

Rhetoric but no action on global financial problems at G8 summit

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Annual economic summit meetings of the major capitalist powers were initiated in 1975 in the immediate aftermath of the first oil price shock and in the midst of the global recession of 1974-75—to that point the most serious economic downturn since the 1930s depression.

The idea behind them was that the leading industrial nations would co-ordinate their economic policies to manage the world economy, curb swings in the business cycle and thereby prevent the emergence of economic crises, or at least moderate their effects when they did take place.

Accordingly, one might have thought that this year's G8 summit, held at a record cost of \$US750 million on the southern Japanese island of Okinawa, would have seen a series of proposals for action to deal with major problems in the global capitalist economy. After all it was being convened less than two years after what US president Clinton called the most serious financial crisis in the post-war period.

Moreover, this crisis was the latest in a series that rocked the world financial system in the 1990s. In 1992, there was the crisis of the British pound, which forced its withdrawal from the European exchange rate mechanism and severe financial strains in the Scandinavian banking system. Then came the turbulence in the bond markets in 1994 and the Mexican crisis of 1994-1995, followed in turn by the Asian and Russian financial crises of 1997-98, which, but for the intervention of major banks to bail out the US hedge fund Long Term Capital Management in 1997-98, could have resulted in “systemic risk” to the global banking and financial system.

More than enough reasons, one would think, for a co-ordinated plan to undertake what has been dubbed “reform of the global financial architecture.”

But nothing of the sort eventuated. Indeed a kind of inverse law appears to be operating: the more serious the signs of problems in the global financial system, the

further away from a co-ordinated response the major capitalist powers have moved.

The summit's final communiqué consisted of pledges to reduce debt in the poor countries, open up new opportunities for the use of information technology (even leading to the establishment of a Digital Opportunities Task Force, or dot force), take action to improve health prospects, fight against poverty, and a series of other such statements.

Adopting a celebratory tone on the prospects for the world economy, it declared: “During the last quarter of the 20th century the world has achieved unprecedented levels of prosperity, the Cold War has come to an end, and globalisation has led to an emerging common sense of community. Driving these developments have been the global propagation of those basic principles and values consistently advocated by the Summiteers—democracy, the market economy, social progress, sustainable development and respect for human rights.”

It was necessary, the statement continued “to build on our basic principles and values as the foundations for a brighter world in the 21st century.”

In the midst of worsening social conditions for the majority of the world's people, the resurgence of old diseases such as TB and the devastation brought by new ones such as AIDS, the eruption of ethnic and national conflicts fueled by poverty and economic breakdown, and the growing social inequality in all the major capitalist countries, the communiqué sounded like an exercise in self-parody.

While it was forced to acknowledge that “financial and economic crises of the past few years have presented enormous challenges for the world economy”, no concrete action was proposed. Instead there was merely a reassurance that, together with “many of our partners around the world, we have devoted ourselves to alleviating the adverse effects of the crisis, stimulating

economic recovery, and identifying ways to help prevent future upheavals, including measures to strengthen the international financial architecture.”

Serious observers of the world economy, however, are well aware that such statements amount to meaningless blather.

As the London-based *Financial Times* commented in an editorial published on July 7 in the lead-up to the summit: “The imbalances and structural obstacles faced by developed and emerging economies alike are a reminder that however good the economic outlook, the potential for another crisis is always present. Domestic reforms are the best way to prevent disaster. But action can also be taken at an international level, to reduce the risks of imbalances building up, and to deal with crises more effectively when they do occur.

“A host of ideas for reforming the global financial architecture following the Asian and Russian crises have come to almost nothing. The leading G7 countries have so far lacked the will to tackle the really difficult issues, such as involving the private sector in crisis resolution, or changing the way the International Monetary Fund lends to cash-strapped economies.”

The reason no co-ordinated action could even be seriously addressed, let alone implemented, lies in the deep divisions among the major powers. Those divisions erupted to the surface last December with the collapse of the ministerial meeting of the World Trade Organisation in Seattle. Called to launch a new round of trade talks, the WTO gathering broke down when the US, Europe and Japan were unable to resolve their differences over rules to govern trade and investment.

Nine months after the Seattle debacle, the final communiqué of the G8 summit sought to cover over the divergences with a declaration that: “We agree to intensify our close and fruitful co-operation in order to try together with other WTO members to launch ... a [new] round during the course of this year.”

But even here there were disagreements, with some of the G8 participants calling for a statement that a new round would be “desirable” before the end of the year, rather than that the G8 would merely “try” to achieve it.

As for the substantive questions of trade, labour standards, investment rules, anti-dumping regulations and competition policy, on which the Seattle meeting foundered, all the differences remain and have widened, rather than narrowed, since then. And they came to the surface with the failure of the summit to reach agreement on the issue of genetically modified foods. France,

Germany and Italy have insisted that the spread of GM foods should be governed by the “precautionary principle”, while the US and Britain have demanded that “science” prevail over “prejudice”.

While the final communiqué adopted a self-congratulatory tone, concerns have been raised elsewhere about the underlying stability of the world economy. In a comment entitled “Blue sky in Okinawa”, *Financial Times* columnist Barry Riley drew attention to a number of “looming economic clouds” on the horizon.

Despite the fact that economic growth in the year 2000 in the leading capitalist countries was expected to be the highest since 1988, the stock markets were “drifting aimlessly”, the Japanese banking crisis was rumbling along “interminably”, with the bankruptcy in one week of two major corporations holding combined debts of \$22 billion, inflation was rising in Europe and the US trade deficit, which hit a new record of \$31 billion in May, was widening, requiring an annual inflow of foreign capital of \$360 billion.

He noted that the new edition of the J. P. Morgan quarterly review *World Financial Markets* pointed out that twice in the 1990s global industrial production had decelerated sharply, by about 6 percentage points within a year. “Hope springs eternal; but it is not easy to believe that the global economy is any more fundamentally stable in 2000.”

While it might be argued that the “variable pattern” in the world economy “adds up to a healthy degree of diversity among the major economies” another way of looking at the contrasts “is that they signal precious little co-ordination” with the prospect that “more dangerous things could happen if the US private sector debt bubble gets into trouble.”

“If trouble emerges,” he concluded, “it will come, as in the past, unexpectedly and from a clear blue sky.”



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