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## The Bretton Woods Institutions and the UN<sup>1</sup>

**Professor Sir Hans W. Singer**

It is customary to talk of two different systems: the Bretton Woods system and the UN system. This reflects the facts of life but not the legal situation. Legally there is only one system, the UN system. The Bretton Woods institutions – the International Monetary Fund and the World Bank – are legally part of the UN system. They are specialised agencies of the UN, the same as the United Nations Food and Agricultural Organisation (FAO), the World Health Organisation (WHO), the International Labour Office (ILO), etc. As specialised agencies of

the United Nations, they are subject to guidance and co-ordination by the UN General Assembly, the UN Economic and Social Council (ECOSOC), and subject to the administrative co-ordinating functions of the UN Secretary General. In fact it was initially envisaged that the specialised agencies of the United Nations should all be together in one place – presumably New York to facilitate day-to-day control and co-ordination.

However, all this is grey legal theory. As we all know, the facts of life are very different.

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<sup>1</sup> Issue No. 8 of the Briefing Notes in Economics first appeared in January 1994. To mark Professor Singer's 95<sup>th</sup> birthday in November 2005 the editor is pleased to re-publish his contribution in the same month. To describe Hans Singer simply as a living legend under plays his contributions, yet these pages provide insufficient scope for any meaningful dedication either. As such it has been decided to simply reproduce over the next 2-3 sentences the biography that appeared in January 1994 with the original publication of this article.

Hans W. Singer is Professorial Fellow at the Institute of Development Studies and Emeritus Professor, University of Sussex. Few economists have had a hand in the economic development of as many different countries as Hans Singer who spent over twenty years at the United Nations. His enormous contribution includes more than 146 books, pamphlets and reports, many of the latter two for governments and international bodies. His published articles alone number more than 280. Further, over the years he has been a source of almost unlimited inspiration to countless graduate students through both his dedication and generosity.

Some additional material on the life and work of Professor Singer may be found at <http://cepa.newschool.edu/het/profiles/singer.htm>

The reprint seen here is faithful to the original in every sense apart from a slight format change to comply with the BNE's own transformation over the years. The editor acknowledges Professor Singer's assistance with the permission to reprint this issue.

The Bretton Woods institutions do not consider themselves to be a part of the UN system and the idea of guidance by the General Assembly would provoke hollow laughter at 1818 H Street NW, Washington, D.C. (the street address of the World Bank). The separation of the two systems – in actual fact although not in law – has historical origins. The Bretton Woods institutions were established in 1944 at the Bretton Woods Conference, on the basis of three famous memoranda written by Keynes in 1942 on the International Clearing Union (which became the IMF), the International Investment Fund (which became the International Bank for Reconstruction and Development, or World Bank), and the International Commodity Buffer Stocks (the stillborn International Trade Organisation (ITO)). The United Nations was created in a separate process culminating in a conference at San Francisco in 1945 – a year after the Bretton Woods conference. Hence at the time of the Bretton Woods conference the UN did not exist which explains the absence of detailed discussions on the relationship between the two systems. However, the Terms of Agreement of the IMF and the World Bank still clearly reflect their prospective status as UN specialised agencies. A special irony of this historical sequence is that the largely financial and banking institutions of the IMF and the World Bank were established at the political capital in Washington, D.C. whereas the UN, an essentially political institution, was established at the financial centre of New York. This geographical anomaly turned out to be a great advantage to the Bretton Woods system and a great disadvantage to the UN system.

There are still remnants of the legal position. For example, the president of the World Bank and the Managing Director of the IMF present a report at one of two annual meetings of the Economic and Social Council, although this is more in terms of a lecture than of accounting for their activities. It is yet another anomaly that the Secretary General of the UN is not allowed to make a statement at the annual September meetings of the Bank and Fund.<sup>2</sup>

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<sup>2</sup> There seems, however, no reason why the Secretary General should not break with this

The main difference between the two systems is the different voting system and the method of control. In the Bretton Woods system voting is on the basis of contributions: hence the IMF and World Bank are clearly and firmly under the control of the major industrial countries and financial centres. This is also clearly reflected in the current ideology of the two institutions and the composition and previous training of their staffs. In the UN system, leaving aside the veto power in the Secretary Council on potentially military matters, voting is on the basis of one-country-one vote. At the beginning of the UN, when most third world countries were still colonies, this did not trouble the major industrial countries unduly. But with de-colonisation the principle of one-country-one-vote meant a built-in majority for the developing countries – especially when they teamed up with the Soviet bloc. This difference in control proved highly beneficial to the Bretton Woods system, which became the chosen vessel of the industrial world while the UN system was sidelined and marginalised.

Insofar as the one-country-one-vote system can be considered more democratic than the one-dollar-one-vote system, the refusal of the industrial countries to give serious support to an institution governed by one-country-one-vote can be considered as non-democratic. A third voting system, reflecting the size of the member countries' population (one-person-one-vote) would give very similar results to the UN system of one-country-one-vote, as far as the ratio between industrial countries and developing countries is concerned – but would give enormous voting power to China and India.

The original division of labour between the World Bank in particular and the UN was that the World Bank would concentrate on project financing on a non-concessional basis, while the UN would be the focus of global macroeconomic management (centred on

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convention and forcefully participate in the annual meetings of the Bank and Fund, representing the interests of the global community – he could hardly be denied the floor!

ECOSOC) and of a concessional multilateral aid programme (the special United Nations Fund for Economic Development, or SUNFED, more accurately described by its original name of UNFED without the Special!). In the event, this original division of labour has completely disappeared. The World Bank has struck out from the project basis into programme lending and structural adjustment lending, largely in the service of debt collection. In this process the World Bank has assumed a controversial role and the results of the structural adjustment and stabilisation policies imposed both by the IMF and the World Bank are very questionable, to say the least. Furthermore, in the process the quality of the Bank's project lending has declined (by its own admission), as agricultural engineers and other skilled project personnel have been replaced by monetarist/neoclassical macroeconomists.

The Bretton Woods institutions justify their approach by arguing that the developing countries must face the facts of life and that without the type of adjustment imposed on them their plight would be even worse. This last statement, as a counterfactual argument, is difficult to prove or disprove; as for the 'facts of life' argument, the counter-argument would be that the Bretton Woods institutions were not created to impress the facts of life on deficit countries but to change the facts of life. This would imply pressure on the surplus countries rather than the deficit countries. Indeed such pressure on surplus countries – or at least symmetrical pressure on all countries – was part of the original vision of the Bretton Woods institutions. This symmetry still exists on paper in the form of IMF 'surveillance' of all member countries. But this is a very shadowy affair and not taken seriously by the powerful member countries not in need of direct IMF or World Bank assistance.

At the same time, the function of global macroeconomic management, insofar as it has not been taken out of the multilateral system altogether and embodied in the G-5 or G-7, has been moved from the UN to the Bretton Woods system. The concessional aid fund foreseen in the form of SUNFED or UNFED has also been taken away from the UN and

incorporated in the World Bank. This is also the case with the other fund, the idea of which originated in the UN that is a compensatory fund for unforeseen losses in export earnings. This has been incorporated in the IMF in the form of the Compensatory Financing Facility (CFF), but as a result has become heavily distorted away from its original intended purpose.

The separation between the UN system and the Bretton Woods system is strikingly demonstrated in the way the IMF/World Bank stabilisation/structural adjustment programmes are being negotiated. These negotiations are limited to financial IMF and World Bank specialists from Washington on one side of the table, and representatives of ministries of finance and central banks on the other side of the table (the latter themselves quite likely former staff members of the World Bank and IMF). Many of the deficiencies and doubtful effects of the programmes can be explained as the result of this narrow financial framework for the negotiations. Decisions that have a major impact on the fate of, say, agriculture in a country are made without representation of the UN agency responsible for agricultural problems and with field representation in the country, that is the FAO, and on the other side of the table without representation of the ministry of agriculture. A broadening of the negotiating framework could do much to restore the unity of the UN system. This is only one of the political reforms of the present process of stabilisation and structural adjustment.

A fashionable suggestion for the new division of labour between the two systems – often under the deceptive name of 'revitalising the UN' – is to allocate to the Bretton Woods system the 'hard' core of development, that is macro-policy, finance, and trade (GATT being widely considered as an adjunct of the Bretton Woods system). The UN would deal with 'soft' issues such as poverty reduction, social policy, employment, environment, human resources, vulnerable groups such as women and children, refugees, disaster relief, etc. Leaving aside such questions as what is 'hard' and 'soft' in development, and whether such a division into hard and soft issues makes any

sense, this proposed division of labour would only work if the UN, in charge of the 'soft' issues, would receive the same degree of political and financial support as the Bretton Woods system. As already explained, this will not be the case as long as the powerful countries, in dislike of the UN voting control and the UN's different ideology, concentrate their backing on the Bretton Woods system while marginalising the UN system and keeping it on the brink of bankruptcy. The precedent of the environment shows what to expect: While environment would be counted amongst the issues allocated to the UN (with a UN agency already in existence in the form of UNEP – the UN Environment Programme), when it came to establish the financial backing for the agreements arrived at the Rio Environment Conference, the General Environmental Facility (GEF) was entrusted to the World Bank and not to the UN system (although the UNDP and UNEP are nominally associated).

The erosion of the normative and analytical functions of the UN in favour of the Bretton Woods system has also applied to the UN specialised agencies such as the FAO, ILO, WHO, UNESCO and so on. Their financial resources are as precarious as those of the UN itself and they are increasingly restricted to compete for technical assistance resources from bilateral donors, the UNDP, and indeed the World Bank itself. Their intended work in norm-setting, policy advice and analysis has increasingly been taken over by the World Bank. The lack of financial resources has a cumulative effect in that it lowers the capacity of the UN and its agencies to do their work competently and this then serves as a further reason (or pretext) to cut their resources further and shift them to the Bretton Woods system. As long as this vicious circle is not broken all talk of 'revitalisation' is idle.

What of the future? It is difficult to believe that the original vision of 1944-45 can be restored, with development policy centred and co-ordinated in the UN with its more democratic voting system. This would only happen if because of the political importance of the UN in peacekeeping and peacemaking the idea of revitalising it is taken seriously.

Meanwhile, the best that we can hope for is a return of the Bretton Woods institutions to more enlightened and better-balanced policies. There are signs of this happening – it is not only intellectuals but powerful countries like Japan which are pressing for this. The neo-liberal tide may be turning. A return to something like the Keynesian consensus would be a blessing for all of us.

*The views expressed here are personal to the author and do not necessarily reflect those of other staff, faculty or students of this or any other institution.*

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