

Adrian Hamilton: Don't count on a new Bretton Woods

Without Obama, this weekend's economic summit is Hamlet without the Prince

Let us assume – because it is now the accepted wisdom – that the world cannot be the same after this credit crunch, that its international institutions will have to be radically revised, that the balance of power has shifted to the East and that a new President of the US opens up whole new world of possibilities of multilateralism.

What no-one seems prepared to say, however, is exactly what all this means in practice. Gordon Brown has talked grandly of new global institutions for a new global age (with himself leading the way together with the US). President Sarkozy has blithely pronounced that the Anglo-Saxon model of unregulated markets has been found wanting and a European-style controlled capitalism must be developed to take its place. Others have talked sweepingly of the death of western capitalism and the installation of a whole new Bretton Woods agreement for controlling capital flows and dispersing aid.

Well, that may or may not be the end result of the seismic shifts going on in the world's economy. But you only have to look at the world leaders now gathering in Washington to see how far we are from any such revolution. Yes, the fact that 20 countries are meeting together is proof of the world's wish to co-operate and co-ordinate their responses to the global recession. But co-operation in meeting the recession is a long way from embracing a new world order.

It's easy to talk of a new Bretton Woods, but that agreement, it should be remembered, was born in 1944 out of the devastation of the Second World War and the emergence of a US that was richer and more powerful economically than virtually the rest of the world put together. The international community, victors and defeated alike, was desperate for a way to the future and Washington had both the resources and the leadership to guide them there. A system of fixed exchange rates was established as a framework for international capital flows and the IMF and World Bank set up to channel aid and support struggling economies.

None of that applies today. Fixed exchange rates collapsed 30 years ago and would be almost impossible to re-institute today, even if the dollar were still the undisputed currency of the world. America, which has been the source of so many of the financial woes that have beset virtually every other country, has neither the authority nor the funds to institute a new world order.

Indeed it hasn't even got a government with the authority to launch great international initiatives at this moment. If Barack Obama has declined even to attend the Washington conference this weekend, it is not just because he wishes to observe the precise proprieties of there being only one President at any one time. It is that he has no intention of being drawn into open-ended commitments at the behest of a Bush administration he is determined to keep his distance from. Without him the summit is Hamlet without a prince.

The belief – the hope if you prefer – that Obama will bring a decisive shift in US policy towards multi-polarity rests in any case on a misunderstanding of his position and his policies. The new President has been voted in by an electorate above all concerned with its own problems of recession. The president-elect certainly represents change if for no other reason than he will dispense with most of his predecessor's obsessions and confrontations. But that does not mean he is

ready to give up America's pre-eminence by ceding power in all sorts of reformed or novel international institutions, from the UN to the World Bank. He isn't. Nor can he be. His primary responsibility is to help his own people through dire times and there he will concentrate his focus, as we can see from the early spat between himself and Bush over aid to General Motors.

And in that, it has to be said, he is no different from most of the 20 nations attending the Washington summit. The credit crunch has had a Janus-like effect on the countries concerned. On the one side, the global nature of the financial crisis has drawn the world closer together. All sorts of countries who never thought they would be dragged into the banking problems of New York have nevertheless found themselves swept up by the ensuing maelstrom of credit crunch and economic recession. They want help, and even more reassurance, that the world's leaders will act to protect them.

On the other hand, the instinctive response of most countries is to concentrate on their own difficulties. Precisely because most countries do not feel themselves responsible for the crunch, they feel wary of being sucked in by the perpetrators in the solution.

The sense of being in this together will encourage moves to co-ordinate plans to prop up the banks and reflate economies through interest rate reductions and tax cuts, in marked contrast to the beggar-my-neighbour policies which propelled the 1929 crash into the 1930s recession. It will also encourage moves to impose tighter controls on the banking industry and a degree of co-operation on monitoring capital flows and adjusting exchange rates.

But the way in which countries feel recession individually will equally stall efforts at a grander programme of controls on capital movements, limits on exchange rate movements and more supra-national direction of finance. Of course countries such as China, India and Brazil want a greater say in international institutions such as the IMF, even more so after the present debacle. But, believing that they have been the victims not the authors of their woes, they are in no mood to sink their own sovereignty in global institutions, just because the US and Britain may wish to share out the burden of their own mistakes.

At the Lord Mayor's Banquet this week, Gordon Brown banged on about how this was a moment when "together we rise to the new challenges by purposeful, visionary, and international leadership, leaving behind the orthodoxies of yesterday", and then promptly declared that the "alliance between Britain and America" should and would provide leadership in this – which is nothing if not a orthodoxy of yesterday.

Change will come. In a cascading world, institutions will have to adapt and expand their membership if they are to survive. But it won't be in the form of a new Bretton Woods orchestrated by the old Anglo-American alliance. Those days are over.