

Urgent Reasons for A New Bretton Woods

The following is Hon. Mario Lettieri's speech to the Italian Chamber of Deputies on March 14. It was translated from Italian, and subheads have been added.

Mr. President, it is well known that last year was the anniversary of the founding of the Bretton Woods system, with which, in 1944, the global economic and financial structure was planned. Bretton Woods, despite certain monetarist conceptions, was first and foremost intended as a system for economic reconstruction, supported above all by the President of the United States, Franklin Delano Roosevelt.



Hon. Mario Lettieri

The goal was the development of the real economy of nations, which finance and credit were to support and promote. Unfortunately, this is not what happened, or at least, not what always happened: Large-scale international finance, after the death of Roosevelt, immediately began to undermine that spirit of growth that was intended not only to overcome colonialism, but also to defeat the misery and underdevelopment of the countries of the Third and Fourth Worlds.

The reality, unfortunately, is quite different; the data is dramatic, especially if we look at the countries of Africa and Asia: There are still wars, misery, disease, and death. I will spare you the numbers, which have been abundantly published both in the specialized press and in other media.

Stop the Collective Insanity

In 1971, Nixon decreed the end of the Bretton Woods system, and that opened the doors to large-scale speculation, and big financial bubbles. In recent years, people have reached the point of even believing that wealth is no longer produced by work, industry, agriculture, and the application of scientific and technological research to productive economic sectors, but rather by stock markets and finance. In my view, we are faced with a true case of collective insanity, which must be cured at the international level.

Today, reflection is beginning on this issue, and not only in our country. I am thinking, in the United States of America, of an important economist and Democratic politician, Lyndon

LaRouche, who has promoted an international campaign, called “For a New Bretton Woods: the alternative to the global financial crash—Large-scale Eurasian infrastructure projects.” A New Bretton Woods must therefore strive for a system that restarts development of the real economy of nations, and therefore reduces, especially, the delays in developing countries. To this end, the credit system is essential; it must supply long-term credit at low interest rates, to promote large-scale projects, infrastructure networks, and productive investment for research, education, and health care. This is the scenario in which the motion presented a year ago was conceived.

The Derivatives Bubble

However, one year later, not only do we find confirmation of what we had written and what I presented in my first intervention, but unfortunately, we must also observe that the systemic financial crisis is producing shocks on the markets in an increasingly significant and negative manner, with increasingly serious and uncontrollable consequences, at a level which clearly goes beyond that of Italy.

The gap between the real economy and the economy based on financial speculation is of an almost inconceivable magnitude. Along with the overall numbers, the exponential rate of growth of these values is a further source of concern. In the motion, we reference the official report of the Bank for International Settlements in Basel (the famous “Central Banks’ Bank”), entitled: “OTC (Over the Counter) Derivatives Market Activity in the First Half of 2003.” These are the contracts negotiated outside of the official markets, and thus not registered. Well, in this report from Nov. 12, 2003, the following notional values of OTC derivatives are reported, in billions of dollars: June 2002: \$127,500; December 2002: \$141,700; June 2003: \$169,700; that is, an increase of \$42 trillion in 12 months!

The most recent report available from the BIS, on derivatives at the end of December 2004, brings the total of contracts open at the end of June to over \$220,000 billion: an enormous, scary amount, which highlights an increase of \$50,000 billion more in 12 months!

It is definitely important to emphasize that, at the end of June 2001, according to the official BIS reports, OTC derivatives were \$100,000 billion. Thus, in three years, there has been an increase of \$120,000 billion, equal to three times world GDP!

Those who now speak of derivatives as simply operations for covering risk are certainly on the wrong track: Derivatives are the greatest risk for the entire financial system, and even in the Italian situation, which is limited, an investigation launched by the Finance Commission recently revealed that about 100,000 small and medium-sized enterprises have been victims of the resort to the derivatives market in recent years, not to mention certain local governmental institutions; but we will have time to discuss this when the Commission completes its investigative activity.

In April 2004, it was again the Bank for International Settlements which collected the data supplied by 52 central banks and published a three-year investigation by the Central Banks of the foreign exchange and derivatives markets. Here are the official results and variations over three years: The daily volume of foreign exchange markets increased by 57%, reaching a daily volume of \$1,800 billion; the daily volume of OTC financial transactions (which are not registered) increased by 112%, reaching a daily level of \$1,200 billion.

The leading market of course, is London, which is almost twice as large as the American market. The BIS declared that it was quite worried because the speculative funds, the so-called hedge funds, have an increasing importance in these operations, to the point that 43% of all contracts do not involve a bank, but rather a hedge fund or insurance company as one of the counterparties. And this is a worrying fact, since banks, although they can be criticized and need to be more transparent, do offer a minimum level of guarantees, unlike these funds.

Another report prepared by the BIS, on March 8, 2004, indicates that the overall turnover for 2003 reached \$874,000 billion, an increase of 26% over the previous year.

I realize, Mr. President, that hearing me speak about all of these thousands of billions of dollars has a certain effect; it probably leads to people not being fully conscious of the significance of these truly enormous amounts, but these are numbers on which all of us, and especially the monetary authorities and governments, should reflect.

Consider what has happened with certain large banks; for example, Morgan Chase alone, has increased its derivatives exposure by about \$10,000 billion, almost the size of U.S. GDP. The total value of derivatives exposure is thus larger than world GDP: We are faced with a situation in which, if there were crises that could lead to a crash, the situation would cause a global financial breakdown, with devastating effects on the economy, wealth, and life of many countries. Thus, we can see that the analyses I cited earlier are actually intended to mitigate the true danger, by indicating the net risk of all the operations as only \$804 billion.

There Is a Solution

In conclusion, without going any further in citing statistics which have all been reported in official documents of not only individual banks but also central banks, I believe that the spirit of the motion presented and signed by myself, as well as by about fifty colleagues from all the Parliamentary groups, is aimed at committing our government to act at the international level so that a new phase be initiated, a New Bretton Woods, so to say, that aims above all at relaunching economic growth and productive economic activity, defeating poverty in the countries still afflicted by it and guaranteeing economic stability to all countries; otherwise the “financialization” of the economy truly risks impoverishing nations and worsening living conditions, and obviously consigning the citizens of

Third World countries to a situation of further decline and abandonment.

Just think of the events which have dramatically affected about 1 million Italian small investors; I am referring to Parmalat, Cirio, Giacomelli, and the events that involved Banca 121 and the holders of Argentine bonds. The fact that a sovereign state such as Argentina registered a situation of bankruptcy says a lot about what is happening. How many other countries run this risk? This is a question that should disquiet and worry us. We are not a happy but isolated island, and Europe and the West must remedy the policy of speculation and speculative bubbles that are continuously repeated, and that certainly end up damaging the real economy.

Therefore, a New Bretton Woods cannot but begin with an operational meeting of the governments of the most advanced nations, not only those of the G-8, but it would be appropriate to also open the discussion to others. To this aim, I would mention that important countries such as China and India have appeared on the international scene in a pressing manner, and they will have something to say on this subject, as well as on trade matters.

Although the problem is that of reviewing the rules of the global market, tariffs are certainly not necessary. On this subject, I find it absurd that a Minister of this government is proposing the imposition of tariffs: This means that he is certainly out of this world. In a globalized economy such as the one we have today, tariffs are not necessary, but rather we need clear rules which bind nations and economic participants.

So, a New Bretton Woods should act to reorganize the entire system based on bankruptcy reorganization rules, in order to favor productive activities over speculative ones. This should include the introduction of rules regarding financial movements and controls on trade flows (on this matter, as I already said, we don't need tariffs, but rather rules of behavior). It should also include taxation of income deriving from purely financial operations. On this point, I remind you that the Finance Commission is discussing a series of proposals that aim to introduce a sort of Tobin tax. Taxation on purely financial operations is therefore a path which must be taken in order to limit and regulate the phenomenon. Finally, the reorganization should include a series of tax incentives for investment in production and technology, especially for medium- and long-term investments. A new banking and financial system must be created so the system favors development, not speculation. To achieve the convocation of a conference at the level of heads of state and government, similar to the one held in 1944, the Italian government must also act.

Wage War on Poverty

Today, unfortunately, war is still present in some parts of the world, and this constitutes a serious situation that contrasts with what is sanctioned by the Italian Constitution, which establishes that Italy rejects war. I do not intend to polemicize

over the presence of our military in Iraq; this was already discussed a short time ago, and thus I will spare you my considerations of strong opposition on this issue. At the time of Bretton Woods we were emerging from a war; today we have the duty to carry out, with just as much determination, another war: a war on poverty and misery, present in so many parts of the world, especially on the African continent and in Asia, in order to achieve a better coexistence between the peoples of the world and guarantee the right to an acceptable quality of life for everyone.

This is the sense of our motion. There is a risk of a systemic global crash of the financial sector, which could have effects much worse than those which took place following the Depression of 1929-33. I believe that there is no time to be lost, and I hope that the motion under consideration, which has also been signed by colleagues belonging to political groups in the Parliamentary majority, does not find us divided—these are not ideological questions!—but rather united in committing the government to moving in the direction indicated, conscious that that is the right direction!