

## Will a new Bretton Woods address the international financial crisis?

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The financial crisis is spreading over the whole planet: after threatening the stability of the financial institutions it is now undermining the function of the economies and endangering the stability of an increasing number of states, jeopardising the savings and jobs of millions of families. To make matters worse, we also have the parallel crises of energy and food which have caused enormous increases in the price of raw materials.

The financial crisis is a turning point in the process of globalisation that has been the basis of the world economy in the last twenty years. The Reagan-Thatcher idea of the market governing itself is no longer working and the financial crisis has brought matters to a head, a choice has to be made for the future. It is now evident that the global market needs to be organised in order to function correctly. It is necessary to have common rules of ownership and antitrust, to have organised surveillance and control of the financial markets and the banks and a systematic and effective plan of political-economic interventions aimed at guaranteeing sustainable development, solidarity and a global defence of the environment.

We are at a crossroads and we must choose between returning to an anarchic world, with the individual states adopting protectionist measures with the aim of “begging the neighbours” or, to take the new road and establish a cooperative system at world level. In choosing we must remember that the Great Depression of the last century was caused by a protectionist system that led to autarchy and eventually to the Second World War.

The new Bretton Woods initiative can avoid such a disaster and establish a more stable world, but in order to do so, a new system of power is required: a system that goes above and beyond the hegemony of any single country, thus avoiding a repetition of the first phase of globalisation which saw the United States effectively ruling the world.

The conditions necessary for a successful new Bretton Woods are difficult to meet: we not only need to share the “real” power of the old industrialised countries headed-up by the United States together with the emerging economies of China, India and Russia, but we also need to agree to a new scale of values:

- **sustainable growth** to deal with the deterioration of the environment and turn the trend around;
- **solidarity between peoples**, taking care not only of the “winners” of the human race, but of the “also rans” and the “losers” too;
- **involvement of the regions not yet fully developed** like Latin America and in particular in Africa.

The goal of a new Bretton Woods is to set up Worldwide Institutions capable of managing an open and integrated worldwide economy. Many different sectors of the economy will need to be regulated at world level, from antitrust policies to financial market controls.

Apart from establishing institutions to check and control, it is equally important to set up systems of solidarity. An example of such a system would be the set up of an “international energy and environmental community” as a follow up to the Kyoto protocol. Based on the experience of the Monnet project of the “European coal and steel community”, this new community should have the

power to impose duties and manage its own financial resources which could be used to finance research into new sources of clean and renewable energy.

The key point in a new Bretton Woods is the monetary unit. An open and integrated world economy would not survive for long without a “world currency”.

The European experience is testimony to the fact that without a good monetary agreement, it is impossible to use and maintain an open and integrated economy: this was the case of the “euro” after the initial collapse of the Bretton Woods system in the summer 1971, when Nixon declared that the dollar would no longer be directly linked to the US gold reserves.

We must go back to the proposal presented by J.M. Keynes at the Bretton Woods conference back in 1944, which put a new common currency, the “bancor”, at the centre of the system, rather than using an existent single national currency. The rejection of the Keynes plan and the adoption of the dollar as the pillar of the system was possible because of the particular historical circumstance: it must be remembered that the Second World War was still raging and, at that time, the US represented 40% of the entire world economy and the dollar was a stable currency directly linked to the US gold reserves.

Only recently did the former governor of the Federal Reserve, Paul Volcker, state the need for a world currency to be implemented, in a similar way to that of the euro, over a number of progressive stages. The first stage is to agree on a “world currency unit” redefining the SDR (as was the case in Europe with the move from the dollar linked “UCE” to the ECU). The new “WCU”

must be representative of all the different currencies (not only the dollar and the euro, but also the yen, the yuan, the rupee, the rouble and so on).

The European Union must take the initiative, as the United States will not renounce easily to the international role of the dollar unless forced to agree to share the power with other countries, even though many respected voices in the American debate will argue for the new currency.

The increasing indebtedness of the United States has now reached an unsustainable level, exacerbated by the US Government's recent transformation of a relevant part of private debt into public debt, making the search for a currency to substitute the overburdened dollar as the "pillar" of the international monetary system, very urgent indeed. This is especially true as we begin to see the wider effects of the financial crisis as it spreads from the banking system and begins to affect the different currencies and the states themselves, especially the smaller ones that do not belong to large economic areas, like the "eurozone".

The European Union should not make the same mistake as Britain did with the declining post-War sterling and candidate the euro as the new international currency. Europe is now in a position not only to take the initiative in promoting a new international currency, but can also actively use the "stable euro" as an important instrument in the creation of a "stable WCU", in much the same way as the DM was used in the creation of the ECU, thus meeting the needs of China, India and Russia for a cooperative world system.