G-20 summit: More like London 1933 than Bretton Woods 1944

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The G-20 summit being held in Washington today takes place amid the worst economic and financial breakdown since the Great Depression of the 1930s. Notwithstanding the rhetoric about the need for a new Bretton Woods Agreement and calls for the remaking of the international financial system, the summit will provide no solutions to the rapidly deepening crisis. On the contrary, in the absence of any coherent program, it may well see the divisions among the major capitalist powers widen.

The summit, which was called by outgoing US president George W. Bush last month, comprises leaders of the G-8 plus so-called emerging economies—India, China, Brazil, Mexico, Argentina, Turkey, Indonesia, Saudi Arabia, South Africa—as well as Australia and the European Union. Together they comprise 90 percent of the world's gross domestic product.

In the lead-up to the summit, British Prime Minister Gordon Brown said it had to become a "decisive moment" for the world economy and provided the opportunity for a "new Bretton Woods"—that is, the equivalent of the conference held in July 1944 that laid the foundations for the post-war economic order following the economic devastation of the 1930s.

French President Nicolas Sarkozy, currently the president of the EU, has insisted on the need to "change the rules of the game in the financial world" and for another conference to be held in the spring to flesh out the details of the agreements reached in Washington.

However, the real prospects for the summit were more accurately summed up in a comment published in the British newspaper, the *Independent*: "What we have is a summit without an agenda, on a crisis without an agreed cause, in a country without a functioning government."

The differences are clearly apparent. The Bush administration is opposed to any system of international regulation—in a speech on Thursday Bush declared that history had shown the greatest danger was not too little government interference in the market but too much—while some of the European powers, especially France, favour greater intervention. Speaking after a meeting of G-20 finance ministers in Brazil on Sunday, French finance minister Christine Lagarde said: "We see friction between Anglo-Saxon capitalism on the one hand and European-style capitalism on the other."

In the lead-up to the conference, the managing director of the International Monetary Fund, Dominique Strauss-Kahn, poured cold water on references to a new Bretton Woods. "Expectations should not be oversold," he said an interview with the *Financial Times*. "A lot of people are talking about Bretton Woods II. The words sound nice but we are not going to create a new international treaty."

Strauss-Kahn even raised doubts about the proposal backed by Brown, among others, for an IMF-administered early warning system to prevent a future global crisis. "I don't think you can have a mechanical system with red lights and green lights and, sometimes country by country, the light goes from green to red," he said.

Any misconception that the G-20 might be able to provide a solution to the global economic crisis is soon dispelled by recalling the history of this organisation. It was established in September 1999 as a result of the Asian financial crisis of 1997-98. In the wake of that disaster, which resulted in the loss of as much as 10 percent of GDP for a number of Southeast Asian economies and led to the Russian default of August 1998, there was much talk of the need to establish a "new financial architecture."

Nothing resulted. Far from action to resolve the growing instability of the international financial system, the US Federal Reserve expanded the flow of credit into the US financial system by slashing interest rates from 2001 to 2004, thereby helping to create the conditions for a housing bubble and the ensuing financial crisis. As for the G-20, it has had so little impact since its founding nine years ago, that, in a telephone conversation with Australian Prime Minister Kevin Rudd last month, Bush reportedly had to ask what it was.

Taking the longer historical view—back to the Bretton Woods conference of 1944 and beyond—further underscores the incapacity of the G-20 summit or any other grouping to establish a stable global financial regime.

The fundamental difference between the present situation and that of July 1944 is the position of the United States. At that time, with victory in World War II in sight, the US was at the height of its global power. With industry running at full capacity, it was able to use its economic supremacy to push through the changes to the world economic order needed to overcome the devastation of the previous decade. Chief among these was the establishment of a system of stable currency exchanges—based on fixing the US dollar to gold at the rate of $35 per ounce—to prevent the type of competitive devaluations and protectionism that had helped deepen the Great Depression.

Currency stabilisation went hand-in-hand with a system of regulation in which governments were able to insulate their economies from the impact of large international capital flows. In the words of US Treasury Secretary Henry Morgenthau in his closing address, one of the aims of the new measures was to limit the power of private bankers and to drive "the usurious money lenders from the temple of international finance." Or as the chief British negotiator John Maynard Keynes, one of the two principal architects of the agreement, put it: "Not merely as a feature of the transition but as a permanent arrangement, the plan accords every member government the explicit right to control all capital movements. What used to be heresy is now endorsed as orthodoxy."

The Bretton Woods system laid the foundations for the post-war economic expansion. But it did not overcome the contradictions of world capitalism and they began to reassert themselves from the beginning of the 1970s. In August 1971, US President Nixon removed the gold backing from the US dollar and by 1973 the regime of fixed currency relationships established at Bretton Woods had been replaced by a system of floating currency values.

The past 35 years has seen the growth of a global financial system, in which trillions of dollars course through markets every day beyond the control of any government, group of governments or financial authorities.

The most significant change of all is the decline in the economic power of the United States of which today's global crisis in an expression. At the time of Bretton Woods, the names General Motors and Ford were by-words for American economic supremacy. Today, they are seeking a financial lifeline from the government.

The Bretton Woods conference was aimed at bringing to an end the economic conflicts of the 1930s which had led directly to the eruption of war. Today's meeting takes place in conditions of growing economic tensions among the major powers.

One of the reasons for the non-attendance of president-elect Barack Obama is not because "America can only have only one president at a time" but because the incoming administration wants to have its hands free to advance the US position in ever-worsening economic conditions.

Today's conference does not recall Bretton Woods so much as the World Economic Conference held in London in June 1933. Convened to discuss a unified response to the Great Depression, it foundered on the rivalries of the major powers and adjourned without agreement. Little more than six years later war had broken out.

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