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TOWARDS A NEW BRETTON WOODS

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After the financial crisis that began in 2007, the world economy has been driven by the turbulent development of newly industrialised countries. Difficulties have occurred in recent years in countries like Brazil, India and Russia, resulting in substantial devaluations of their currencies. Even China's growth has slowed down. The Federal Reserve has, in turn, completed the exit from Quantitative Easing.

The world economy is now looking for a new direction for development: the IMF is calling on Europe to help in the recovery – specifically by resuming public investment – while the WTO is trying to overcome the last resistances to enforcing new and long negotiated agreements. To boost world trade, attention has recently been focused on creating free trade areas across both the Atlantic and the Pacific, as evidenced by the recent international summits.

When the German Chancellor Bismarck asked German industrialists what the Government could do to support Germany's development, they answered: "give us a strong currency and good roads and we'll deal with the rest". As for international trade, it was Britain in recent centuries that ensured a solid currency with the sterling and good (and safe) sea routes with its fleet.

At the end of World War II, when GATT – the forerunner to the WTO – was created at the Havana Conference, and the new international monetary system – based on the IMF and on the "dollar convertible into gold" – was created at the Bretton Woods Conference, a new cycle began and the United States took over the role that Britain was no longer able to perform. Europe was rebuilt and underdeveloped countries like Italy turned into industrial powers.

With the dollar crisis that culminated in 1971 in President Nixon's declaration cancelling the direct convertibility of the dollar to gold, international trade was deprived of "good money".

At national level, currency is "fiduciary", guaranteed by the public monopoly held by an institution that newly appeared in the early 19th century: the "central bank". It thus became possible to bypass being bound to gold (or silver) and to provide the economy with the money supply necessary, releasing it from the whims of random discoveries of new mines of precious metals.

At international level, since there is no similar state power which has a monopoly or is able to guarantee the "trust" placed, there are only three possibilities:
- the use of gold, with the variant of barter agreements between countries whereby the traded goods offset each other and only the balance is adjusted
- the use of a "hegemonic" currency, as was the case with sterling and the "inconvertible dollar"
- the use of a "cooperative multilateral system" based on the convergence of the interests of the participating countries.

The system established at Bretton Woods developed around these possibilities: in the initial phase, on a dollar "convertible" to gold at a price of $35 per ounce (the price is now over $1000!); and then, after the declaration of inconvertibility, by seeking a "cooperative" agreement that referred to the proposal made at Bretton Woods for a "bancor", with the creation of SDRs, to which Italy gave a significant contribution through Rinaldo Ossola.

However, the real problem to resolve concerned the development of intra-European trade promoted by the EEC. The most effective response was the launch of the Werner Plan for monetary unification, necessary to back the growing role of European integration. The plan was inspired by Robert Triffin who had understood that the necessary turning-point was in Europe, and so he moved from Yale University to the University of Louvain-la-Neuve where he reclaimed his Belgian citizenship while also remaining a U.S. citizen.

By disengaging European currencies from the fluctuations of the dollar, first through the “currency snake” then the “European monetary system” and lastly the Euro, it was possible to achieve the two major projects supported by the European Commission President Jacques Delors: the single market and the single currency. Europeans were thus assured a good currency, and even at the height of the crisis affecting the construction of Europe, the President of the ECB, Mario Draghi, was able to guarantee “trust” by stating that the ECB would do “whatever was necessary” and that would be enough.

Today Europe is grappling with the problem of good routes (for people, goods, energy, information), and not surprisingly the current debate is about the investment plan promoted by the new President of the Commission, Jean-Claude Juncker. Also around the world we are witnessing the revival of projects such as the doubling of the Suez Canal and a new Panama Canal: the way of the “sea” remains essential to achieve the world market.

But how can good currency be assured? At the attempt to restore the hegemony of a national “inconvertible” currency like the dollar, the BRICS respond by trying to return to barter: the agreements for the bilateral use of national currencies are rapidly spreading. From the first agreements between China and Brazil, a myriad of “separate markets” are now being created, even up to the one between China and Russia for using the renminbi and ruble in the field of energy (with the simultaneous launch of new energy “routes” and railways connecting the two countries) and Brazil’s relations with its neighbours. At the recent meeting of Fortaleza, the BRICS launched joint institutions similar to the IMF and the World Bank.

Europe is particularly exposed to the risk of a growing segmentation of the world market since it is the area most open to international trade.

The 2011 report “Reform of the International Monetary System: a cooperative approach for the twenty-first century” – known as the “Palais-Royal Initiative” and promoted by Tommaso Padoa-Schioppa, Michel Camdessus and Alexandre Lamfalussy – reopened the debate and influenced the actions of the G20 which launched the reform of the IMF’s structure. Making provision for a growing role by emerging countries, Europe (in a spirit of cooperation) accepted to reduce its representatives at the Council from 8 to 4. The reform, ratified by nearly all member countries, is awaiting ratification by the US Congress before coming into effect.

In 2015 the composition of the SDR “world currency basket” is due to be reviewed, currently made up almost equally of the dollar and the euro with small quotas of sterling and yen. Including the Chinese renminbi in the basket, followed by the other currencies of the BRICS, could be a small – but significant – step to advance the multi-polar system towards a greater awareness of the growing convergence of interests between the various areas in the world for a joint sustainable development, which could form the basis of the new Bretton Woods.

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