

We don't want another Bretton Woods

Representatives of some 20 nations are preparing to fly to Washington to erect a new architecture to house the world's financial system – “a new global order” was the description Gordon Brown used in Monday's speech at the Lord Mayor's banquet. To prepare for this meeting of the G20 industrialised and emerging nations, Europe's leaders gathered last week in Brussels and set down the principles they intend to have President Bush sign on to. And – get this – they gave America a 100-day deadline to agree to their plans. “We will be defending a common position, a vision... for reforming our financial system.” My guess is that the American hosts are about as intimidated by this show of unity as the West's enemies were by the announcement of the formation of the European army.

France and Germany want the International Monetary Fund (IMF) to become a global supervisor of regulators; “the pivot of a renewed international system” is the blurry phrase used so as to minimise offence to the Americans.

Mr Brown has an even bolder agenda. He calls for “global governance”; wants the G20 to agree to a co-ordinated stimulus package; and wants the IMF to become an international monitor

of the global economy, operating “an early warning system and a crisis prevention mechanism for the whole world”.

Two problems. The first is that the IMF wants no part of such a job. Dominique Strauss Kahn, managing director of the IMF, told the *Financial Times*: “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.”

The second is that economists are not very good at forecasting economic conditions. As Robert Samuelson points out in his new book, *The Great Inflation and its Aftermath*, economists have consistently made large and consequential errors when forecasting productivity, the non-inflationary level of employment, and other key variables.

Throughout post-war history, “the consequences of these mistakes were devastating”. When so accomplished a forecaster as former Fed chairman Alan Greenspan admits that he got it wrong, the anointing of an all-seeing international forecaster as a policy-maker does not automatically recommend itself.

It is, of course, impossible for Left-leaning economic planners who continue to lust after control, if not ownership, of the commanding heights of the



Europe's leaders are wrong to push for 'global governance' at the G20 meeting, says Irwin Stelzer

economy, to admit such fallibility. After all, if you can't predict the consequences of a pet scheme, it is difficult to persuade voters that the scheme is in their interests.

None of this deters the EU team, which is determined to take this opportunity to substitute the European model of capitalism for the less heavily regulated American version – a long-time goal of the French and one of which Mr Brown is wary, lest the City be stifled by regulation, and Mr Sarkozy's beggar-thy-neighbour protectionism slip into the policy mix. As Mr Brown pointed out, such protectionism

has in the past turned crises into deep recessions.

The new global order, those who have not studied history contend, is to be modelled on the Bretton Woods agreement of 1944. Never mind that the arrangements agreed depended heavily on some control of the international flow of capital, not feasible in today's globalised economy. Or that, as John Maynard Keynes, the architect of Bretton Woods, told the House of Lords, “We intend to retain control of our domestic rate of interest” – something that members of the euro zone have already forfeited and would like other nations, including Britain, to surrender in the interests of international co-ordination.

This is not to say that the meeting this weekend will be a complete waste of time. There is the intangible benefit of the creation of personal relationships that might contribute to future co-operation. Keynes's closing speech at Bretton Woods referred glowingly to “new friendships sealed and new intimacies formed”. Then, too, there is the fact that the G8 industrialised nations have finally recognised, as the Prime Minister put it so succinctly, “We need more than the G8”; that it is important to include emerging economies in such jamborees, both to tap their

huge currency reserves and to reduce grumbles about exclusion from the corridors of power.

But, in the end, this talking shop will reach no meaningful and binding decisions. The Bush Administration wants nothing to do with supranational regulatory authorities. Nor does the incoming Obama team have any intention of signing on to such a programme, either before it takes office or during the 100-day deadline that the EU has set.

Mr Bush is a gracious host, as the Obamas learnt when they visited the White House this week, and so will acquiesce in a pleasant but vacuous communiqué. But neither he nor, in all likelihood, his successor will want to replace the current quite flexible but more effective system of informal international co-ordination with a more rigid architecture.

And my guess is that John Maynard Keynes, surprised at the fact that there is a place from which he can look down on the proceedings, would endorse the scepticism of the American side. He least of all would want to see the world's leaders bound by “some academic scribbler of a few years back”, even if he would be that scribbler.

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