Global economic turmoil

Cold water treatment for Clinton plan

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US President Clinton's call for concerted action by the major capitalist powers to confront the global economic crisis seems to have fallen on deaf ears.

In a major address to the Council on Foreign Relations in New York last Monday Clinton said the growing economic turmoil was 'the biggest financial challenge facing the world in a half century'. He called for collaboration between the US, Japan and Europe to 'spur growth'. His remarks were timed to coincide with a statement from a meeting of G7 finance ministers and officials in London that called for co-operation to 'reinforce existing programs in support of growth-oriented policies'.

This was widely interpreted as signalling a push to cut interest rates and increase government spending. But since the speech central bankers and finance ministers have been pouring cold water on the idea.

The president of the German Bundesbank, Hans Tietmeyer said he saw no reason for an interest rate cut in Europe as the situation there was different from Japan and the US. The deputy governor of France's central bank, Herve Hannoun, immediately supported his comments.

British Finance Minister Gordon Brown also cast doubt on interest rate cuts. 'There is both a concern about what is happening and a preparedness to take action where it is necessary,' he said, 'but we must not either take the precipitate action that was taken at other times which led to serious results in the late 80s.'

Brown was referring to the aftermath of the October 1987 share market crash when central banks cut interest rates to prevent a repetition of the events of 1929. World financial markets did rebound, but the rapid expansion of credit had other longer-term consequences. It was the chief cause of the Japanese share market and asset bubble, whose collapse in the early 1990s has now led to the virtual insolvency of the Japanese banking system under the weight of bad loans estimated to be as much as $1,000 billion.

Besides getting the thumbs down in Europe, the biggest blow to the Clinton-G7 initiative appears to have come from the United States itself. In testimony given to the House Banking Committee on Wednesday, Federal Reserve Board chairman Alan Greenspan said there was no plan 'at the moment' by the leading central banks to co-ordinate interest rate cuts.

The conflicts over the Clinton proposal reflect deep divisions and perplexity in the ruling classes over what action needs to be taken to meet the growing financial crisis. According to the representatives of the banks and financial institutions, the crisis is not the outcome of the operation of global markets as such, but a lack of proper financial supervision and firmly established international practices.

Opponents of this view insist that if left to itself the market will produce a downward economic spiral as the financial crisis brings recession and even depression. The chief danger to the world economy, they maintain, is deflation--falling demand, leading to a decline in prices and asset values--and the creation of overcapacity in all sections of industry. Therefore, to combat deflation interest rates must be cut to encourage business and consumer spending, combined with a lift in direct government spending.

But an examination of the state of the world economy, and the deepening conflicts between the major capitalist powers--Japan, Europe and the United States--reveals that there are real barriers confronting any attempt to produce a global stimulus package.

In Japan the central bank has already cut overnight interest rates from 0.5 percent to just 0.25 percent, while the interest rate on 10-year bonds has already fallen below 1 percent. And the stimulus packages initiated by the Japanese government over the past five years--greater in size than the New Deal of the 1930s--have failed to prevent the deepest recession in the post-war period.

While the Japanese government is **unable** to join a stimulus program, the European capitalist powers are **unwilling** to do so. Interest rates are already at near historic lows of 3.3 percent in France and Germany, compared to 5.5 percent in the US. At the same time the European powers are opposed to increased spending, having imposed major cuts in order to meet the financial criteria to enable the launch of the single currency, the euro, next year.

And the launch of the euro raises another impediment to unified action. Not the least of the aims of the European powers is to establish an international currency that can challenge the global dominance of the US dollar. If interest rates are cut and government spending increased, the euro will be seen as a 'weak' currency.

While these considerations do not feature in the public utterances of the G7 powers they are never far from the surface. For example, in an editorial published on Wednesday, warning of the potential danger for a weakening of the US presidency arising from what it termed the 'Lewinsky affair', the *Financial Times* cautioned the European Union to avoid 'provocative gestures' and to eschew 'loose talk about the euro becoming a rival to the dollar'.

But the main impediment to stimulatory action to halt the global slide into slump is not in Europe or Japan but in the United States itself. Concluding his speech to the Council on Foreign Relations, Clinton recalled the immediate post-war period when the United States re-organised the world capitalist economy and laid the foundations for a new period of expansion. Just as 'the World War II generation did it for us 50 years ago,' he said, now it was time to 'rise to our responsibility' and 'redeem the promise of the global economy'.

The United States of the immediate post-war period and the United States of today form a striking contrast. Fifty years ago, America was the dominant power of world capitalism, with massive trade surpluses and capital reserves which were able to finance global expansion. It enters the present crisis with a balance of trade deficit set to reach $250 billion for 1998 and possibly go over $300 billion by 1999.

Fifty years ago the United States was the world's biggest creditor and source of capital. Now it is the biggest debtor. Last year foreign-owned assets in the US exceeded its foreign assets by over $1,300 billion and the negative position of the US on international investments is expected to reach at least $2,000 billion by the end of 2000, more than twice the value of exports.

At the end of World War II, the United States played the leading role in establishing the International Monetary Fund and the World Bank to set in place the financial structures for economic expansion.

Today, when, in Clinton's words, world capitalism faces its greatest financial challenge in half a century, the US Congress is still refusing to approve an additional $18 billion for the IMF, despite the fact that it has all but run out of money. The IMF has less than $9 billion to meet new calls for assistance.

Fifty years ago, the leaders of world capitalism had a program for the reconstruction of world capitalism and established organisations to implement it. Today, the crisis of the global capitalist order is nowhere more graphically expressed in the fact that these organisations themselves are breaking down.

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