On eve of G-20 finance ministers' meeting

Transatlantic divisions widen

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The past week witnessed a number of heated exchanges between leading US and European politicians, indicating growing differences on how to respond to the deepening world recession. The tensions across the Atlantic come as finance ministers from the G-20—the world's 20 strongest economies—prepare to meet this weekend to coordinate the agenda for the G-20 summit due to take place in London on April 2.

Last Monday, European Union finance ministers meeting in Brussels rejected a call by the United States to invest more public money to tackle the international financial and economic crisis.

Prior to the Brussels meeting, US President Obama's top economic adviser, Lawrence Summers, declared that world leaders needed to increase their stimulus programs. Summers, who heads the White House's National Economic Council, said there was a need for "extraordinary public action."

Summers' appeal was reinforced by comments by the American president. In an interview last weekend with the *New York Times*, Obama stated that Europe faced even worse problems than the US, and insisted that regions like Europe needed to deal with structural "weaknesses," which were "actually greater than some of the weaknesses here."

The response by European leaders was rapid and blunt. "Recent American appeals insisting that the Europeans make an additional budgetary effort to combat the effects of the crisis were not to our liking," declared Luxembourg Finance Minister Jean-Claude Juncker following the meeting of the 16 Eurozone finance chiefs in Brussels.

German Finance Minister Peer Steinbrück was no less explicit, stating that EU officials were "clearly puzzled" by Mr. Summers' comments. "We're not planning on any additional measures," Steinbrück said, and advised the administration in Washington to "better familiarise itself with economic stimulus measures in Europe that have already been started or are about to get started."

On Monday, White House spokesman Robert Gibbs was forced to deny the existence of a rift between the US and Europe. Despite the negative response from European leaders, US Treasury Secretary Timothy Geithner stressed again on Wednesday the necessity for massive new waves of public investment in the financial system. "Forceful financial sector actions are critical to rebuild confidence, restore market functioning, get credit flowing again and bring stability to the global financial system," he said.

Geithner and the US administration are proposing that the International Monetary Fund, which has reserves of around $250 billion, receive an additional sum of up to $500 billion to help bail out the banks. The US proposal involves massively expanding the IMF's so-called New Arrangements to Borrow, whereby the fund can borrow funds from its richer members. The US demand even outstrips the IMF's own call for an extra $250 billion in resources.

According to the head of the IMF, Dominique Strauss-Kahn, Japan has agreed to put up $100 billion of the new funding, which means that other nations, including wealthier EU nations, will be called upon to make an increased contribution to the fund. In an interview with the *Süddeutsche Zeitung* on Tuesday, Strauss-Kahn singled out Germany, which he said had to undertake "much more aggressive" policies to deal with the banking crisis.

On Thursday, the president of the EU Commission, Jose Manuel Barroso, responded to the concerted pressure from the Obama administration and the IMF by defending the programs already implemented in Europe and declared that the EU was not "in a competition" with the US over which nation puts forward the biggest stimulus program.

Barroso also made clear that the size of stimulus programs was only one of a number of current points of conflict between the EU and the US. In comments to the German business newspaper *Handelsblatt*, Barroso called upon the US to show "the same keenness over the issue of the regulation and supervision of the finance markets." On this issue, Barroso continued, the Americans were lagging behind the Europeans.

The growing divisions between Europe and America over dealing with the crisis come amid reports of a drastic worsening of the economic situation in Europe, with European institutions rapidly revising downwards their economic prognoses. Despite a 0.5 percent cut in its key interest rate by the European Central Bank (ECB) at the start of the month, there are growing fears of deflation in Europe. The ECB interest rate now stands at 1.5

percent, its lowest level since the introduction of the euro 10 years ago.

Previous claims that European economies could start to recover at the end of this year have been ditched. In January, the European Commission forecast that the Eurozone would contract 1.9 percent for the whole of 2009. The ECB has now revised this figure to 2-3 percent. EU Economic Affairs Commissioner Joaquin Almunia was forced to acknowledge, "The recovery will take longer than we were expecting only a few months ago."

The situation in Europe's biggest economy, Germany, is especially dramatic. Heavily dependent on its export industry, Germany has been especially hard hit by a decline in demand from its customers across the globe. Orders for German industrial goods in January were down 8 percent compared to the previous month, and 37.9 percent lower than a year before. Alongside Japan, Germany's economy is among the worst affected by the slump in global demand.

Germany is now expected to experience a deterioration in economic growth of 4-6 percent in 2009—double that of Europe as a whole. As the headline for its editorial yesterday, the *Handelsblatt*, predicted: "Darkness at the End of the Tunnel."

In addition to the latest demands from the US and the IMF for increased investment in stimulus programs, Germany and other wealthier European nations are being called upon to free up funds to assist in the bailout of a number of states in Western Europe (Greece, Ireland, Iceland) and Eastern Europe (Romania, Hungary, Latvia) that confront bankruptcy.

The latest series of exchanges between European and American officials expresses the extent of the drift between the two continents as the recession deepens. The administration in Washington is applying pressure on other nations to adopt massive stimulus programs in the hope that such programs could assist in the revival of America's crippled banking and economic system.

Domestically, the Obama government is demanding that the American working population take up the burden for the speculative losses of US banks. On the international stage, his government is pressuring developed nations to share the burden of US banking losses.

To this end, the Obama administration has made clear in the run-up to the G-20 summit that it is opposed to any limitations being placed on the activities of American banks. The highly favourable terms recently negotiated by American banks for massive government funding have turned US treasury bills into a magnet for foreign capital. The shift of international finance into US government bonds is reflected in the recovery that has taken place in recent months of the value of the dollar against the euro.

The demands raised by a number of European governments for increased regulation of banking activities are aimed at reversing this trend and creating more favourable opportunities for bailing out their own banks and economies. The German government, for example, is reluctant to invest in Eastern European countries, whose economies have been brought to the brink of insolvency by the withdrawal of capital by Western banks and financial institutions.

At the same time, European governments are incapable of reaching any effective agreement amongst themselves as to how they should tackle the crisis. This was evident from the mini-summit of European leaders (Britain, France, Germany, Italy, Spain and the Netherlands) that took place in Berlin toward the end of February.

The stakes are enormous. Following the failure of the Berlin summit to reach any unified position, the *Financial Times*' chief economics commentator, Martin Wolf, addressed the significance of the impending G-20 summit and warned against failure. In the issue of February 25, he wrote: "The London summit of 1933 marked the moment at which cooperative efforts to manage the Great Depression collapsed. The summit of the Group of 20 countries, in the same city, on April 2, must turn out quite differently. That may seem a simple task. It is not. The usual platitudinous communiqué would be a catastrophe."

In its edition of last weekend, the same newspaper once again warned of the potential social and political consequences of the crisis. In its "Survival Plan for Capitalism," the *Financial Times* wrote: "deep depressions or slumps ... are neither necessary nor welcome. They destroy wealth, sap happiness and crush old certainties. What is more, increasing poverty is a grave threat to world stability and democracy. Revolutions often start as bread riots, and economically-stagnant countries make belligerent neighbours."

The European and US bourgeoisie are quite aware of the threat of social and political upheavals, but the mounting signs of conflict between European leaders and the US administration underscore that neither is capable of resolving the fundamental historical contradiction between the world economy and the nation-state system, which is being aggravated by the burgeoning crisis of world capitalism.