

# A New Bretton Woods

## Economies of scale

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To restore stability to the global financial system (and therefore to trade and the ecosystem) we need a “great transformation” to reverse the most pernicious elements of the failed “[globalisation](#)” experiment. Three pillars are vital to any new international architecture. They are:

- The taming of financial markets – through the re-introduction of capital controls; restraints in the growth of credit; and the establishment of a [Keynesian](#) international clearing agency;
- “Upsizing” the state – empowering governments to respond to democratic mandates by wresting power over decision-making from unaccountable financial markets, and restoring policy autonomy to elected governments;
- “Downsizing” the single global market – by introducing an international trading system based on the concept of “appropriate scale”.

Since Nixon unilaterally dismantled [Bretton Woods](#) in 1971 and defaulted on the US government’s commitment to meet its obligations in gold; and since the introduction of legislation to liberalise credit creation, financial markets have been liberated from social, political, and environmental constraints. As a result the world was turned upside down. The finance sector no longer acted as servant to the economy, but instead became its master. The tail wagged the dog.

To [restore stability](#), and to restore powers over economic decision-making to elected governments, it will be essential to reinstate and coordinate capital controls across borders. (Capital controls involve restraints on capital, and are different from exchange controls, restraints on the availability of foreign or local currency.) This can be done through a multilateral body such as the IMF and is not entirely new thinking. The control of capital movements remains a central mandate of the IMF, as outlined in Article 6, Section 3: “Members may exercise such controls as are necessary to regulate international capital movements.”

Second, we must urgently revive Keynes’s conception of an independent central bank – the international clearing agency (ICA). Third, we need an international currency to be used only for trading purposes, and not speculation – the [bancor](#).

Keynes’s ICA placed an obligation on countries to achieve balance in trade. Globalisation has generated massive destabilising surpluses in countries like China, and deficits in countries like the US and the UK.

The ICA would hold the reserve assets of governments centrally to constitute a mix of currencies, weighted by the volume of trade with each country. This means that the US would no longer act as the world's banker. Loans to the US (treasury bills) would no longer serve as the main reserve currency. These low-cost loans fuelled US consumption and the US deficit, and were financed in large part by countries with millions of poor, like China and India. The ICA would also act as an international "lender of last resort" and would serve to reduce the volume of speculative flows between countries.

Reversing globalisation means that states must be "upsized" – they must act to regain political autonomy. This means clawing back the power given away by legislators and central bankers to unaccountable players in international capital markets. Elected governments must instead respond to electoral mandates and pursue democratic agendas. To do so, they must manage currencies, interest rates, and external balances – all vital levers in stabilising an economy. They must have freedom to tax and spend and so meet democratically determined priorities. They must be freed to introduce environmental and social standards and regulations that promote social and economic justice and sustain the life support systems of the planet.

Meanwhile, the utopian project of a single global market needs to be dismantled. For the purposes of sustainability – economic and environmental – production, distribution, and consumption need to take place at the "appropriate scale". This could mean a move towards "localisation" – keeping production and consumption within an appropriate area, such as a country or sub-region; or it could mean promoting trade and investment within and between regions, in order to ensure fairer competition and reduce transport costs while maintaining some of the advantages of scale. While, inevitably some goods and services will be traded internationally, the bulk could be traded locally and regionally.

A system of "appropriate scale" takes into account the environmental costs of trade. Free trade was given a free ride by the global environment. That is no longer sustainable. Governments must be free to pursue the trade policies most appropriate to their climate, economy, and stage of development.

Such a great transformation is vital if we are to end the dictatorship of haute finance and once more protect the interests of society as a whole, and the ecosystem.

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