EU call for global financial regulation masks intra-European and international tensions

By Chris Marsden
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The European Union on Wednesday issued a call for a summit of the major economies to design a new system of global financial regulation, which EU leaders are calling "Bretton Woods II."

Following a two-day meeting of EU leaders, German Chancellor Angela Merkel declared, "We should have a meeting this year, preferably in November, of the heads of state and government of the G8 countries and the emerging markets to rethink the world's financial system and prevent any repetition of such things."

But despite the unity of the EU leaders behind the call for a "new Bretton Woods" and a global trade deal, the meeting in Brussels provided further evidence of the perplexity and impotence of Europe's leaders in the face of the plunge of the global economy into recession.

The EU summit confirmed the plans of the European powers to bail out their major banks at taxpayer expense, approving the €2.7 trillion rescue package initially agreed in Paris last Sunday. "The whole of Europe, without exception, approves the plan agreed on Sunday," said French President Nicolas Sarkozy, whose country holds the rotating EU presidency.

But these measures and similar initiatives by the United States have already failed to restore confidence in the markets. With growing evidence that the world economy is contracting and announcements of factory closures and rising unemployment, the EU summit met against a background of further major falls in share prices on European and Asian bourses. Its final day saw falls of between 5 and 11 percent in Europe, with Britain's FTSE index closing at its lowest level in five years, France's CAC 40 down 5.9 percent, Germany's DAX down 4.9 percent and Tokyo suffering its biggest one-day loss since 1987.

EU leaders within the euro-zone agreed to set up a financial crisis management unit to share sensitive financial information and seek a common response to the ongoing crisis. However, the EU summit failed to agree a unified plan to revive Europe's economies, and there was no discussion of measures to provide relief for tens of millions of workers who will be devastated by a severe recession.

Statements were made expressing concern about the "negative impact on real economies" by Danish Prime Minister Anders Fogh Rasmussen, while Sarkozy said, "We would be lying if we said we weren't looking at what is happening on the stock markets." But restoring confidence to financial markets was deemed to be the key to bolstering Europe's economy, a theme that was stressed by Britain's prime minister, Gordon Brown.

With the cost of "restoring confidence" climbing to trillions of dollars, what is actually on the agenda are tax hikes, mass layoffs and cuts in public spending. The relaxing of the EU's fiscal rules restricting budget deficits to 3 percent of gross domestic product (GDP) will be used to funnel finance to the banks in order that they can compete against their US and Asian rivals, not to alleviate the suffering of working people. Officials say that budget deficits will be allowed to exceed this limit by "several decimal points."

Any moves toward subsidising industry will have the same purpose—to bolster Europe's competitive position in relation to its American and Asian rivals. Responding to the US government's $25 billion loan guarantee to American-based automakers, Luxembourg's Jean-Claude Juncker said, "If the Americans massively support their car industry, Europe cannot not react." Within the EU itself, the financial crisis has intensified national divisions, threatening to undermine the foundations of European monetary unity. The claims that Europe has spearheaded a coordinated international response to the crisis are empty. In reality, governments have carried out unilateral actions to prop up their national banking systems, with each such move forcing the hand of the other governments to follow suit, for fear of a flight of capital to those countries offering the most generous guarantees to their banks.

The response of the United States to the EU summit's call for a new global regulatory framework was decidedly cool. "We will have an opportunity to discuss these—and the ideas of others—at the appropriate time," said White House spokesman Tony Fratto.

Within the framework of the general principles agreed by the EU, moreover, each national government retains full latitude to act as it sees fit to prop up the banks based within its own borders, undercutting the banks of other countries.

In this struggle over control of dwindling financial resources, the bigger countries will naturally have a massive advantage over the smaller ones, which will not be bailed out by the EU. Germany and Britain have both made clear that they will not countenance the continuation of the subsidies that have hitherto been the bedrock of the EU project.

That is why, even prior to the summit, there was open speculation in financial journals regarding the continued viability of the euro currency and of the EU itself. Ambrose Evans-Pritchard wrote in the *Daily Telegraph*, "We have reached the watershed moment when Germany has to decide whether to put its full sovereign weight behind the [European Monetary Union] project or reveal that it is not prepared to do so in a crisis.... This is a very dangerous set of circumstances for monetary union. Will we still have a 15-member euro by Christmas?"

Writing for the Associated Press, William J. Kole warned that "If the EU can't forge a common response to a collapse that transcends borders, involves multinational lenders and has pushed the euro currency down to its lowest level in a year, some wonder: What's the point of having an EU?"

Wolfgang Munchau in the *Financial Times* noted, "For Europe, this is more than just a banking crisis. Unlike in the US, it could develop into a monetary regime crisis. A systemic banking crisis is one of those few conceivable shocks with the potential to destroy Europe's monetary union."

Bretton Woods II

Financial breakdown, global recession and growing fault-lines within the foundations of the EU form the context within which the viability of European proposals for an overhaul of the world's financial system must be judged.

Prime Minister Brown and President Sarkozy are both claiming credit for urging the establishment of a new world system of financial governance and regulation. But aside from rhetoric and proposals for a shared set of governing principles, neither has articulated a substantive plan.

Brown, stressing that "Global financial markets present challenges that no one nation can solve in isolation," urged the adoption of a four-point agenda to "strengthen global cooperation and build a new global financial architecture for the years ahead—a new Bretton Woods, which recognizes the globalization of financial risk in the responsibilities of global institutions."

His four points consist of "a global early warning system" to deal with future financial crises, "globally accepted standards of supervision and regulation," "cross-border supervision" of the 30 largest banks and insurance companies, and "cooperation and concerted action" at a time of crisis.

He has called for reform of the World Bank, for the IMF to be rebuilt as "fit for purpose" and for other national regulators to work more closely together.

His proposals are to be put for discussion at the forthcoming G8 summit to be held either in November or December, which he wants extended to include China and India, which are expected, in return for their inclusion, to foot part of the bill for future economic crises.

Brown's schema and his talk of a "Bretton Woods II" ignore the vast changes that have occurred in world economy over the past half-century.

The system of financial regulation established at the 1944 conference of allied powers in Bretton Woods, New Hampshire was forged under the financial hegemony of the United States. Conceived of as a means of ensuring against a return to the Depression of the 1930s and the unbridled economic conflicts between nations that had led to the Second World War, it proceeded from the vast and unrivalled economic resources and industrial might of American capitalism.

Under conditions of the wartime devastation of European and Japanese capitalism, the United States was in a position to sponsor the reconstruction of world capitalism, on terms favourable to its own interests. This was epitomised by the establishment of the dollar as the world reserve and trading currency, backed by gold.

Bretton Woods was an attempt to overcome the general historical decline of the world capitalist system on the basis of the strength and dominance of the US as the most powerful capitalist nation. However, in rescuing Europe and Japan in order to ensure the markets on which its industry relied, the US inevitably set in motion processes that undermined its own economic supremacy.

By 1971, the decline in the relative position of the United States in the world economy was expressed in America's inability to back its pledge to redeem dollars at the fixed rate of $35 per ounce of gold. The US removed the gold backing from the dollar, and the Bretton Woods system collapsed.

In the ensuing decades, the US bourgeoisie sought to overcome its economic decline by turning to ever more grotesque forms of economic parasitism and speculation. Today, the industrial decline of the US and its transformation from the world's leading creditor to its largest debtor means that, rather than being in a position to rescue the world capitalist system, the US is dragging its economic rivals into the abyss.

Neither can the role previously played by the US be assumed by a coalition of European powers. Not only have they travelled the same route as Wall Street into speculation almost entirely removed from the creation of real value, but they are also incapable of overcoming the national antagonisms unleashed by the economic crisis.

As for China, its economy has proved to be tied more than any other to crisis-ridden US capitalism, holding the bulk of America's debts and relying heavily on the American market for the export of its manufactured goods. Its financial markets have lost fully two-thirds of their value since October last year.

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