Worsening global economic problems see G8 divisions deepen

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The meeting of finance ministers from the G8—the seven major industrial economies plus Russia—held in Deauville, France over the weekend was illustrative of two significant trends: the deepening divisions among the major capitalist powers and, even if they could reach agreement, their growing impotence in the face of the problems besetting the world economy.

The outcome of the meeting, which is to be followed by the G8 heads of government summit in two weeks time, was succinctly summed up in a report in the *Australian Financial Review* published on Monday:

"The finance ministers made it clear there was no prospect of any coordinated monetary, fiscal or currency policy action, despite the extreme pressure being brought to bear on the European and Japanese economies by the steep slide in the US dollar against their currencies."

Since the start of the year, the dollar has lost 9 percent of its value against the euro and is now about 25 percent below its level of a year ago and 40 percent off its peak value reached in late 2000. This means that European exporters have seen their profits in US markets sliced by as much as a quarter, while domestic producers face stiffer competition from US exports.

US treasury secretary John Snow did nothing to allay suspicions that, despite official adherence to the "strong dollar" policy, the US administration welcomes the currency's fall. In fact, he contributed to its further weakening by describing the dollar's recent decline as "a modest realignment."

There was no mention of currencies in the final communiqué and the finance ministers came to an agreement that no one would mention the dollar in their comments after the meeting.

Reading from his speaking notes, German Finance Minister Hans Eichel declared: "It says here, in brackets: 'If the question of exchange rates is raised by journalists, all regions have made comments on their policies and stance on exchange rate issues in the past days. As G8 there is nothing to add.'"

The final communiqué was patched together from the meaningless phrases which have increasingly accompanied these meetings. The ministers declared that, while their economies faced "many challenges," they were "nonetheless confident in the potential for stronger growth." Specifically, the United States would act to create jobs and encourage savings and private investment, Japan pledged to continue structural reforms and "intensify its efforts to combat deflation," while Europe would work to create a more "flexible" economy.

Observing these gatherings, one might think that a new law of international political economy is at work: the more serious the problems of the global economy, the less the representatives of the major capitalist powers have to say, much less do, about them.

Apart from the growing disturbances arising from the fall of the dollar, this meeting was held amid clear signs of a global recession. As the meeting convened, figures were released showing that the economies of the Netherlands, Germany and Italy had all contracted in the first quarter with growth rates of -0.3, -0.2 and -0.1 percent respectively. The Netherlands and Germany are now officially in recession, having experienced two consecutive quarters of negative growth.

The failure of European policymakers to initiate measures to counter the stagnation brought a scathing editorial from the British *Financial Times* (FT) last Friday. It said they were "living in a parallel universe, one inhabited by permanently deluded optimists."

Last week, it noted, European finance ministers said that an economic recovery in the second half of the year was “increasingly likely”, forgetting “that they have been making similar predications about the future since the start of 2001, only to have to revise down their forecasts repeatedly.”

The European Central Bank (ECB) “is no better” with its latest monthly bulletin predicting a gradual strengthening of gross domestic product to start later in the year and gathering pace in the course of 2004. “Those who drafted this editorial,” the FT continued, “did not need to look far for inspiration: last November’s bulletin concluded that ‘growth is expected to return to rates close to potential in 2003’; and a year ago the ECB concluded that ‘solid growth rates should be attainable in 2003.’”

The FT editorial warned that the danger facing the eurozone was that it would “fall into a long period of stagnation where everyone blames someone else for the economic woes”. That happened in Japan in the 1990s and there were now signs of a European version.

While it is still experiencing positive growth rates, the US economy is sending out its own warning signals, with figures for April showing the lowest price increases in 37 years, fuelling fears that outright deflation may emerge. But any measures to prevent Europe and America following Japan’s deflationary road were not discussed. According to Eichel: “We agreed there was no need to assume a risk of deflation.”

Not even the announcement of the collapse of the world’s 31st largest bank, the Osaka-based Resona Holdings, which was the subject of an emergency meeting of the Japanese cabinet on Saturday night, appears to have prompted a serious discussion.

Following the announcement of a $17 billion bailout operation by the Japanese government, Snow expressed his support for the move—described by Prime Minister Koizumi as demonstrating his determination to prevent a financial crisis—and said he was “encouraged that Japan is facing up to these issues and taking the right measures.”

These words are hardly likely to provide reassurance to Japanese financial authorities. A major factor in the Japanese banking crisis has been the low growth of the past decade and the consequent development of deflation—Japanese prices are falling at a rate of 3.5 percent per year. However, the move by the United States towards a weaker dollar and the resulting increase in the value of the yen will worsen both these problems.

Likewise, under conditions where the only significant source of additional growth for the eurozone has come from exports, a falling dollar will push Europe further into recession, by making its exports more expensive, and intensify already developing deflationary pressures by cheapening imports and reducing the profits of European producers.

Consideration of these issues helps to explain why the G8 meeting refused to discuss any of the major issues confronting the global economy. To have done so would have immediately revealed the deepening conflicts among the major capitalist powers.