

Case study on why a second bretton woods wont work

[Economics](#), [Money](#)



Economies across the world need solutions to upcoming challenges. These solutions, however, should not be brought about by the adoption of a global monetary system that is run by NGOs, businessmen or bankers. Connolly (2011) presents reasons why an agreement equitable to the Bretton Woods Conference would not be feasible today. First the system has been tried before with mixed results. There was a decline in productivity due to government regulations, capital controls, high taxes, and a rigid financial and industrial structure (Boughton, et al, 1995). There were also increases in commodity prices which increased downward pressure especially in the US. In addition, many countries suffered economic meltdown including Germany which had managed to resist the implications of the monetary policies. Although later in the 1980s and 1990s Michael Milken helped smash the technostucture bringing about a revolution in productivity which lifted millions out of poverty, things went wrong in the mid 1990s because of three main problems. These were; the misinterpretation of the policy implications by the then chairman of the US Federal Reserve which led to an unprecedented productivity surge in the 1990s. Thirdly, the monetary union in Europe also magnified the faults of the European Exchange Rate Mechanism with implications on all countries doing business with the union. An agreement for a global monetary system would also not work due to the emergence of fast-growing economies such as China whose implication on world trade is enormous. In the 1990s china's integration into world economy constrained world trade because the country economy was unbalanced, uncoordinated and unsustainable.

Connolly (2011) further warns that a return to any commodity standard would

eventually lead to an economic crisis. According to Connolly (2011) a return to a rigid global monetary system would be result in failure due to dynamically changing geographical patterns of comparative advantage. He adds that the rates of return would contribute to differences which can disrupt capitalism and world peace. Instead of adopting a global monetary system it would be prudent for countries to come up with coordinated macroeconomic policies that impact on the rate of return (Connolly, 2011). These include industrial policies, labour market and incomes, trade, educational among other factors that present a wholesome look into the economically viable ways of strengthening regional economies and the world economy by extension.

The world has changed since the first Bretton Woods conference because newer and fast-growing economies have emerged. Moreover, the levels of technology and globalisation have also gotten better and therefore the dynamics of trading and cooperation between countries have also changed. Capitalism has gained root world over and the level of competition and regional cooperation has increased.

The first Bretton Woods conference was a success because they were clearly formulated and had exposure to lesser dynamics. Leaders such as Reagan and Thatcher supported the resolutions of the conference while Michael Milken- an American philanthropist and financier helped smash the techstructure leading to a revolution in production. This led to massive globalization and financial liberation helping millions with ways to earn income and thus lifting them out of poverty (Connolly, 2011). Although there were financial crisis back then, they were mostly adverse in emerging

markets.

These conditions do not exist today. This is because the effects of financial crisis nowadays have deep-running implications on all economies regardless of their size. The level of competition between countries has also increased leading to strategic alliances that would counter the effectiveness of a global financial system (Boughton, et al, 1995). Over the years there has also been a shift in resources that were hither to relied upon by countries to support their economies (Boughton, et al, 1995). For instance India has emerged as a key country in the provision of global technology solutions which was not the case during the first Bretton Woods conference. Each country is trying to leverage itself to face a future rife with depleted resources and these changes make it hard for an effective global financial system.

References

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