US-Europe tensions erupt on eve of G20 summit

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French President Nicolas Sarkozy and German Chancellor Angela Merkel held an extraordinary joint press conference on Wednesday, the eve of the G20 summit of leading economies, to underscore their common opposition to US demands that they implement larger stimulus programs in response to the global economic crisis.

Even as President Obama was holding a ceremonial meeting with the queen in London, the site of the summit, and meeting separately with Russian President Dmitry Medvedev, the leaders of the two biggest powers on the Continent went before the press to reiterate their differences with Washington. Their joint appearance ensures that the summit, billed as crucial to forging a common international policy to deal with the deepest slump since the 1930s, will at best produce a vague communiqué designed to paper over hardening conflicts between the major powers.

Merkel and Sarkozy bluntly rejected US calls for the major European countries to expand their stimulus programs and instead urged Obama and other G20 leaders to focus on stronger and more internationally supervised regulation of financial institutions, including hedge funds and similar unregulated firms, laying down this and other "red lines" as a condition for achieving unity at today's summit.

The US is adamantly opposed to any serious international supervision of US financial companies.

At the press conference, Sarkozy declared, "In the end results, we want the principle of new regulation to be a major objective... This is not negotiable."

He said he would not walk out if he felt the summit had not achieved this and other key aims, as he had previously threatened, because "Angela Merkel and I are on exactly the same page... We both simply wanted to get across that [the summit] was historic. And when faced with history, you can't sidestep it."

Sarkozy refrained from naming the US and Britain, but clearly implied that they bore the main responsibility for the crisis. "We are not pointing fingers," he said, "but this is a historic opportunity to build a new world and we don't want to see it pass."

France and Germany, he continued, will "speak with one voice." He added, "We demand results in London, we want concrete results."

Merkel was also firm in ruling out compromise with Washington's demand for additional stimulus spending by Europe, stating, "The summit is not about horse-trading between regulation and economic growth programs." She stressed that a "new architecture, a new constitution for financial markets" must be based on "very concrete rules."

Referring to the Franco-German call for a blacklist of tax havens, she added that it must also be clear that "those who do not adhere to our rules will be named." She continued: "We decided in Washington that no place, no institution and no product should be left without control and adequate transparency. And if we want that, then that means there must be a list of places that do not want to be regulated."

Hedge funds must be regulated and rules for remuneration of managers must be drawn up, she added.

The statements of Sarkozy and Merkel, notwithstanding their professions of respect for Obama, undercut the efforts of the White House to deny the existence of a rift between the US and Europe. Earlier on Wednesday Obama held a joint press conference at the Foreign Office with British Prime Minister Gordon Brown, at which he said, "The separation between various parties involved has been vastly overstated." He went on to warn that agreement was vital as "we are facing the most severe economic crisis since World War II."

Obama reiterated his call for countries to provide additional fiscal stimulus, saying the US could not promote growth on its own through its consumer spending.

This contradicted Brown's own efforts to downplay the issue, after he was told by the governor of the Bank of England, Mervyn King, that Britain could not afford further stimulus measures. Whereas Brown has in recent days focused on the fact that G20 governments have already agreed fiscal stimulus packages totaling more than $2 trillion, Obama bluntly declared that the world could not rely on "voracious" American consumers to drive the global recovery.

"The world has become accustomed to the US being the engine," he said. "Our goal is to make sure that each country is doing what is necessary to promote economic growth. Everybody is going to have to pick up the pace."

Even before their press conference, Merkel and Sarkozy had made clear they would not accede to US demands for additional stimulus programmes. In a joint letter to European Union leaders on March 16, the two called on them to back "a new global financial architecture," insisting that "only with a united voice can we speak powerfully enough in order to protect our common interests."

The EU summit in Brussels on March 20 rejected pressure to inject more money into Europe's economies, agreeing only to double loans available to Eastern Europe to €50 billion and add €75 billion to the International Monetary Fund's lending capacity.

Subsequently, Sarkozy declared that he and Merkel would "carry a European view on values which are those of Europe."

The stance of France and Germany also conflicts with that of Japan, whose prime minister, Taro Aso, dismissed Germany's warnings about the dangers of excessive public spending. Pointing to the bursting of Japan's asset price bubble in the early 1990s, he said that "we know what is necessary, while countries like the US and European countries may be facing this sort of situation for the first time. I think there are countries that understand the importance of fiscal mobilisation and there are some other countries that do not—which is why, I believe, Germany has come up with their views."

The differences between the US and Europe are far from being the product of ignorance, however. They reflect fundamental divergences within the structure of world capitalism that have been brought to breaking point by the onset of global recession.

The Obama administration is exploiting the privileged position of the US dollar to pump trillions of dollars of public funds into the US banking system, tripling the US budget deficit and vastly expanding the US national debt. The $787 billion stimulus package the administration enacted last month is, in financial terms, little more than a footnote to the bailout of Wall Street.

In the short term, this policy is drawing virtually all available private capital on world financial markets into the US, starving other countries of desperately needed credit. In the longer term, it is creating the conditions for an inflationary spiral and dollar crisis that will have disastrous consequences for America's global creditors.

The European ruling elites are less willing and less able to allocate such vast sums. Though they too have enacted stimulus packages, with Germany injecting over $100 billion and France $34 billion, they face far greater economic and political constraints.

Both France and Germany favour measures to protect their industrial base, with Sarkozy pumping money into France's car industry and Merkel initiating school reconstruction and a €2,500 incentive to trade in old cars and buy new ones.

France is concerned about its growing trade deficit, which now stands at a record $71.4 billion. Germany wants to sustain its export-driven economy and the manufacturing base on which it is based.

Neither country has any confidence that more fiscal stimulus will lead the world economy swiftly out of the present crisis. Instead, they fear that excessive spending will plunge the world and their own countries into runaway inflation—a historic concern for Germany. Together with spiraling levels of government debt, this would endanger the survival of the euro currency—particularly if the major economies have no possibility of rescuing the ailing economies of Spain, Greece and Eastern Europe.

The Organisation for Economic Cooperation and Development (OECD) predicts that Germany's economy will contract by 5.3 percent this year and France's by 3.3 percent. Germany's Commerzbank anticipates a shrinkage of 6 to 7 percent this year, the worst in postwar Germany. The country's industrial orders have declined by 8 percent.

The eurozone as a whole has been in recession since September 2008 and is expected to contract by over 4 percent this year, with unemployment topping ten percent.

Domestic political concerns play a large role, particularly in the posturing of Sarkozy, who has attempted to present himself as something of a populist opponent of Anglo-American-style capitalism. Recent months have seen mass strikes and protests in Greece and Eastern Europe, and France has been hit with repeated mobilisations of workers and a spate of factory occupations.

Martin Wolf in the *Financial Times* points to a fundamental disparity of interest between surplus and deficit countries as a major factor in the present economic crisis and, consequently, the answers they propose.

In a column published Wednesday, he writes, "The US and UK agree that the excesses of the financial sectors have their roots not just in deregulation, but also in the massive excess supply of surplus countries, of which China, Germany and Japan (with respective current account surpluses of $372bn, $253bn and $211bn in 2007) are the most significant. But China and the continental European countries, led by Germany, argue it is all the fault of profligate deficit countries. Yet China also hopes that the world will soon be able to absorb its excess supply again."

He continues, "Yet what happens if that cannot be achieved for the excess potential supply of all surplus countries together? In 2007, the three countries ran current account surpluses of $835bn (€629bn, ?585bn). Logically, counterpart deficit countries must spend that much more than their incomes. Yet today deficit countries have run out of willing and creditworthy private borrowers."

The end of the speculative boom, based on massive levels of corporate, personal and government debt, has hit the debtor countries, particularly the US, first and hardest. But this leaves the creditor countries and those who manufacture the goods that have been bought with no way out.

The US web site Stratfor notes that China "rests on a massive cushion of $2 trillion worth of foreign exchange reserves, but faces a collapse in its exports that has meant that its manufacturing sector has been pummeled, creating waves of unemployment and increasing the frequency of incidents of social unrest. The Communist Party has worried publicly about its ability to guide the country through the storm."

Opposing further stimulus packages, Merkel declared last month, "We were living beyond our means. After the Asian crisis and after 9/11, governments encouraged risk-taking in order to boost growth. We cannot repeat this mistake."

But not "living beyond our means" can only mean the continued destruction of a mountain of fictitious capital and the plunge into a global recession of historically unprecedented scope. It means the worsening of inter-imperialist antagonisms as each major power seeks to protect itself at the expense of its rivals, and a wholesale assault against working people to make them pay for the crisis.