László Örlős

THE LEGACY AND FUTURE OF BRETTON WOODS[1]

THE U.S.-DOMINATED ECONOMIC WORLD ORDER

The Bretton Woods foundations

The Bretton Woods international conference was opened by President Roosevelt with a reflection on proposals for future programs of economic cooperation and peaceful development. The two most important committees of the conference made decisions regarding the institutional and financial system, which are at the centre of our analysis: they aimed to establish two new global institutions and a mechanism.[2] The committees chaired by Harry Dexter White of the U.S. and Lord John Maynard Keynes of the U.K. laid the foundations for the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later to become the World Bank Group), which have since achieved virtually universal membership.[3] The founding fathers voted for multilateralism, and the IMF's membership, which initially had 30 member countries, doubled

[1] The draft of the manuscript was completed in the spring of 2023.

[2] It should be noted that the participants' efforts to create a specialised trade institution were not successful, as the International Trade Organization (ITO) was not established, but instead a liberal trade agreement (General Agreement on Tariffs and Trade – GATT) was created.

[3] The growth in the capacity of the institutions is illustrated by the fact that while the IMF had 100 staff when it was founded, it now employs more than 3,000 people and its annual budget has grown from $2 million to $1.2 billion (Heldt–Schmidtke 2017: 51–61). In the case of the World Bank, the initial staff of 150 has grown to over 11,000, and further specialised subsidiary institutions were added (IDA, IFC, ICSID, MIGA) (Heldt 2018: 568–587).

DOI: https://doi.org/10.36250/01276_08

in ten years, then, after 30 years, it had grown to five times its original size, and by now the number of members has reached 190.[4] Alongside the two institutions, following the rejection of Keynes' s proposal to create a new global reserve currency, the bancor, a fixed exchange rate system based on the gold standard was established in accordance with the economic interests of the United States, the country that had decided the outcome of the world war. This system ensured the convertibility of the dollar to gold at a fixed exchange rate. As a result of this mechanism, the dollar became the leading international reserve currency. Bretton Woods marked a major shift from the pre-war period, and formulated a liberal agreement that participating governments would organise their economic relations largely on the basis of reciprocity and open market principles.

Based on the plans of the founding fathers of Bretton Woods, Keynes and White, the IMF was intended to play a role as a facilitator of global economic growth, to be achieved through international trade and financial stability. The statutes of the institutions contained conditions adapted to the problems of the post-war period: the aim of the IMF was to promote international financial cooperation through its permanent institution, with a mechanism for consultation and cooperation on international monetary problems. The future World Bank's task was to contribute to reconstruction and development in the member countries' territories by promoting capital investment for productive purposes.

Of course, the meaning of the Bretton Woods system has changed a lot over the past three quarters of a century. We can quickly add that the content of what we mean under Bretton Woods has been affected spectacularly by the increasing protectionism, the deglobalisation and the lack of global coordination during the Covid-19 pandemic, as well as the sanctions imposed as a result of the Russian–Ukrainian war, the energy and food price increases, and challenges associated with climate change. While in the first decades after the conference it primarily meant a fixed exchange rate regime, and the original multilateralism established at Bretton Woods had no say in the economic model under which nation states managed their economies,[5] after

[4] International Monetary Fund s. a.

[5] Helleiner 2019: 1112.

1970 it became synonymous with a liberal economic world order, which can be described by the Washington Consensus. In this interpretation, the IMF and the World Bank, as the custodians of the political agreement, play a central role in how individual governments implement their policies. The reform of the Bretton Woods system, which has been discussed very regularly since the turn of the millennium by politicians from emerging economies and developing countries, as well as academics, calls for a return to the roots set in the 1940s, both in terms of objectives and implementation.[6] As former U.S. Federal Reserve Chairman Paul Volcker put it, Bretton Woods is not an institution in its own right, but rather an ideal, a symbol of sovereign nations working together to create open markets in goods, services and finance, and a stable, growing and peaceful world economy.[7]

Keynes' s Bretton Woods proposal was more complex and ambitious than the American one, as it would have created an international clearing bank to settle international transactions, among others. Neither the national banks nor the clearing bank would have been allowed to hold foreign currency in reserve. The national banks would have traded with each other through clearing accounts in the newly created money called bancor. Members would have joined the new currency at a fixed exchange rate. The amount of bancor that each country would have been allowed to accumulate would have been limited in proportion to its share of world trade, thus preventing excessive balance of payments surpluses or deficits. Countries with deficits would have been allowed to devalue when the limit was exceeded, while countries with surpluses would have appreciated their currencies, allowing trade balances to be re-established. In the Keynesian financial system, no state would have had a controlling position ab ovo. It is no coincidence that over the past decade, many have returned to Keynes' s concept of the clearing bank in the context of the euro area reform.[8]

In comparison, as recently emphasised by President Bush Jr's Treasury Secretary Henry M. Paulson, among others, the dollar's privileged position as a global reserve currency after 1945 is not merely the result of a prior

6 Brown 2010; Drezner 2014; Rodrik 2012.

7 Volcker 2017.

8 Whyman 2015: 402.

decision, but rather of the geopolitical conditions that had evolved after the Second World War, the dynamic development of U.S. monetary policy and the economy.[9] The dollar's natural monopoly role as a global reserve currency is thus due to the fundamental integrity of the U.S. political and economic system. In addition to the size and stability of the economy, the combination of well-developed, liquid and open financial markets is also necessary for the dollar to play its role as a global reserve currency.

It was not at Bretton Woods that the proposals for the desirable development of the economy advocated by Keynes, one of the greatest economic thinkers of the 20th century, were first put aside: it is less well known that Keynes resigned from the British delegation to the economic section of the Versailles peace talks in 1919, after it became clear to him that the French and Italians were in practice abusing the power of the victors and that there was neither possibility nor intention to change the peace terms they had set, which were aimed to ruin Germany and Austria–Hungary.[10] The consequences are well-known. Keynes was overshadowed for the second time by the Americans when in 1933 he wrote an open letter to the newly elected U.S. President Roosevelt with his proposals for ending the Great Depression.[11] It is also less known that Roosevelt experimented with several other proposals prioritising balanced budgets and debt reduction before the government began spending in line with Keynesian recommendations, which ultimately pulled the country out of the crisis.[12] Let us also add that the Americans at least partially learned their lesson because – although they once again did not listen to Keynes, when the foundations of the new financial world order were defined at Bretton Woods according to American interests, as the American White Plan prevailed – the Marshall Plan aimed at the post-war European recovery was still inspired by Keynesian principles.

The global financial system established the conditions for stability and liquidity by creating the underlying institutional safeguards, in other words the money supply necessary for economic actors to operate and the stability

9 Paulson 2020.
10 For more, see Keynes 2009 [1919]; Keynes 2006 [1922].
11 Keynes 1933.
12 Winkler 2009.

of exchange rates through a pegged exchange rate regime. For two decades after the end of the war, the world financial system operated in relative calm. In fact, before the dollar–gold convertibility was abolished in 1969, the IMF's Articles of Agreement were amended in the Keynesian spirit (see Keynes' s conception of banking), creating the IMF's own monetary unit, the SDR (Special Drawing Rights), the purpose of which is to adjust the value of the world's circulating money supply to match the demand every five years, in order to strengthen price stability. The freedom of capital movement was state-regulated until 1971, which was the onset of the first crisis of the established system, to ensure the conditions of stability and liquidity prevailed.

Fault lines and the Washington Consensus

However, having completed two and a half decades of relative stability, at least one major crisis per decade after 1970 was capable of undermining the foundations of the U.S.-dominated Bretton Woods system. Among others, the excessive abundance of dollars and the depletion of U.S. gold reserves led to the demise of the Bretton Woods fixed exchange rate system in 1971 (confidence in the stability of the dollar was ensured by its convertibility into gold). Based on the advice of Milton Friedman, during the presidency of Nixon, on 15 August 1971, the convertibility of the dollar to gold at a fixed rate was suspended. For the first time, the international financial system lost its anchorage to gold (previously other precious metals and other commodities and commodity groups also had a role). However, the practice of floating exchange rates only became common starting in 1973, a change facilitated by the acceleration of inflation after a period of price stability. The latter was further accelerated by a fourfold increase in the price of oil (which then rose tenfold by the end of the decade). In any case, the depletion of U.S. gold reserves was not replaced by the SDR, already adopted in 1969, but, foregoing stability, capital movements were unleashed, risking the security and predictability of liquidity. By establishing the free flow of capital, the sources of capital became virtually uncontrollable.

The protracted international debt crises of the 1980s then significantly changed the thinking about the economic philosophies prevailing in the Bretton Woods institutions. Forgetting the original social objectives of the institutions, the institutions started to adopt the prescriptions of the neoliberal schools of economics.[13] The term "Washington Consensus" became popular and widely used following John Williamson in 1989. It originally referred to the confident agreement[14] among Washington-based institutions – the U.S. Treasury, the IMF and the World Bank – on the framework conditions for reforming the economies of Latin American countries. The recommendations focused on dismantling price controls, removing barriers to trade and keeping inflation under control.

Drawing on the principles of free market economics, the consensus-based recipe – initially proposed to Latin American countries – included a set of recommendations focused on fiscal and structural policies.[15] The Washington Consensus is the product of two decades (1970s and 1980s) in which the economic mainstream argued that the key to rapid economic growth was not a country's natural resources or its wealth of physical or human capital, but rather the composition of the economic policies to be applied. The idea was that a change in the macroeconomic environment would automatically create the conditions for an efficient allocation of resources. And in turn, this would result in high economic growth and well-functioning market economies in the long term.

This obviously oversimplistic distinction was then brought to an end by the Asian financial crisis of 1997–1998, forcing Washington-based policy-makers (including the Bretton Woods institutions dominated by the U.S.) to introspect. While the original Bretton Woods system aimed to "drive out the usurious moneylenders from the temple of international finance",[16] the Washington Consensus, in economic policy terms, signified the triumph

13 Weaver 2008; Woods 2006.

14 This confidence is best supported by the following quote: "We can now develop far more consensus [...] [because] we now know much more about what types of economic policy work" (Williamson 1993: 1331).

15 Williamson 1990.

16 Morgenthau 1944.

of the right-wing, conservative direction in the policies of the Bretton Woods institutions, clearly advocating the relegation of the state's role and the advancement of market forces. The spread of the consensus worldwide (Latin America, the Far East, the transition economies of Central and Eastern Europe in particular) was based on the conservative economic policies of Reagan and Thatcher in the 1980s. In another approach, it could be said that it was the 'Reaganomics'[17] that produced the Washington Consensus. The main argument against the Washington political consensus system, often referred to synonymously with market fundamentalism by multiple authors, can be summarised as follows: freedom, particularly economic freedom in our case, cannot fulfil its purpose without an enforceable, instrumental state supremacy.

The post-Washington Consensus world, the problem of applicability

The free market consensus recipe that succeeded in the United States posed a test of applicability[18] in the developing and transitional economies worldwide: in Southeast Asia, Africa, Latin America, as well as Central and Eastern Europe. Joseph Stiglitz, awarded the Nobel Memorial Prize in Economic Sciences in 2001 (who had previously served as Vice President and Chief Economist of the World Bank), most strongly supported the notion that if market forces are allowed to operate freely and without constraints, without international regulations incorporating institutional safeguards, it could undermine the global capitalist system.

While in the United States, following the conclusion of the Second World War, domestic industries were developed through protectionist economic policies until the rise of monetarism, which is based on controlling the money supply, and the dominance of free trade policies, transitioning economies, including Eastern and Central Europe, and developing countries

[17] Williamson 2000: 251–264.

[18] In the literature, the problem is best described as "one size fits all".

were effectively compelled to adopt neoliberal economic policies without an organic economic transition. In a lecture in Geneva before the turn of the millennium, Stiglitz spoke of a kind of double standard, according to which rich countries, which otherwise proclaim the abolition of capital restrictions in the world, use protectionist measures (with near-full employment and adequate social safety nets) to help their citizens who are adversely affected by globalisation.[19] Amongst others, the anti-globalisation, anti-capitalism and anti-American protests at the World Trade Organization (WTO) meetings in Seattle in 1999 and the IMF and World Bank meetings in Prague in 2000 called for a new, now radical left turn.[20]

The real debate and criticism of the consensus were mainly triggered by the proposals for structural reforms, which announced reforms in the spirit of privatisation, deregulation (dismantling of over-regulation) and liberalisation (removal of market restrictions). The financial crises in East Asia are most commonly associated with trade and FDI liberalisation, which in many cases triggered unmanageable events beyond the control of nation states, leaving the region's economies truly vulnerable and with almost zero capacity to respond. The process of privatisation started with a conservative turn in economic policy, given a particular impetus by the 1985 Seoul speech of James Baker, then U.S. Treasury Secretary, at the World Bank and IMF Annual Meetings. According to the formulated criticisms, however, the economic policy relying on rapid privatisation is flawed, as it fails to lay the groundwork for competition (one important goal of privatisation is to establish competitive conditions); moreover, it is a poor solution if it does not build the social and institutional background necessary to ensure competition.[21] Perhaps the least politicised element of the consensus is deregulation, i.e. the dismantling of (mainly legislative and administrative) barriers to entry and exit from sub-markets, which started under the Democratic Carter Administration.

19 Stiglitz 1999b.

20 Kissinger 2001: 217–218.

21 Stiglitz 1999a: 459; United Nations 2020; Stiglitz 1999c.

The financial crises of the 1980s and 1990s in Latin America, Mexico, Southeast Asia, Russia, Brazil and the dramatic levels of indebtedness in the world's developing countries all drew attention to the sustainability of the economic policy toolkit that had been in place, and led international institutions involved in global policy-making to take a hard look at themselves. The central point of the analysis is that the international financial system, based on the Bretton Woods institutions, penalises imprudent borrowers much more severely than imprudent lenders.[22] It has become apparent that structural adjustment, which forms an important part of the toolkit of the Bretton Woods institutions, is outdated on its own and often leads to outcomes contrary to its intended goals. Kissinger also confirmed that the remedies offered by the Washington-based international financial institutions in the past often tended to exacerbate problems, as the remedies offered ignored the political nature of the crisis and focused only on the economic crisis. At the same time, the institutions were unable to cope with the political consequences of their programs. It became clear that the post-Washington Consensus,[23] announced around 1998, seeks to answer the question of what additional steps, beyond the reforms outlined in the original consensus, are necessary to address vulnerabilities and further serve the toolkit of economic and development policies, thus promoting global poverty reduction.

The crux of criticisms against the Washington Consensus can be summarised as the lack of available institutional and social tools. The consensus based on macroeconomic balance and structural policies ignores, among others, the institutional development, social, resource allocation, poverty reduction aspects of successful and sustainable development, and does not take into account the different capacities to respond by different regions. Critics argue that instead of externally driven debt-increasing adjustment, what is important is ownership, i.e. the country itself shaping the process, and participation, which means socialising the measures.[24]

22 Kissinger 2001: 222–223.

23 Burki–Guillermo 1998.

24 It is people not governments that feel pain (Wolfensohn 1998).

FORCED REFORM OF GLOBAL ECONOMIC AND FINANCIAL GOVERNANCE: A NEW MULTILATERALISM

The changes in the world economic order after the Second World War, the rise of the so-called emerging economies and the developing countries in the international economy, can be described by two well-defined factors: the dynamics of economic growth and changes in demographic processes. Looking at population growth statistics, while in the 1960s the population of the BRICS countries (Brazil, Russia, India, China and South Africa) was about three times the combined population of the United States and the euro area,[25] today it is four and a half times and is expected to increase fivefold by 2050.

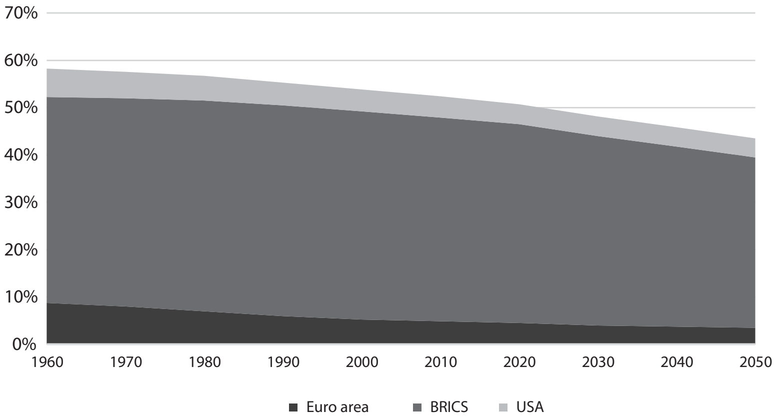

Figure 1: Population trends in relation to the world population
Source: The World Bank statistics

25 The euro area means the 19 EU countries that use the euro.

The growth dynamics of the world economy are also undergoing a radical shift, with the BRICS countries expected to have a 45% share of GDP by 2050, compared to around 10% around the turn of the millennium, while the share of the U.S. and the euro area is steadily declining and not even together will they reach the BRICS share.[26] The data clearly show a shift in the balance of power in the world economy away from advanced economies towards emerging and developing economies.[27]

After emerging economies found that the long-pending governance reform of the Bretton Woods institutions yielded insufficient results for them (as they did not acquire ownership shares reflecting their global economic weight), they began pursuing regional and bilateral avenues for political and economic influence. The United States, as the largest stakeholder, obviously played a decisive role in the reform of the Bretton Woods institutions aimed at reflecting global economic power dynamics and strengthening decision-making legitimacy – a reform deemed insufficient by emerging economies.[28] With this, it also contributed to the weakening of the global financial system that had existed since the Second World War or, if we are lenient, to its fragmentation and movement towards a multipolar direction.

Although the failure of the Washington Consensus has led to a significant reform of the institutions in terms of the policies applied, the IMF and the World Bank continue to face criticism from developing countries and emerging markets, as well as from many NGOs. In this outline of the critiques, we highlight those that focus on the issues raised in the context of the most important challenges of our time. The reconsideration of these matters falls within the purview of the United States Department of the Treasury, which holds the largest ownership share in the IMF and the World Bank. Given that the Americans hold leading positions in determining the direction of these institutions and, together with European stakeholders, have decisive influence on most issues, it is their responsibility to be deliberate on these matters.

26 The most significant factor behind the decline in GDP share in developed countries is that labour productivity is growing much faster in emerging and developing economies than in developed countries.

27 Woods 2008.

28 The IMF quota and governance reform adopted in 2010 was blocked by the United States until 2015.

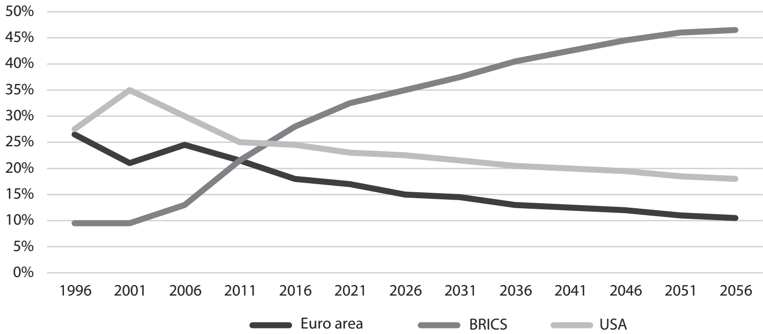

Figure 2: Trends in real GDP as a share of the world economy as a whole
Source: OECD Economic Outlook,
OECD long-term baseline projections
Note: Euro area (15): Austria, Belgium, Germany, Spain, Estonia, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovakia, Slovenia. Data for the other euro area countries were not available.

A contemporary critique of the Bretton Woods institutions

Even in the trade press, the news that the IMF had approved the latest allocation of its international reserve asset, the SDR, to its members in the amount of USD 650 billion, received a relatively muted response in August 2021. This SDR allocation[29] represents an issuance of unprecedented size in the history of the IMF and is expected to help the green transition and inclusive economic recovery globally following the Covid-19 pandemic.[30] Since the bulk of the allocation is held by the highest income countries (the proportions are illustrated by the fact that the size of the U.K.'s SDR allocation

[29] SDR allocation is based on the quota size of each IMF member country, i.e. the size of its economy.
[30] United Nations Development Program 2021.

is almost as large as the total share of the poorest countries), the G7 resolution calls for the richest countries to redirect their share of the allocation to the countries most in need. The criticism expressed, however, suggests that it is expected that the highest-income countries will offer a portion of the SDR allocation (no decision has been made on the amounts yet) back to Bretton Woods and other multilateral institutions. These institutions will then again allocate these resources to countries in need in the form of debt-generating loans under "harmful and time-consuming" conditions, further reducing the development space. In their communication, the NGOs point out, among others, that the U.K. should channel at least three quarters of the new SDR allocation available to it to poor countries (by contrast, an allocation of maximum of 10–20% is expected) and that, for financial sustainability, the new resources should be available in non-repayable form and without conditions.[31] Some have also suggested that the SDR should be used as a public budget instrument rather than a central bank reserve to increase the effectiveness of crisis management.[32]

A group of civil organisations examined the economic-social impacts and effects on climate change of the IMF's surveillance function carried out through economic policy consultations under Article IV, and they also expressed significant criticism. According to the criticism related to the IMF's five-year Comprehensive Surveillance Review (CSR) of its supervisory activities, the neoliberal economic model promoted by the IMF for decades has resulted in an accelerating climate crisis and increasing inequality worldwide.[33] According to the dramatic conclusions from an analysis of nearly 600 consultation reports conducted between December 2015 (the adoption of the Paris Climate Agreement) and March 2021 in the IMF's 190 member countries, the IMF, despite being a vocal advocate in the fight against climate change in its rhetoric, has undermined global climate efforts through its policy advice activities. These activities, which often become government policy in borrower program countries, have supported the

31 Bretton Woods Project 2021.

32 Arauz 2021.

33 Nissan–Saalbrink 2021.

spread of carbon-based solutions. This has further increased the dependence of developing countries on unclean energy sources, with significant negative impacts both locally and globally.[34]

Similar views to those expressed with regards to the SDR allocation proposal, which put the governments of the beneficiary countries in a favourable position, have recently emerged regarding the activities of the World Bank Group. The Bank's financial instrument for the poorest countries is disbursed via its subsidiary, the International Development Agency (IDA), through its donor support programs. Major opinion leaders, including analyses published through the Project Syndicate,[35] draw attention to the need for direct provision of resources to governments for restarting the economy and mitigating the negative impacts of the pandemic. They also call for an end to the International Development Association's practice of channelling donor funds through institutions engaged in private sector financing, such as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Criticism focused on problems of transparency of the institutions' activities and insufficient development impact.

Chinese interests in the global power arena

Looking back at the evolution of the U.S.–China relations over the past decade, particularly in the field of international finance, we can see significant changes, and moreover, unexpected turns. During the Obama Administration, the United States quietly reaffirmed China's aspirations by strengthening its financial power status.[36] Subsequently, the Trump

34 Sward et al. 2021.

35 Ghosh–Sial 2021.

36 Chinese sources suggest that at the September 2015 meeting between Obama and Xi in Washington, an agreement was reached to recognise China's significant power status, on condition that its continued peaceful nature is ensured. The veracity of the information may be confirmed by the fact that the U.S. Congress approved the IMF quota and governance reform agreed in 2010 shortly after the meeting, in December 2015 (Gu et al. 2016).

Administration openly expressed its suspicion regarding China's growing influence,[37] and at the same time, as part of the "Make America Great Again, MAGA" and "America First" concepts, it demanded greater contributions from its allies in joint initiatives, while at the same time backtracking on several international commitments.[38] In addition, Donald Trump, in a bid to maintain U.S. leadership, also engaged in a trade war with China, which ended up in a politically important trade deal (Phase 1 Trade Deal).[39] A significant part of these movements ultimately gave way to a further increase in Chinese involvement in the international arena, whereby Chinese involvement in international finance was further strengthened, absurdly reinforcing the trend towards a bipolar world order. The hostile, confrontational nature of U.S.–China relations continued under the Biden Administration.[40]

It is also worth noting that even before China's own multilateral initiatives, it had already put in place on its own huge financial instruments (think of the China Development Bank or the China Eximbank), which were capable of financing projects on a larger scale than the World Bank. In addition, as part of its $130 billion donor engagement, China already provided more aid in 2016 than the six Western-dominated multilateral development banks (World Bank, Asian Development Bank, Inter-American Development Bank, European Investment Bank, European Bank for Reconstruction and Development, African Development Bank) combined.[41]

2013 was a remarkable and busy year for Chinese diplomacy, particularly in terms of its impact on the multilateral world order. A few months after Xi Jinping took office, the initiative to establish a new China-led multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), was

37 The U.S. National Security Strategy, published in December 2017, refers to China as a competitor, challenger and revisionist power, along with Russia (The White House 2017).

38 The Trans-Pacific Partnership (TPP), the Paris Climate Agreement, or the reduction of U.S. budgetary resources supporting multilateral development banks (including the World Bank) can be mentioned here, alongside the suspension of American funding for the World Health Organization and the withdrawal from the Iranian nuclear deal.

39 Reuters 2020.

40 Panda 2021.

41 Gallagher et al. 2016.

announced, positioning China as a player in its own right in the multilateral arena. At that time, preparations were already underway for the establishment of the New Development Bank (NDB), an initiative with joint and equal ownership by the BRICS countries. In addition, an ambitious development program, the Belt and Road Initiative (BRI), modelled on the historic Silk Road, had also been announced.

Following the fading of the Washington Consensus reflecting Western values, the contours of the so-called Beijing Consensus[42] emerged already in the first half of the 2000s. This later materialised in the BRI initiative and the complementary mechanisms surrounding it. The essence of the Beijing Consensus is that China does not make ideological or economic policy demands on the partners participating in the initiatives it implements, but builds on mutual benefits and, in principle, seeks to develop the partners' own motivations.[43] Of course, in a separate analysis of the limitations of own motivations, it is also worth examining the debt crises that have arisen associated with Chinese aid.[44]

Many authors argue that institutions like the AIIB and other relatively new initiatives founded by emerging economies, such as the Silk Road Fund[45] or the NDB, were established primarily to finance the massive $1.4 trillion BRI initiative.[46] With some 68 countries from Asia, Africa, Europe and Latin America as partners, the initiative represented 65% of the world's population and 40% of the global economy.[47] However, after reviewing the relevant literature, we found that while the BRI initiative, ostensibly aimed at increasing regional influence, primarily supports domestic political objectives (such as absorbing Chinese overcapacity, improving energy security, and addressing income disparities within the country), the new multilateral development banks also

42 Ramo 2004.

43 Boros–Horváth 2021: 72.

44 Chakrabarty 2020.

45 China established the Silk Road Fund with $40 billion, which is intended to support initiatives aimed at strengthening connections under the BRI initiative.

46 The total funding for the BRI initiative is twelve times greater than the amount disbursed for European reconstruction under the Marshall Plan following World War II (Bloomberg 2016).

47 Campbell 2017.

serve the financing of global public goods. Although in the past their activities have only complemented the work of the Western-dominated development banks, the operating model and objectives of the new development banks, especially the AIIB, and their capitalisation in the longer term will allow them to go beyond regional financing and even to become a competitor to the U.S.-dominated World Bank. This is ultimately a reflection of the shifting geopolitical balance, with China and other emerging economies challenging the post-World War II financial world order.

Minilateral innovations

The changing world order and shifting geopolitical balances are well illustrated by the world of multilateral development banks. China's moves on the multilateral financial stage have been seen by many as a threat to the existing liberal international economic order. Nothing validates the legitimacy of development banks initiated by emerging countries more than the enormous development needs arising in Asia due to rapid population growth and unprecedented urbanisation. In terms of development needs, it is a telling statistic that the Asian continent is growing at an annual rate of 42 million people, which means that in about 30 years, the population will grow by another 1.2 billion people, and about 1 billion people are already exposed to the effects of climate change.[48]

Financial agreements among so-called emerging powers, such as the NDB established by BRICS countries, the AIIB initiated by China, or the BRICS Contingent Reserve Arrangement (CRA) also initiated by the BRICS, can be interpreted as a response to the realisation that the governance structure of the Bretton Woods institutions does not reflect the realities of the global economy. Concerns about the spread of so-called 'minilateralism' were aptly summarised by Ngaire Woods, Professor at the University of Oxford, back in 2008, who argued that the global economy of our time is under serious threat from the status quo great powers' adherence to their well-established

48 Asian Infrastructure Investment Bank 2018.

but outdated institutions, and that unless their behaviour changes, the scope for not only joint action but also deeper forms of global cooperation and shared goals between governments would diminish.[49]

Reality then proved this prediction right. Even with the emergence of new forms of global governance frameworks, such as the G20, which brings together the world's largest economies, these formations operate as informal coordination platforms. Consequently, the common positions reached within their frameworks are by no means binding and can only be implemented through lengthy national legislative processes. The institutions that have grown up alongside global institutions, in the form of mechanisms based on flexible and often ad hoc cooperation between countries, are a particular form of multilateralism in the 21st century. These forms of cooperation, also known as minilateralism, are usually established between a small group of countries on a well-defined issue, to solve problems (in contrast to the failure to reach substantive agreements on decision-making reforms affecting the functioning and effectiveness of global institutions), and they adopt legally non-binding, rather voluntarily enforceable decisions.[50]

While the Washington Consensus failed in Latin America and Central and Eastern Europe, multilateralism in Asia failed to deliver real results either in terms of responding to economic and financial crises or in terms of stabilisation. We only have to look back to the Asian financial crises of the 1990s and the global financial crisis of 2008 to see the effectiveness of the response of global financial institutions.[51] As a consequence, China has itself become a driving force for so-called minilateral initiatives as part of its increasingly active foreign policy. While the United States has not sought to reflect a shift in the balance of power in global financial institutions, China, including through its initiative to establish the AIIB, has been focused to both reinforce its leadership in certain minilateral financial initiatives and to go beyond them. If we look at the AIIB, it is a regional problem-solving financial instrument (to develop Asian infrastructure) with a global perspective, as it explicitly seeks to attract non-Asian countries as institutional members. In the case of the AIIB, also known as the World Bank of China, there is no

49 Woods 2008.

50 Wang 2014.

51 Brummer 2014.

evidence that China's aim in setting up the institution was to undermine the Western-dominated financial system. Rather, it was a response to the failure to reform the U.S.-dominated international financial system. At the same time, since the United States sees China as a competitor and challenger, there is little chance that international financial initiatives with Chinese participation will remain only complementary in the longer term, and China is expected to increasingly use them to serve its foreign policy goals.

Europe and the Asian financial initiatives: The example of the AIIB

As we have already discussed, a significant turning point in the multilateral financial world came in 2015, when negotiations for the establishment of the AIIB concluded in Beijing. The bank's Chinese president expressed genuine surprise during the assembly of representatives from member countries in June 2016, stating how smoothly and swiftly the agreement on principles for the establishment and operation of the bank unfolded. He also underlined that the AIIB was committed to supporting the implementation of the Paris Climate Agreement and that the development projects would give priority to programs that are environmentally friendly, energy efficient and support the green transition. By establishing a bank to provide long-term financing for the infrastructure development needs of the Asia-Pacific region, amounting to USD 1,500–1,700 billion per year, China wanted to go beyond the world of various territorial initiatives (regarding the NDB and the CRA, see also the section entitled *Chinese interests in the global power arena*) and set out to create a financial institution with a universal membership. The success of the AIIB idea is also demonstrated by the fact that the AIIB was joined by founding members from outside the Asian region, including many of Europe's major economies, including Germany, France, Switzerland and the U.K. Canada, among others, applied for membership as part of a new round of accessions, bringing the total number of member countries from 57 at the time of its creation to 103 in the first five years of its operation (see *Table 1* for a comparison of the major global and regional development banks). The United States and Japan, obviously, are not expected to join the institution.

Table 1: Comparison of multilateral development banks

Institution	Year of foundation Seat	Mandate	Number of member states	Largest shareholders	Provision of resources in financial year 2019 (USD million)
EIB	1958 Luxembourg, Luxembourg	Innovation, small and medium-sized enterprises, infrastructure, environment and climate protection	27	Germany, France, Italy, Spain	56,514
IBRD, World Bank Group	1944 Washington, USA	Poverty reduction, shared prosperity	189	USA, Japan, China, Germany, France, United Kingdom	20,182
IDA, World Bank Group	1959 Washington, USA	Poverty reduction, shared prosperity	173	USA, Japan, United Kingdom, Germany, France	20,000
ADB	1966 Manila, Philippines	Infrastructure, environment, regional cooperation and integration, financial sector development, education	67	Japan, USA, China, India, Australia	16,470
EBRD	1991 London, United Kingdom	Agriculture, capital funds, financial institutions, ICT, market economy transformation, manufacturing, municipal infrastructure, nuclear safety, energy, transport	67	USA, France, Germany, Italy, Japan	8,470
IADB	1959 Washington, USA	Poverty reduction, fiscal policies, financial markets, infrastructure, human capital, knowledge and innovation systems, cities	48	USA, Argentina, Brazil, Mexico, Japan	10,574
AIIB	2015 Beijing, China	Sustainable infrastructure, connectivity, mobilising private capital	103, of which 16 are waiting to join	China, India, Russia, Germany, Korea, Australia	6,230*
NDB	2014 Shanghai, China	Clean energy, transport infrastructure, water management, water industry, urban development, economic cooperation and integration	5	Brazil, China, India, Russia, South Africa	915

Source: Annual reports in Prizzon 2018; DevelopmentAid 2020.
Note: *2020
EIB: European Investment Bank; IBRD: International Bank for Reconstruction and Development; IDA: International Development Association; ADB: Asian Development Bank; EBRD: European Bank for Reconstruction and Development; IADB: Inter-American Development Bank; AIIB: Asian Infrastructure Investment Bank; NDB: New Development Bank.

In addition to the countries of Northern and Western Europe, Hungary was the second member of the Central and Eastern European region to join the AIIB in the summer of 2017, after Poland, and became the 56th member overall. Among the countries of the region, Romania and Serbia have also since joined the AIIB. AIIB membership gives European members direct access to the portfolio and new project opportunities of a dynamic bank with hundreds of billions of dollars in subscribed capital, providing new opportunities for European companies to supply or enter Asian markets directly. Membership in the AIIB thus enhances and expands Europe's room for manoeuvre. In case of Hungary, it supports the government's strategy known as the 'Eastern Opening', promotes regional cooperation at the corporate level in one of the most dynamically developing regions of the global economy, and opens up the opportunity to participate in large-scale economic development programs.[52]

THE GLOBAL FINANCIAL SYSTEM AND THE CHALLENGES IT FACES: A RENEWED BRETTON WOODS?

In terms of the evolution of the economic-financial world order, we will examine not only the international institutional system but also the role of the dollar as the world currency. Partly due to the U.S.–Saudi agreement,[53] which stipulates that oil trade is settled exclusively in dollars, the dollar has understandably not lost its role as the primary international reserve currency. Thus, it continues to serve as a store of value, a unit of account and a medium of exchange globally. The dollar's status as the safest currency (safe haven currency) is not yet threatened by the euro or the emergence of new powers such as China. In case of the latter, the important function associated with the global currency, the existence of open and liquid financial

52 Örlős–Balogh 2017.
53 Tria–Arcelli 2020.

markets significantly hinders this. This is illustrated by the fact that three quarters of central banks' foreign exchange reserves are still held in dollars.[54]

China has recently replaced Europe and Japan as the largest financier of the U.S. trade deficit. Since China's accession to the WTO in 2001, often referred to as the second Bretton Woods period, China has allowed countries with trade deficits, notably the United States, to maintain high internal liquidity, thereby sustaining domestic consumption and investment levels. At the same time, China has utilised currency regulation tools to help keep inflation low. However, under pressure from the United States, China was forced to abandon its fixed exchange rate to the dollar as early as 2005. As a result, the Chinese currency depreciated by 18% over three years. Thus, the renewed Bretton Woods system lost its validity already by the outbreak of the 2008 financial crisis.[55]

Processes affecting the global currency: Back to the basics of Bretton Woods?

Over the past ten years, the gap between the role of the dollar in the international financial system and the economic weight of its issuer, the United States, has widened: the United States now accounts for nearly 20% of total world economic output and 10% of world trade (for details, see the section entitled *Forced reform of global economic and financial governance: A new multilateralism*). However, the dollar's central role remains undiminished: one third of countries peg their national currencies to the dollar, 70% of global output is dollar-denominated, and 50% of global bank account output and two thirds of official foreign reserves are dollar-denominated.[56] Moreover, the dollar's leadership was not even challenged by the 2008 financial crisis, which reaffirmed its position as one of the safest financial instruments during a turbulent period.

54 Tria–Arcelli 2020: viii.

55 Tria–Arcelli 2020: 21.

56 Tria–Arcelli 2020: 23.

From China's point of view, by moving away from the dollar standard in its own financial system, China wanted to create the conditions for monetary stability in the financial relations between America and Asia. The increasing exchange rate flexibility reflected the economic policy objective of shifting production capacity from external markets to internal consumption and from a production-oriented to a service-oriented system. With this change in economic policy, China is no longer interested in financing the U.S. deficit in the medium term. In his 2009 paper published by BIS,[57] Chinese central bank governor Zhou Xiaochuan went back to the Bretton Woods of 1944 and revisited the need for a supranational international currency fixed at a stable value. He called it impossible to address the issue of global macroeconomic imbalances and financial stability without a Keynesian bancor-type international currency, and suggested rethinking the role of the SDR. The Chinese central bank governor's proposal revolves around stability and rule-based approaches. In his view, a new international reserve currency should be linked to a stable benchmark and issued under clear rules. In addition, the supply of reserve currency must be flexible enough to adjust to changing demand in a timely manner. It is also crucial that this adjustment is independent of the economic situation and sovereign interests of any country. He also pointed out that there has never been a precedent in history for the acceptance of credit-based national currencies as leading international reserve currencies, clearly indicating the unsustainability of the dollar's role as the world's reserve currency.

Returning to the regulatory side, some ten years after the Chinese central bank governor's statement quoted above, Bank of England governor Mark Carney also spoke out in 2019 on the issue of overdependence on the dollar.[58] In his speech, he called on the IMF to create a new international financial system whose stability is linked to several currencies. The essence of Carney's thinking is that a flexible exchange rate regime is not suited to dealing with global economic shocks, maintaining stable output levels and ensuring price stability. The dominant role of the U.S. dollar in the international financial system, which, as we have already shown, is significantly greater than the

57 Xiaochuan 2009.

58 Carney 2019.

world trade weight of the United States, is the source of instability, and he therefore called for a multipolar financial system. In order to avoid a clash or a future currency war between the dollar and the Chinese currency, the renminbi, this multipolar system would be based on several international or even a single global reserve currency.

The U.S.–China trade war, as well as the pandemic, seem to accelerate the need for rethinking the framework of a new economic world order that ensures cooperation between nations. This has revived the old Keynes–White debate about the necessity of a global currency (see the section entitled *The U.S.-dominated economic world order*). As the debate resurfaces, the following factors seem to be emerging as factors that will definitely influence its evolution: 1. China's increased weight in the world economy and the growing vulnerability of an excessively globalised economy and trade linked to the restructuring of the world economy; 2. the technological and digital divide that affects trade and payment systems, including digital currencies outside the control of central banks; and 3. the potential for abuse of power, so to speak, by a future U.S. administration due to the role of the dollar in the world economy.

The latter aspect certainly raises the need for the multipolarisation of the world's financial payments system. China has made significant strides in this direction recently, as it was the first of the world's largest economies to test the central bank digital currency[59] in April 2020. A centralised and directly usable electronic renminbi (e-RMB) represents a significant challenge in itself for the United States and the dollar, which serves as the global reserve currency.[60] If China succeeds in creating a new payment system with the same efficiency as the U.S. financial system, it would have a direct impact on the position of the United States as a world power. As of June 2021, more than 24 million individual digital renminbi accounts had been opened, with transactions worth around $5.4 billion.[61] The Chinese central bank aims to ensure widespread domestic use in the short term and to also create the

59 Central bank digital currency is a form of payment instrument that can be created digitally alongside cash and reserves.

60 Boros–Horváth 2021: 68.

61 Atlantic Council s. a.

conditions for international transactions, and to make the digital currency available to foreigners.[62] This means that China is expected to be the first country to officially introduce a central bank digital currency. Meanwhile, the United States is still in the research phase, while the Treasury Department and the Fed,[63] which acts as the central bank, officially announced their interest in creating a digital dollar, as it would allow for faster, safer and cheaper payment systems than the current ones.

More crises and new players in the financial system

The financial crisis of 2008 and the economic crisis of 2020, following an unexpected global health emergency, the coronavirus epidemic, highlight the legitimacy of the debate on the adequacy of the international financial system. The trade deficits, particularly the persistent and large imbalance between the United States and China, exert such constant pressure on the international financial system that it ultimately questions the credibility of the financial system in its current form. The fact that the United States continues to finance its accumulated deficit by printing dollars may raise doubts about the long-term sustainability of the dollar's central role.

The global pandemic has also brought the debate on deglobalisation to the fore, i.e. the need to reconsider the possible backsliding from high levels of globalisation in specific economic segments. The economic debate now suggests shortening and at least partial repatriation of the global value chains most exposed to economic, natural or geopolitical risks (which were actually the engines of international trade and global economic growth in previous periods). In addition, for reasons related to the technological and geopolitical competition, the process of decoupling between the two economic blocs under Western and Eastern influence is underway.[64] With the regionalisation of global value chains, the weight of world trade in the world economy will also decline. A typical example of relationship severance

62 People's Bank of China 2021; Kharpal 2021.

63 Cox 2021; Federal Reserve 2021.

64 Tria–Arcelli 2020: 35.

can be found in the field of technology, where the "Clean Network" program was introduced to prevent Chinese companies from accessing American information and communication networks.[65]

Meanwhile, in the world of financial systems, the private sector has transitioned from being an implementer to a system shaper. Platforms based on new technologies and otherwise privately owned have already created payment systems where the unit of account and store of value functions of money are irrelevant. Technology is now providing new kinds of effective solutions: the emergence of digital and cryptocurrencies,[66] technically (though not politically) creates the conditions for a global currency with characteristics similar to the Keynesian supranational money, which is at least partly a solution to the causes of global imbalances. The importance of this topic is illustrated by the fact that, for example, the issue of Facebook's planned Libra payment instrument was discussed by the G7 finance ministers and central bank governors in the summer of 2019.[67] The essence of the project is to create a digital 'stablecoin' by pegging the exchange rate to a basket of currencies. However, the real significance of the initiative lies in the fact that in the longer term, private payment systems can be seen as a kind of challenger (or alternative) to the international financial system established at Bretton Woods, including the U.S. SWIFT and European TIPS payment systems, as they are a replacement for functions that affect the basis of sovereign power. The popularity of these digital payment systems is clearly due to their efficiency, which means measurable savings in terms of money and time. Moreover, this innovative solution provides an opportunity, especially in developing countries, for large groups of people who are not eligible for the banking system and are therefore excluded from it to become meaningfully involved in the economic circulation. It can be argued that with the Libra project and other cryptocurrencies, the private sector is already able to use advanced technology to create global currencies essentially based on the Keynesian model.

65 Ghosh 2020.

66 Örlős 2021.

67 Tria–Arcelli 2020: 32.

SUMMARY CONCLUSIONS

The unipolar world order of the post-Cold War era was based on the leading power of the United States, both militarily and economically. The criticism of the Washington Consensus in the developing world at the end of the 1990s, the lack of substantial reform in the globally inclusive Bretton Woods institutions, their legitimacy deficit, and the decade-spanning global crises (the 2008 global economic and financial crisis, and the health, economic and social Covid-crisis emerging from the coronavirus pandemic in 2020) have accelerated the weakening of American leadership. The increasingly multipolar economic world order is taking shape in the form of new financial institutions and innovation in the financial system that are emerging alongside the Bretton Woods institutions. Indeed, in the post-pandemic recovery phase, China has further strengthened its position in the world, and its large-scale developments in digital money could in many areas transform the hitherto U.S.-dominated global power structure into a bipolar one. Europe is anticipated to maintain a reactive stance, without taking the initiative.

However, despite the strategic nature of the U.S. confrontation with China in the post-Covid crisis period, it is inevitable to take into account that the negative economic consequences of the epidemic will have to be reckoned with by all economies. This is mainly reflected in a significant increase in public and private debt levels.[68] In this context, looking at global economic trends over the last decade, we can expect a slowdown in the process of globalisation, criticism of excessive globalisation, an increasing role of the government in the relationship between market and government (especially in Europe), and a slowdown in the rate of economic growth. In the deglobalisation scenario, we can necessarily predict lower growth in the longer term, which, coupled with rising debt, implies the risk of another global financial crisis. That is why, as in the post-2008 period, the focus should now be on cooperation and the positive effects of the interconnected world. In our analysis, we have highlighted that in what

[68] Szabó 2021.

often seems to be a collision course of powers, Europe, including the Central and Eastern European region, is not averse to cooperating with the rising powers of the East thus exercising a connectivity agenda between global powers. It is also worth recalling that during the 2008 financial crisis, both the United States and China responded cooperatively. In the symbiosis of the macroeconomic imbalances embodied in the trade balances, the huge Chinese trade surplus then provided an opportunity to deploy a large fiscal stimulus package, while in the United States the so-called unconventional instruments of monetary policy were applied. By contrast, the Trump and Biden Administrations clearly opted for a policy of confrontation.

We do not know how the central position and hegemony of the dollar (which ensures the United States' leading role in our economic world order) will be affected by the economic policy measures necessary to avoid a potential new global recession, nor how these measures might favour the idea of a new Bretton Woods agreement. It is also not yet clear whether the new Asian-dominated multilateral development banks will in the longer term continue to complement the Washington-based international financial institutions, the IMF and the World Bank, or whether they will also take on global functions, as the bipolar nature of the world order becomes more pronounced. The awaited end of the Russia–Ukraine war may be followed by a chance for a new Bretton Woods agreement, which, in addition to recreating the common rules of international trade, also established a new financial and development policy regime, reflecting the dynamics of the world economy. It may even be that technology can now help to create the conditions for Keynes' s vision of the future, articulated three quarters of a century ago.

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