

## **Luís Máximo dos Santos: 80 years after Bretton Woods - relaunching multilateralism through regional monetary unions**

Opening remarks by Mr Luís Máximo dos Santos, Vice-Governor of the Banco de Portugal, at the Conference "80 years after Bretton Woods: Relaunching Multilateralism through Regional Monetary Unions", Lisbon, 6 May 2024.

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Mr President of the Academy of Sciences of Lisbon,

Mr Chairman of the Robert Triffin International Association,

Distinguished speakers,

Ladies and gentlemen,

On behalf of the Banco de Portugal, I am delighted to address this illustrious audience, hereby launching the proceedings of our two-day Conference, to be held at the Bank's premises and the premises of the Academy of Sciences of Lisbon. I would like to extend a warm welcome to both Professor José Luís Cardoso, the Academy's President, and the Robert Triffin International Association, represented here today by its Chairman, Professor Bernard Snoy.

When the opportunity arose to co-organise this Conference with the Academy of Sciences of Lisbon and the Robert Triffin International Association, the Banco de Portugal immediately embraced it.

Our response was obvious for several reasons.

First and foremost, given the partners proposing the initiative.

We already have a fruitful cooperation with the Academy of Sciences of Lisbon, which has enabled us to accomplish a number of projects of mutual interest.

The Robert Triffin International Association is a highly prestigious institution, established in 2002 at the Université Catholique de Louvain. Its mission is to preserve intellectual heritage and promote scientific research into the life and work of acclaimed economist, Robert Triffin, by disseminating his thoughts in the fields in which he was most renowned for, particularly that of international monetary relations, and deepening knowledge of the past, but always with the present and the future in mind.

My first contact with Robert Triffin's line of thought was at the University of Lisbon School of Law as a student of Professor Paulo de Pitta e Cunha, his great admirer and promoter in Portugal.

The work of this economist is truly remarkable in many respects. Born in Belgium, claiming the Catholic University of Leuven as his *alma mater*, he would later acquire U.

S. citizenship. He reflected with rare clarity on monetary problems, most particularly on the problems of the international monetary system emerging from the Bretton Woods Conference: the gold-dollar standard.

His two major works – *Europe and the Money Muddle* (1957) and *Gold and the Dollar Crisis* (1960) – brought him worldwide acclaim through his formulation of the so-called 'Triffin Dilemma'. He held and predicted (also testifying before the US Congress), with millimetric accuracy, that the Bretton Woods international monetary system would collapse. This came to be in August 1971, when President Nixon announced what he then called the 'suspension' of the convertibility of the dollar into gold which, in fact, was already limited to central banks only.

Basically, Robert Triffin identified an insurmountable contradiction in the Bretton Woods system: to ensure the adequate supply of dollars to the world economy needed to expand trade, the United States would have to run successive balance of payments deficits. This would lead other countries to accumulate such high levels of dollar reserves that, in the face of a request for conversion, there would be legitimate doubt as to whether the United States Government would be able to honour it. The mere emergence of that doubt ultimately called into question the key component of the monetary system: the convertibility of the dollar into gold. And that was precisely what happened.

To overcome this contradiction, Robert Triffin proposed the creation of an international reserve asset under the control of the International Monetary Fund. His reasoning thus influenced the IMF's creation of Special Drawing Rights in 1969. However, this initiative fell far short of the expectations of many about the role that this asset could play in the international monetary system. His reasoning was also very important with regard to the challenges posed by regional monetary cooperation, particularly in Europe.

Our enthusiasm in joining this Conference was not only driven by the standing of its co-organisers, but also, of course, by its theme.

Perhaps more than ever, it is very important today to recall the spirit of Bretton Woods. The spirit of cooperation that characterised it, the innovative nature of the established solutions, the clarity of purpose, the political and technical planning, the balance between well-defined principles and the pragmatism needed for the success of any international venture, while taking the diversity of positions and countries' interests into consideration.

Signs of the Bretton Woods' pragmatism were, for example, the establishment of a transitional period in the famous Article XIV of its Agreements Act. Also, the avoidance of restrictions on current payments, needed to ensure the free movement of goods, leaving aside a full principle of free movement of capital, which States could even so freely adopt.

It is important to remember, on the other hand, that the international order that would dominate the post-war period began to be written with the Atlantic Charter signed on 14 August 1941 by Franklin Roosevelt and Winston Churchill. The Bretton Woods

Conference itself began on 1 July 1944, less than a month after the Allied troops had landed in Normandy and almost a year before the end of the war. In other words, an early start was made on defining what could be – and indeed came to be – a new time.

The rules for a new global economic order allowed Germany and Japan, the unquestionably defeated powers in the war, to assert themselves in a matter of decades on the international economic scene, and to play a leading role in their own 'economic miracles'.

Bretton Woods' international order undoubtedly contributed to the Glorious Thirty Years of economic growth and monetary and exchange rate stability, which spanned from the end of World War II to the first half of the 1970s.

Unfortunately, the period following the end of the Cold War appears not to have revealed quite so much wisdom. The failure of the major international institutions to reform prevailed, and adapting to new realities and players was insufficient. The balance between principles and pragmatism does not seem to have been as successful as in Bretton Woods.

Just to mention the most consequential events, the prosperity of peoples and countries has been hit hard by the global financial crisis, and today we are living in one of the most unstable periods since the end of World War II both geopolitically and geo-economically.

At a different level, it is difficult to admit that we can solve or alleviate problems such as climate change, which calls for unprecedented good faith and international cooperation, in such an economically and politically polarised environment.

So much has failed in our shared journey.

Can we relaunch multilateralism through regional monetary unions? The question is fascinating and is at the heart of our Conference.

Is such a route possible at a time when – more or less everywhere – greater sovereignty is claimed for States or regional blocks and there is an urge to put the different national or regional interests ahead of everything and everyone?

Could it be that in the current political and economic circumstances the creation of new monetary unions has lost its "momentum"?

Or, on the contrary, might the impulse towards monetary regionalisation be an effective response to geo-economic fragmentation?

From the outset, new monetary unions have the advantage of benefiting from the complexity and wealth of the European experience, from every perspective.

However, we cannot expect the creation of monetary unions in other geographies to be consensual. Even the creation of the European monetary union was not consensual,

particularly among the leading countries. In fact, in France, it barely passed in the 1992 referendum and in Germany the political impulse of Chancellor Helmut Kohl was key, with strong opposition from the Bundesbank, for example.

Also, we must not forget history shows us that monetary unions that have not been accompanied by a high degree of political integration of the integrating countries collapsed, sooner or later.

Each period generates its own contradictions. The 'Triffin Dilemma' eventually materialised, but did not prevent the international monetary system from operating quite reasonably for almost thirty years.

Some years ago, in his book *The Globalisation Paradox*, Dani Rodrik exposed his trilemma concerning a crucial problem of our time: the compatibility between democracies and global markets. According to him, it is not possible to have *at the same time* what he refers to as hyper-globalisation, national democracy and national sovereignty. You can only have two of the three. Whether or not we agree with him, the developments we have been witnessing oblige us to assess the problem, and this includes monetary regionalism.

The distinguished participants in this Conference will most surely bring us food for thought on all these issues, enabling us to unravel possible paths in these attractive yet troubling times.

I have no doubt that we are all very interested in listening to you.

Thank you very much for your attention.