negotiations as evidence that global financial governance can be quickly and radically designed if only policymakers embrace the appropriate ambition and creativity. It is important, however, to remember that even the Bretton Woods negotiators did not redesign global financial governance from scratch. Instead, their initiatives built carefully upon past institutional innovations in incremental ways. Global financial reform is rarely a product of just one set of decisive negotiations or of a momentous historical moment. Instead, longer and more incremental processes of institutional change are the norm.

Conclusion

The other papers in this project show how international economic rules are contributing to rising national inequalities. A key implication of this line of argument is that efforts to address rising national inequalities should be focused on governance reforms not just at the domestic level but also the international one. To date, however, policy debates have devoted much more attention to the former than the latter.

This paper has sought to advance debates about the international side of a reform program to address national inequalities, with a specific focus on global financial governance. It has taken a historical perspective for a simple reason: ours is not the first generation to be interested in how national inequalities might be addressed through global financial reform. As this paper has demonstrated, the issue was in fact front and center at the time of the creation of the Bretton Woods financial order. Two important political economy lessons can be learned from this historical precedent for contemporary advocates of change.

The first concerns the "constitutional" question of how global financial governance might be reformed to support efforts to address national equalities. The Bretton Woods architects suggested a model that remains relevant today: an "embedded liberal" one in which multilateral cooperation is strengthened to bolster national policy space. Rather than seeing a conflict between expanded policy space and strengthened multilateral

[14] The quote is from Porter (2007, 127) who used the phrase "network of networks" to describe the FSB's predecessor: the Financial Stability Forum (FSF). The FSB's governance retained the core model of the FSF.

cooperation, this model highlights their complementarity. At the core of the original Bretton Woods model was the view that the domestic policy space needed to tackle national inequalities required strong multilateral cooperation in areas such as the regulation of capital movements, the provision of international illiquidity, the mobilization of long-term lending, and capacity building. An updated version of the model might add cooperation with other purposes such as taxing financial transactions globally, tracking illicit flows, strengthening international financial transparency and information sharing, supporting host country bank regulation and location rules for derivatives clearing houses, and constraining lightly regulated offshore jurisdictions.

The study of Bretton Woods also reveals the importance of three key political variables that help to shape the process of global financial reform: ideas, inter-state power relations, and institutional legacies. Each can help inform the strategies of those seeking a revival of an embedded liberal model of global financial governance. In the ideational realm, normative entrepreneurs are needed who can generate specific vision of reform and build transnational coalitions of technocratic experts to back it. The cause of reform will also be advanced if the key powers can be mobilized behind it. Reformers should also work diligently to cultivate the "conversion" of existing international financial institutions to the purposes they favor. While doing all this, reformers need to keep in mind one final lesson: the reform of global financial governance along more embedded liberal lines, if it happens, is likely to be a slow and incremental process.

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