

# G-7 meeting keeps silent on major problems

Nick Beams  
13 February 2002

The meeting of the Group of Seven finance ministers and central bank governors in Ottawa last weekend took place amid a series of problems, which, by any objective standard, must rank among some of the most serious to have confronted the world capitalist economy in the post-war period.

The Enron collapse, the largest corporate failure in US economic history, has sent shock waves through the American economy as the profits and earnings figures associated with the so-called “new economy” of the latter half of the 1990s are increasingly called into question.

The default of Argentina is the largest sovereign nation default in history. In some ways, even more significant than the default itself was the fact that it came in the wake of a decade of IMF-imposed policies backed by the governments and banks of the G-7.

Furthermore, the G-7 met as official figures in Japan made clear that the economy had moved into its third recession in a decade as deflation fears drove down the value of stock markets to lows not seen in 18 years, and threatened to set off a major banking crisis.

It might have been thought that any one of these events would have occasioned major discussion at a meeting involving the world’s most powerful financial figures. But it seems that the G-7 operates according to the maxim: the more serious the situation, the more anodyne the phrases in the official communiqué.

In their statement the finance ministers said prospects for “resumed expansion” had “generally strengthened”. While noting that “risks remain”, they committed themselves to “remain vigilant” and to “take appropriate steps to promote a strong and sustained recovery.”

Prediction of an upturn—one press report even claimed that a “drumroll of optimism rumbled through the corridors” of the meeting—seem to be based on not much more than the 0.2 percent expansion of the US

economy in the last quarter of 2001 and the assertions of US treasury secretary Paul O’Neill that the American economy will return to growth rates of 3 percent to 3.5 percent later this year.

O’Neill was not the only official talking up economic prospects. According to European Central Bank president Wim Duisenberg: “It is now safe to say that the risk of a recession in the world economy, which could be ruled out in late 2001, now seems to have faded away.”

And what of the largest sovereign nation debt default in history? “We welcome as steps in the right direction recent announcements by Argentine authorities,” the official statement declared. “We encourage them to continue to work closely with the International Monetary Fund (IMF) and the international community on a financially and socially sustainable economic reform program that will enhance prospects for growth and future foreign investment.”

Of course, no mention was made of the fact that the Argentine disaster is the outcome of IMF policies imposed over the past decade. When asked whether the crisis could have been prevented, US treasury secretary Paul O’Neill replied: “I don’t know what else could have been done.”

While the prospect of world recession was declared to have faded from the scene and the Argentine disaster was passed over, the continuing recession and financial crisis in Japan did not even rate a mention in the G-7 statement.

In its report of the meeting, the *Wall Street Journal* noted that the G-7 “usually provides an assessment of economic conditions in key G-7 zones in its quarterly statements, but some officials said privately that it held off on doing so this time, partly in a bid to avoid embarrassing Japan, the world’s second-largest economy.”

Like other Japanese financial officials appearing at

G-7 meetings over the past decade, finance minister Masajuro Shiokawa said he had given a detailed description of Japan's economy and the proposals to expedite disposal of non-performing loans and tackle deflation.

"At the outset, I asked for questions and for suggestions," he said, "but there were none. Everyone was busy taking notes and nodding appreciatively."

Apart from the ever-present threat of financial collapses, the other major danger to the world economy emanating from Japan is the slide in the value of the yen. Its 15 percent decline in the last five months has prompted fears that China could be forced to devalue its currency in order to remain competitive in international markets, setting off a round of devaluations throughout the East Asian region.

But these problems seemed not to figure in discussions. As one report noted, the meeting gave foreign exchange markets "very little to chew on, indicating merely that they did not want to see volatile markets." In the words of the statement: "We will continue to monitor exchange markets closely and cooperate as appropriate."

However, the G-7's lack of analysis, not to speak of initiatives, is not so much a result of the incompetence of the major financial authorities. Rather, it is an expression of the intractable problems confronting the world capitalist economy as can be seen from a review of the economic history of the recent period.

Taking the decade of the 1990s as a whole it falls into two halves. In the first period, the East Asian "economic miracle", fueled by the inflow of Japanese and later US funds, contributed as much as 50 percent of world economic growth. However, after 1995 and the revaluation of the US dollar, the chief source of economic expansion became the financial boom in the US—a trend which accelerated after the Asian crisis of 1997-98.

According to calculations by Morgan Stanley economists, the growth in US gross domestic product was responsible for about 40 percent of the cumulative increase in world GDP in the five years ending in mid-2000, twice America's share of the global economy. In this period, demand growth in the US was 4.9 percent compared to 1.8 percent in the rest of the world. In other words, US economic expansion pulled the rest of the world behind it. That process has now

ended.

Where is a new source of global expansion to be found? Certainly not in Japan, which is falling deeper into recession and is expected to announce at least a 1 percent economic contraction for the financial year ending on March 31. Europe may experience an upturn in the coming months, but not nearly enough to sustain a global expansion.

That leaves only the United States. Here industry is cutting back investment because of overcapacity and consumer spending is being financed by record levels of debt. An increase in US growth levels sufficient to lift the world economy would lead to a further rapid widening of the US balance of payments deficit—presently running at about 4.5 percent of GDP. Such a payments gap would in turn require an increased financial inflow from the rest of the world—now at between \$1 billion and \$2 billion per day—to sustain it.

In other words, a serious examination of the immediate problems confronting the world capitalist economy shows that they arise from deep-seated contradictions. Perhaps that it is why the G-7 ministers and financial officials thought it best to try to pass over them as quickly as possible.



To contact the WSWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**