

On eve of G-20 summit in London

## European powers rebuff US, British proposals for economic stimulus

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In what appears to be a calculated leak by the German government to demonstrate its opposition to increased deficit spending, *Der Spiegel* magazine published excerpts this weekend of a draft final communiqué proposed by Britain for the G-20 summit of leading economies to be held in London April 2.

*Der Spiegel* confirmed that the draft document came from the German government, with other press accounts identifying the conservative Christian Social Union, the ruling party in Bavaria and a coalition partner of German Chancellor Angela Merkel, as the source.

The document called for the G-20 countries to spend a combined \$2 trillion to stimulate the world economy, now sinking into the deepest crisis since the Great Depression of the 1930s. Its publication provided an occasion for many continental European leaders to make additional denunciations of new spending that would increase fiscal deficits.

Merkel attacked calls for a "global new deal," adding, according to a *Times of London* report, "I will not let anyone tell me that we must spend more money." Spanish Finance Minister Pedro Solbes said, "In these conditions, I and the rest of my colleagues from the eurozone believe there is no room for new fiscal stimulus plans."

These remarks follow previous negative comments by French President Nicolas Sarkozy, who said international bank regulation, not more spending, was required, and a scathing denunciation of the Obama administration's policies by the current president of the European Commission, Czech Premier Mirko Topolánek, who described US calls for big deficits to stimulate the economy as "the road to hell."

A spokesman for British Prime Minister Gordon Brown claimed that the document was an old draft that merely

estimated what spending had already been approved, including the \$787 billion stimulus package enacted by the Obama administration.

No additional stimulus was to be expected at the summit, British Foreign Secretary David Miliband told the BBC, saying the G-20 meeting "isn't about rabbits out of hats." He added, "This is about trying to tackle an exceptional economic crisis--far beyond the financial system--and set in place measures... that really do make a difference over the short term and the long term."

But press commentaries in both Britain and the United States called the leak to *Der Spiegel* an "embarrassing disclosure" and even "a deliberate act of sabotage" by the German government.

The most nationalistic reaction came from British Labour MPs. Denis MacShane, the former Europe minister, asked, "Who does Mrs. Merkel think is going to buy Mercedes and BMWs if she... says putting demand into the economy is a bad thing?" Another Labour MP said: "One has to ask who had something to gain from the leak of the communiqué. This feels like a dirty trick."

Right-wing domestic critics of Brown sounded warnings similar to Merkel's. In an article in the *Sunday Telegraph*, former foreign secretary Lord Owen warned that the British economy may be subjected to "IMF disciplines" to halt a "precipitate loss of confidence." He compared the current atmosphere in London to the crisis that erupted in the British Labour government of James Callaghan in the late 1970s, which paved the way for Margaret Thatcher.

Mervyn King, the governor of the Bank of England, urged Brown earlier in the week to drop further plans for fiscal stimulus. "Given how big these deficits are, I think it would be sensible to be cautious about going further in using discretionary measures to expand the size of those deficits," he told a parliamentary committee on Tuesday.

In a White House briefing Saturday, an Obama aide denied there was a split between the continental Europeans, particularly Merkel and Sarkozy, and the Anglo-American leaders, saying, "You know, the president had very productive video conferences this week and phone calls with Chancellor Merkel, with Prime Minister Brown and with President Sarkozy, to work on many of the issues we're talking about, and I saw no evidence of any such back-and-forth or rift or anything."

The verbal gymnastics cannot disguise the gulf between the policy proposals from Washington and London and those coming from the other European powers, as well as such G-20 attendees as China, Brazil and Argentina. Despite the attempts to present a picture of responsible world leaders gathering to consult and cooperate on reviving the world economy, the participants in the G-20 summit will arrive in London effectively crippled and deeply at odds.

Last week the head of China's central bank created an international stir by suggesting that it was time to investigate an alternative to the US dollar as the main vehicle for settling international trade accounts. He called for a greater reliance on Special Drawing Rights issued by the International Monetary Fund, provided that China and other countries in Asia, Africa and Latin America were given a greater say in the IMF's affairs.

The Obama administration has enacted not only a stimulus spending package, but a far larger federal bailout of Wall Street, which has pumped trillions into the financial system, requiring enormous borrowing and money creation by the Federal Reserve, the US central bank. These policies are of a highly nationalist character, aimed at shifting the burden of the crisis which began with the collapse of the US financial system onto the major rivals of American capitalism in Europe and Asia. By raising the US budget deficit and national debt to unprecedented levels, Washington is drawing virtually all available private capital around the world into the US.

At the same time, US demands that the European powers expand their deficit spending to finance larger stimulus programs would, if carried out, would have a destabilizing impact on the euro and intensify centrifugal tendencies already threatening to tear the European Union apart.

The impasse, in attempts to fashion a credible international response to the crisis coincides with a deepening slide toward world depression. The US unemployment rate is expected to jump to 8.5 percent in March (the figure will be officially announced on Friday,

the day after the G-20 meeting), with one projection, from IHS Global Insight, that net job loss in March will hit a record 750,000, the worst month since 1949.

Japanese industrial output is expected to show a 10 percent decline in a report due out Monday, while all the European countries are in deep recession. Recent forecasts have the German economy shrinking by 6 percent in 2009, its worst showing in the post-World War II period. As for the impoverished countries of Asia, Africa and Latin America that will not be represented at the G-20, their fate is even worse. According to the Institute of International Finance, private capital inflows into "emerging markets" will fall from \$929 billion in 2007 to only \$165 billion this year.

Reflecting the mood in Washington, one prominent economist predicted the outcome of the G-20 meeting: "There will be a very long communiqué, but there won't be much in it." Such a result would mean that the London conference, far from setting a course for the revival of world capitalism, could mark an important turning point in its further disintegration.

*Financial Times* columnist Martin Wolf noted the historical parallel to the crisis of the 1930s in a column last month, in which he warned of the danger of a repetition of the summit held in the same city in 1933, in the depths of the Great Depression. US President Franklin Roosevelt did not even bother to attend the meeting, which broke up in failure over proposals to revive the gold standard.

Wolf 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."

All indications are that precisely such a result is now to be expected. The divisions between the rival capitalist nation-states, each seeking to safeguard the profits and privileges of its own ruling class, are an insuperable obstacle to the formulation of a coherent policy for dealing with the deepening global depression.



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