

# Time for a New, Digital Bretton Woods

COMMENTARY By Alex Pentland, Alex Lipton, and Thomas Hardjono June 18, 2021 9:31 am ET

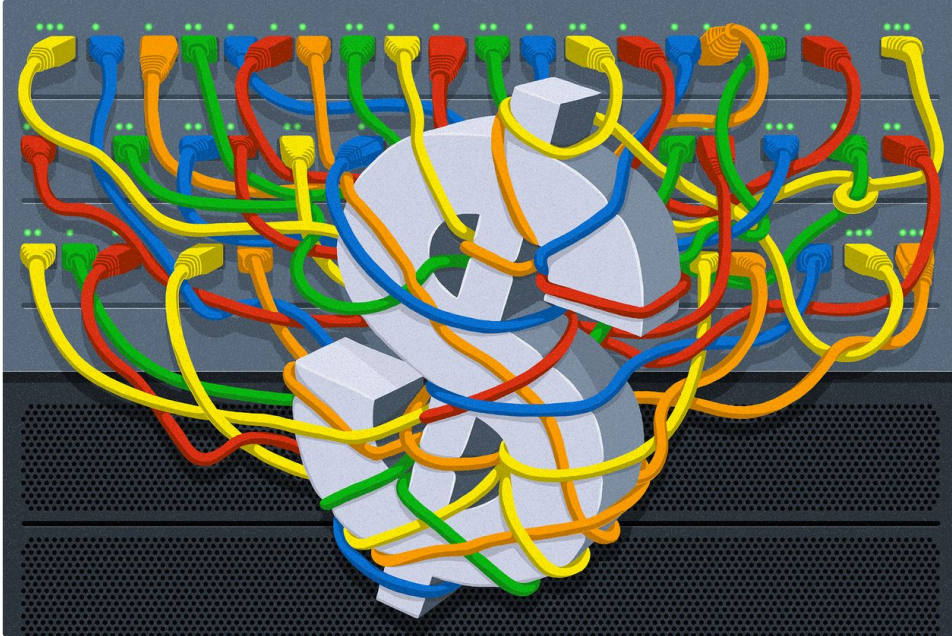


Illustration by Pete Reynolds



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The recent G-7 meeting in the United Kingdom ended with sweeping promises that world leaders would prepare for the consequences of new technologies. They pledged to work together on a “trusted, values-driven digital ecosystem for the common good.” They will have their work cut out of them. The coming digitization of everything will have far-reaching geopolitical implications that we are just beginning to understand.

Trading nations including China, Singapore, and Switzerland are promoting new platforms for digital transactions. These “[trust chain](#)” systems will make it cheaper, easier, and safer to do business with anyone, anywhere, anytime. We at MIT helped design these systems, which combine open-alliance legal agreements, distributed ledger technology, and end-to-end encryption to allow businesses to execute transactions from anywhere, securely and irrefutably. They can handle not only payments but also finance, trade, tax, and audit in a uniform manner. Adding a layer to existing internet protocols, trust chains transform the internet from a loosely connected communication medium into a trusted transactional medium.

In addition to security and efficiency considerations, the deployment of trust chain platforms is being driven by the rush to issue national digital currencies, which use these same technologies to facilitate payments and tax collection. As part of its effort to

roll out a digital currency, Singapore is piloting [Project Ubin](#), which uses trust chains to clear and settle payments and securities based on central-bank-issued digital tokens. The goal is to develop more straightforward and efficient alternatives to today's centralized systems.

Technologies such as federated artificial intelligence, distributed ledgers, open legal alliances, and business models such as data exchanges make data more accessible, standardized, and protected. But in aggregate, they pose complex, emergent digitization issues that present political and corporate leaders with an unprecedented set of challenges and opportunities.

From a financial perspective, the digitization of national fiat currencies will be game-changing. If cryptos and central bank digital currencies start dominating international trade, the U.S. dollar's future will be in clear and present danger. The importance of controlling the bank messaging network—[Swift](#), a potent weapon in the U.S. geopolitical arsenal—will dramatically diminish. The geopolitical implications of switching to digital currencies are hard to underestimate. China, for instance, could push its partners in its globe-spanning Belt and Road Initiative to rely on digital trade coins, creating new trading blocs that entirely avoid using the dollar as a means of payment.

Existing mechanisms of international cooperation are not up to the task. The world's finances are in chaos, caused by public debt at levels not seen since World War II, paradoxically combined with persistently low, or even negative, interest rates that slowly but surely are destroying the middle class. Lack of cooperation among nations and blocs risks a "race to the bottom," causing countries to devalue their currencies competitively, with smaller nations suffering the most as a consequence. New digital trade platforms will provide countries with possibilities for beggaring their neighbors in far less visible and more impactful ways, by reducing local corporate tax rates, lessening data-privacy laws, and minimizing intellectual property protections.

The current financial and banking system is past its best-by date. Too-big-to-fail banks are morphing into too-big-to-manage and too-big-to-regulate institutions due to the sheer complexity of their interconnected balance sheets. Recent debacles, such as the [Danske Bank money laundering scandal](#), the [Citi payment fiasco](#), and the [Credit Suisse Archegos saga](#), are manifestations of the same problem. By pushing trading, clearing, and settlement of complex financial instruments to central clearing counterparties, regulators created potential single points of failure in the system of unprecedented proportions. [Robinhood](#) and other trading platforms, lacking robust internal risk management, put enormous pressure on the whole clearing network.

The introduction of new technologies will reshape the entire financial ecosystem by unleashing competitive threats to the existing players and allowing new entrants to thrive. Cryptocurrencies will challenge cash. Narrow banks that hold only liquid government bonds will challenge traditional banks built on the fractional-reserve model. Distributed payment systems like those that allow individuals to pay one another through blockchains will compete with existing centralized systems anchored in physical public and private banks. Decentralized finance that removes intermediaries will test the role of traditional Wall Street giants and their law firms. When the dust settles, the world's financial system will be changed beyond recognition.

It's time for a new, digital Bretton Woods, one aiming to renovate multilateral institutions by using more-efficient, secure, and inclusive digital platforms. However, unlike the WW II effort, such coordination must encompass all aspects of the trade, tax, finance, and digital technical standards in order to build a stable world economy with proactive, unified risk management. The question is no longer whether a new global order is coming; it is where the benefits will flow, at whose expense, and how to ensure that humankind at large will benefit.

*Alex Pentland, Alex Lipton, and Thomas Hardjono work at MIT Connection Science & Engineering.*

*Write to [ideas@barrons.com](mailto:ideas@barrons.com)*

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