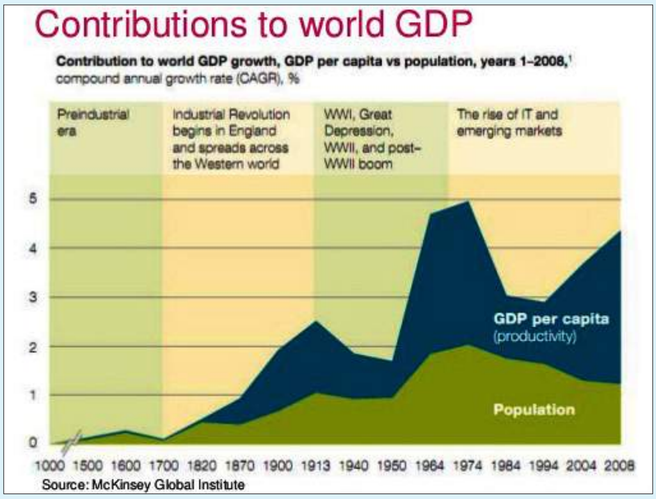
The world needs a New Bretton Woods agreement

By Robert Barwick



The extraordinary burst in productivity and living standards immediately following WWII occurred under the Bretton Woods system of fixed exchange rates, which encouraged long-term productive investment. The current world financial system is broken, riddled with speculation and unpayable debt, which can only be resolved through a new Bretton Woods agreement.

A decade after the global financial crisis, instead of central banks unwinding the emergency Quantitative Easing (QE) money-printing that was used to prop up the banking system, they are planning to expand it. Other countries, including Australia, are planning on their own QE. Institutions including the International Monetary Fund and leading banks are trying to normalise the negative interest rates that have come with QE, advancing bizarre financial theories to justify them rather than recognising them as evidence of a complete failure of the global financial system. Negative interest rates are driving a shift to cashless economies to trap people in the failed banking system. And the United States has launched a damaging trade war with China, with repercussions for the whole world.

These are all signs that the global financial and trading system is fundamentally broken, and in need of urgent reorganisation. The model for such a reorganisation is the Bretton Woods conference in the US state of New Hampshire in 1944, which designed the framework for the post-war global economy. The 44 nations that assembled at Bretton Woods agreed to a system of fixed currency exchange rates, pegged to the US dollar which was valued at 1/35th of an ounce of gold. The agreement also established the International Monetary Fund (IMF), to assist nations through short-term economic difficulties so they could retain the value of their currency relative to the US dollar, and the World Bank, to invest in the reconstruction of war-torn nations and the advancement of developing nations. The Bretton Woods system was not a gold *standard* that limited the quantity of a nation's currency relative to its gold holdings, but a gold *exchange* or *reserve* system that allowed nations to issue the currency they needed, but encouraged them to keep the value of their currency fixed relative to the value of gold.

What did Bretton Woods achieve?

The Bretton Woods agreement is most known for how it ended, ignominiously, in 1971, when US President Richard Nixon suspended the convertibility of US dollars to gold. But what it achieved in the meantime was remarkable. It provided a stable framework for a two-decade, global post-war economic boom characterised by very high rates of productivity growth that have not been matched since. This was the period in which Australia built the Snowy Mountains Scheme and Tasmania's Hydro schemes, and Europe experienced its post-war economic miracle. The stable Bretton Woods framework enabled long-term productive investments, with undeniable success.

The Bretton Woods system was undermined not by its own failings, but by external, geopolitical factors. The USA abused its reserve currency status to print US dollars to fund the Vietnam War, and other US policy decisions undermined the productivity that had made the US the world's strongest economy. This in turn undermined confidence in the US dollar, which France in particular tested by demanding gold for its US dollar holdings, stretching US gold reserves. In the meantime the UK, which had alone opposed the final agreement at the Bretton Woods conference in 1944, pursued a policy of establishing itself as the pre-eminent global financial centre—an "informal financial empire" in the words of some British elite. The UK created the unregulated "Eurodollar" market that attracted huge quantities of US dollars to London, and opened up gold trading, which drove up the price of gold in London and attracted physical gold away from the United States where it had a fixed value of US$35 dollars an ounce. No longer able to back up the convertibility of the US dollars to gold that underpinned Bretton Woods, Nixon abandoned the system in 1971.

What has happened since Bretton Woods?

In the almost 50 years since Bretton Woods was abandoned, which set off a multi-decade wave of financial deregulation, there has been a marked shift in the global economy away from productive investment and towards economies based on consumption and financial speculation (with the notable exception of China). With the end of fixed exchange rates, currency trading has become almost purely speculative, with only around one per cent being exchanged for trade in goods and services. Exchange-rate derivatives are second only to interest-rate derivatives in the US$1.2 quadrillion global derivatives bubble. The rush into speculation has seen the global economy pass through a series of bubbles in stock markets and commodities markets, emerging markets, corporate mergers, information technology, real estate and derivatives, all enhanced by wildly fluctuating interest rates and exchange rates, which due to their unproductive nature have built up a bigger and bigger pile of unpayable debt that is now suffocating most of the world economy.

How would a new Bretton Woods work?

The late US physical economist Lyndon LaRouche, who as early as 1967 had accurately forecast the collapse of Bretton Woods, and who first called for a New Bretton Woods during the 1997 Asia Crisis, recommended that a new Bretton Woods conference should be initiated by the four great powers—the USA, China, India and Russia. With such powerful backing, the rest of the world would readily participate.

The world economy looks different to 1944, especially the relative sizes and compositions of the US and Chinese economies, so not all of the mechanisms of the original Bretton Woods agreement will automatically translate into a new agreement. The objective, however, should

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Collect signatures to stop bail-in

By Ann Lawler

The Financial Stability Board and International Monetary Fund are directing Australia to implement stronger bail-in laws, replicating those already in place in New Zealand, the EU and the USA—which all apply to deposits. Since last week, another 200 people have signed our 5 June petition calling on the Australian Parliament to scrap the bank regulator APRA's existing bail-in powers and stop their plans to legislate stronger bail-in laws. Many of the new signers are followers of financial analyst Martin North or economist John Adams, who together host the YouTube program "In the Interest of the People". Among the institutional people they interview, who all play a crucial role in raising concerns about the housing crisis, the banks, and the state of the economy, it's the CEC's policy spokesman, Robert Barwick, who directs listeners to use their "power" as constituents to fight for solutions—which begins with stopping bail-in. Circulate this link to our "stop bail-in" petition, https://cecaust.com.au/stop-bail-in-petition, or order copies from head office to organise with.

Taree activists Graeme and Ian made sure every person they spoke with in the street had a petition to organise others with. One man who moved to the area from Canberra in the last twelve months said he knew about bail-in, and Glass-Steagall bank separation. He signed the petition, left his details and took an extra copy. Activists in Melbourne, Perth, Darwin and Brisbane are regularly meeting people in the street who know already something about the CEC, bail-in or Glass-Steagall bank separation because they've met us before in the street, receive our media releases, watch the *CEC Report*, and lately, through following John Adams and Martin North. Given the post-election sameness from politicians, coupled with revelations of the true, dire state of the economy and the realisation by many that the government will act for the banks and not the people, we have had an unprecedented number of new subscribers to the *AAS*. If they all get active and recruit others the potential to drive solutions is enormous!

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be the same: create a stable and productive framework for the global financial and trading system, which boosts productivity and discourages financial speculation. This would require returning to fixed exchange rates, supported by capital controls, and restoring the gold exchange system as the best way for nations to measure the value of their currencies and settle accounts between each other. As the US dollar is no longer backed by the productive strength that made it the world's ideal reserve currency in 1944, the USA should negotiate with China and the other leading economies on perhaps a system of reserve currencies pegged to gold and each other, which other nations can use *in lieu* of gold for their international trading. There should not be an international currency controlled by a global central bank as British economist John Maynard Keynes proposed in 1944, and which some advocates of a New Bretton Woods propose today, as it would be an intolerable assault on the sovereignty of nations, akin to the disaster that is the euro and European Central Bank.

Domestically, while nations should build their gold reserves, they should not limit their currency to their gold holdings; but in order to maintain their currency at the stable value of the fixed exchange rate, they must ensure their money supply only expands through increased production. This is best achieved through national banking, which gives governments the ability to create credit for productive, long-term investments in infrastructure and industry. Governments should also ensure that the credit which private banking systems create is limited to lending into the real economy, by imposing a Glass-Steagall separation of commercial banks with deposits, from investment banks. This way, while speculation is impossible to eradicate entirely, governments can ensure the speculators only gamble with their own money.

A new Bretton Woods conference would have to agree to measures to reorganise the world's debt, much of which is unpayable and would have to be written off. Bretton Woods would provide a stable framework in which this can be done in an orderly way, within nations and between nations.

A necessary measure to protect the integrity of the new Bretton Woods fixed exchange rate system would be to end the system of "offshore" jurisdictions, such as the Cayman Islands. These jurisdictions exist solely to allow unscrupulous financiers and organised crime to get around national regulations. Most of the world's offshore jurisdictions, including the Cayman Islands, are controlled by the UK, specifically the British Crown. As documented in the book *Treasure Islands: Tax havens and the men who stole the world*, by British investigative journalist Nicholas Shaxson, on which is based the documentary *The Spider's Web: Britain's Second Empire*, Britain deliberately created its network of offshore jurisdictions in the post-war period to set itself up as a financial empire, and deliberately undermined the Bretton Woods agreement and such national regulations as the US *Glass-Steagall Act*. These jurisdictions are not sovereign, as their laws are written in London and approved by the Queen, and the British are complicit in the crimes, including drug and terrorism money laundering, that these jurisdictions facilitate. Although the UK no longer has a monopoly on such jurisdictions, it began the race to the regulatory bottom that other countries such as the United States have tried to match; and whereas most other countries exercise democratic control over their systems and can easily end them, Britain's offshore network comes under the undemocratic power of the Crown and City of London, not Parliament, and it would likely require the world's nations to threaten the UK with sanctions and other measures to force its compliance.

Finally, a new Bretton Woods conference must reorganise the IMF and World Bank. They should be reoriented to their original purpose and no longer be able to dictate to nations, and their governance must recognise that the economic rise of China and India should allow them more say over these institutions. They should also work collaboratively with the other institutions that have formed in recent years, including the BRICS New Development Bank, and the Asian Infrastructure Investment Bank. The conference should also agree to disband the notorious Bank for International Settlements, the institution through which central banks have established a virtual global bankers' dictatorship, outside of the control of national governments, which is complicit in everything from Nazi gold laundering in WWII to imposing the criminal "bail-in" policy today.