G20 finance ministers: empty pledges in face of deepening antagonisms

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The G20 meeting of finance ministers in London last weekend came up with the expected joint communiqué. But there was no agreement on any concrete proposals for reform of the banking system or regulating financial bonuses.

Instead, the meeting was characterized by deepening tensions between the United States and Britain, on one hand, and the other European powers, led by Germany, on the other. Also expressed was broad-based disaffection from the entire process, particularly on the part of the emerging economies of Brazil, Russia, India and China, known collectively as Bric.

The meeting's conclusion and its various toothless pledges were met with scepticism and even warnings of a worsening economic disaster by several leading economic commentators.

The BBC's Steve Schifferes entitled his column, "Smoke and mirrors at G20 meeting." Pointing to the gap between the meeting's concrete results and what had been agreed to "in principle" in advance of the coming G20 summit of heads of state in Pittsburgh on September 24/25, Schifferes noted that "beneath the rhetoric, significant differences remain" that "go beyond the rather superficial row over executive pay."

The *Wall Street Journal* wrote of "missing details" and things being "left open" that "left the potential for differences in the weeks ahead."

The *Economist* said that "this weekend's gathering struggled to find anything new to say. The same will be true of Pittsburgh…"

Will Hutton wrote in the *Observer*, complaining that the cause of the crisis, "the stranglehold of a new financial oligarchy upon public policy has hardly been touched." As a result he warned that "a second and more serious crisis potentially awaits."

The issue of executive bonuses is hardly the insignificant issue portrayed by some commentators in the US and Britain. This is largely because it was the European powers, led by France and Germany, that placed greatest emphasis on curbing excessive bonuses in the run-up to the meeting and called for caps to be imposed—a move that was opposed by Washington and London.

The Europeans were in part motivated by the real destabilizing impact of the so-called "bonus culture" in the financial sector, which fuelled rampant speculation and the accumulation of mountains of debt, but also by the political impact such obvious excesses have amongst working people facing worsening hardship as a result. French Finance Minister Christine Lagarde called for mandatory caps, with the support of Germany and eurozone finance ministers. "What happened 12 months ago was just horrible for our societies, it was horrible for our economies, and we are still suffering as a result," she said.

London and Washington denounced this proposal as "unworkable," signalling that they will tolerate nothing that impinges on the interests of their major backers. As Hutton noted, the "bonus culture" works above all "on a London/New York axis, with financiers having a sense of entitlement to astonishing earnings that have no economic justification in terms of value creation or relation to profitability … 90 percent of investment bank profits is not directed to strengthen balance sheets or to shareholders in dividends, nor to customers in lower fees, nor to taxpayers—it goes as bankers' bonuses."

The US and Britain saw the demand for bonus caps as an attack by Europe on their financial sector and countered that undercapitalization of banks was the main source of weakness to be addressed. US Treasury Secretary Tim Geithner pushed for an accelerated timetable governing Tier-1 capital ratios, relating to the quality of the assets banks have on their books in relation to their deposits. The US wants to impose requirements for banks to hold much more capital in order to protect the global financial system against risk.

This was viewed by Europe as a particular threat to its banking sector. The *Financial Times* noted, "More so than for their US counterparts, the capital buffers of European banks are made up of so-called 'hybrid' securities which are more like debt than equity. Analysts said some European banks had met as much as half the existing regulatory requirements on capital buffers through 'hybrid' securities."

In the end there was a meaningless compromise on both issues. There was no agreement to cap bonuses. The G20 countries instead agreed to measures requiring banks to disclose the pay and bonuses of their top employees. Bonuses could also be "clawed back" if they were deemed to be

unacceptable. This will be determined by a report by the Financial Stability Board (FSB), which will decide whether the total pool of cash set aside by a bank for bonuses is excessive or not. No sanctions were discussed and no means of "clawing back" bonuses decided upon.

The G20 meeting also agreed that all banks would have to maintain bigger capital buffers once the financial crisis has passed. Again, no concrete details were adopted. Even so, this proposal was met with open hostility. The FT noted that Bernd Brabänder of the Association of German Banks believed the proposals "could put European banks at a competitive disadvantage. 'The bit about leverage ratios really makes me a bit nervous,' he said."

The *Telegraph* predicted that meeting these demands would imply "further taxpayer bailouts," and that France and Germany "may be forced to semi-nationalise more of their stricken banks."

A meeting Sunday of the Bank for International Settlements (BIS), made up of 55 of the world's central banks, endorsed the G20 proposals, but set no timetable for their implementation.

There was an ongoing argument over the voting rights accorded to China and other rising economic powers within the G20, which was shelved. China wants a 7 percent cut in the voting rights of European countries, and the US is calling for a 5 percent cut. Concrete proposals will not be advanced until January 2011.

The most significant expression of the rising tensions between the major powers was the effort required from the US and Britain to stave off demands for a swift end to the various stimulus packages implemented at the onset of the global economic crisis last year. Germany and France led the call for the G20 to start discussing "exit strategies."

Prior to the G20 meeting, there were indications of a significant shortfall in the $1.1 trillion International Monetary Fund-administered global stimulus package adopted in April. Stimulus measures have instead been of a beggar-thy-neighbour character, directed towards salvaging the competing national economies of the major powers and funnelled into the pockets of the super-rich.

Even so, Chancellor Angela Merkel of Germany has cautioned throughout against long-term inflationary dangers and the threat posed by unsustainable levels of national debt due to the various multi-trillion stimulus packages and bank rescues. With Germany, Japan and France officially pulling out of recession in the last quarter, and China returning to 8 percent growth, there was added impetus to demands to withdraw government subventions.

The US and Britain responded with a series of warnings that the global economy is far from secure and that world capitalism is still dependent on cash injections paid for by the working class. "Actions (by the G20) have pulled the global economy back from the edge of the abyss," Geithner said. "However, we still face significant challenges ahead."

British Prime Minister Gordon Brown referred only to "tentative signs of recovery" and warned that cutting spending could cause another "downward lurch." He called for the $5 trillion fiscal expansion plan agreed in April to be fully implemented. A mini-summit of the Bric group of emerging economies also warned that it was "too early" to talk of an end to the crisis.

In the end, the finance ministers agreed to continue financial support for the global economy until recovery from recession, after which they would develop coordinated "exit strategies."

Nevertheless, the real situation confronting the global economy is far worse than the warning made by Washington and London would indicate. The recovery in stock values is largely the product of an unprecedented injection of funds into the economy that has allowed the oligarchy to continue to enrich itself—and even fuelled a second speculative wave. That is why there is such grave concern regarding any possible withdrawal of stimulus measures. And, while share prices are rising as a result, there is no such indication of a recovery in the real economy.

Unemployment in the US is already nearing 10 percent, while across the eurozone it is marginally lower at 9.5 percent. With unemployment continuing to rise and wages depressed, consumption will inevitably decline. Economists now refer to a "double dip" downturn this year and a supposedly "jobless recovery." IMF head Dominique Strauss-Kahn warned of a "third phase of this crisis, following on the heels of the financial and economic phases—namely high unemployment."

The bailouts and stimulus measures that have been implemented represent a figure equivalent to 18 percent of global GDP. This vast sum must continue to be clawed out of the backs of the working class through the destruction of jobs, wages and the elimination of essential social provisions.

Writing in the *Guardian*, Ashley Seager drew attention to the annual trade and development report from the United Nations Conference on Trade and Development (Unctad). Stating that the report "will question the extent to which there is a genuine self-sustaining economic recovery going on," he cites Heiner Flassbeck, Unctad's chief economist.

"All these rises in markets are said to reflect economic recovery but it is just another bubble," Flassbeck told the *Guardian*. "These markets are reflecting a recovery that is not there. Wage deflation is a huge danger everywhere and this is not being recognised. Banks have been rescued by the taxpayer and are just returning to casino-style speculation that brought us trouble in the first place."