

Great Power divisions persist following G20 summit

Stefan Steinberg
16 March 2009

A summit of G20 finance ministers and central bankers failed to reach any concrete agreement for measures to deal with the growing international finance crisis.

The meeting held in Horsham, southern England last Friday and Saturday brought together the finance ministers and central bankers of the world's leading economies responsible for 85 percent of world economic output. The aim of the meeting was to prepare an agenda for the G20 summit of country leaders planned for April 2 in London.

The meeting began with a warning from World Bank President Robert Zoellick, who stressed what was at stake for the world's economies. He said that 2009 "is shaping up to be a very dangerous year." The difficulties could extend "well into 2010," he added. "The danger is to do too little, too late". The World Bank has estimated that the world economy will shrink by 1-2 percent this year.

Following the two-day conference, the hosts of the meeting—British Prime Minister Gordon Brown and his Finance Minister Alistair Darling—sought to present its deliberations in the most favourable light. In fact the meeting was unable to put forward any concrete decisions or policies to combat the crisis. The final communiqué served to cover over lingering divisions over economic policy between the different countries involved.

Three main issues were on the agenda for the meeting: further huge stimulus programs by leading economic powers to rescue banks and kick-start economies that are in freefall; regulation of the finance markets; and increased financing for the International Monetary Fund to allow it to intervene to rescue countries confronting bankruptcy.

The communiqué issued by the finance ministers and central bank governors was upbeat, stating, "We have taken decisive, coordinated and comprehensive action to boost demand and jobs, and are prepared to take whatever action is necessary until growth is restored. We commit to fight all forms of protectionism and maintain open trade and investment."

A closer perusal of the communiqué reveals that the assembled finance heads and bankers had been unable to agree on any of the main issues.

No agreement was reached on new stimulus programs by leading nations, which retain the right to make their own national decisions and allocation of priorities. While the communiqué paragraph on regulation of the finance markets stressed the necessity for "stronger regulation", "macro-prudential oversight" and "strengthened international cooperation", it failed to agree on the formation of a new international body capable of implementing improved regulation.

As for increased funding for the IMF, the G20 countries agreed that the Fund's resources should be increased "substantially" but made no commitment to provide new funds. In the words of the UK chancellor, "We did not seek to reach agreement on a number".

In its own report on the meeting, which sought to underline the harmony of the assembled nations, the *Financial Times* was forced to concede that "the meeting ended without specific new commitments and no country or central bank would be forced to change any existing policy in light of the communiqué."

The week prior to the G20 meeting had witnessed a series of heated exchanges between politicians on both sides of the Atlantic, with the Obama administration in the United States applying considerable pressure on European governments, in particular Germany, to massively increase their economic stimulus programs.

The response from Berlin was to declare that the German government had already introduced two stimulus programs, which in terms of percentage of the economy were comparable to the sums expended by the American government. According to the German Economics State Secretary Walther Otremba, "We have been praised for the extent and speed of our programs. We do not have to do any more."

At the same time, European nations, with Germany at the fore, raised their own demands directed at the US for increased regulation of the international finance and banking sectors.

One day before the G20 meeting in Horsham, German Chancellor Angela Merkel met with the French President Nicholas Sarkozy in Berlin to agree on a joint approach. Following the meeting, Sarkozy made a statement that expressed his solidarity with Merkel in defying the pressure from America for larger stimulus programs. The main issue is "regulation for the future", Sarkozy said, "not further expenditure".

Following talks at the British prime minister's country residence at Chequers on Thursday night, Merkel again ruled out any further "fiscal stimulus" in the short term and emphasised that future measures would be decided in Berlin, not by the G20.

Merkel's comments were echoed by French Finance Minister Christine Lagarde, who also attended the G20 meeting. Lagarde declared that nations needed to "evaluate the remedies already put in place by each of us" before ordering huge extra spending.

According to the *Observer*, the remarks by Merkel and Lagarde "effectively killed off proposals being pushed jointly by Brown—who will chair the G20 summit on 3 April—and US president Barack Obama, whose administration believes that more coordinated fiscal action by the world's biggest economies is essential to revive global demand."

Criticism of Washington's finance policy also emerged explosively from another quarter. On the eve of the meeting, the Chinese Premier Wen Jiabao warned that the US's burgeoning debt threatened China's estimated \$1 trillion in dollar-denominated US government debt.

The failure of the leading capitalist nations to arrive at any binding agreement demonstrates that divisions between the major powers—particularly the US, Europe and China—are hardening fast. It is already clear from

the proceedings at the weekend that nothing remains of the "Global New Deal" proposed by Brown to Obama in Washington earlier this month.

The implications of these divisions are far-reaching. In a comment on the growing drift between America and Germany, this week's *Der Spiegel* declares, "The German-American brawl evokes bad memories for economists. America and the European states were also incapable of agreeing on a joint strategy in the world economic crisis in the 1930's. The result was a worldwide trade war which only accelerated the economic collapse into the Depression. That cannot be allowed to happen again—that was what the industrial nations assured at their first summit last November in Washington. Now, however, the rifts are growing between the US and continental Europe."

Der Spiegel neglects to point out in its drawing of parallels with the 1930's that the resolution of the economic conflict between Germany and its rivals, including the United States, culminated in the Second World War.



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