Great power conflicts overhang G20 summit in Pittsburgh

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As political leaders and central bankers gather for the Group of 20 summit of major economies, to be held today and Friday in Pittsburgh, they face the task of papering over increasingly open and embittered conflicts over policies to revive the world economy and prevent another financial disaster.

One year after the near-collapse of the global financial system, mutual pledges of multi-lateral coordination and rejection of protectionist policies proclaimed at last November's G20 summit in Washington and the April summit in London are being overshadowed by divisions over economic policy. These differences correspond to the national interests of the ruling elites of the US, Europe and rising economic powers in Asia and Latin America—above all, China.

On Tuesday, a German official responded to the "Framework for Sustainable and Balanced Growth" submitted by the Obama administration by warning of a "widening of differences."

Less than two weeks before the summit, the Obama administration announced a 35 percent tariff on Chinese tire exports to the US, sparking Chinese threats to retaliate against US exports of auto parts and poultry and raising the specter of trade war between the world's largest and third largest economies.

In essence, the "framework" proposed by the US is an attempt to offload the burden of the crisis ignited by the collapse of the American banking system onto Washington's major global competitors. This nationalist orientation is decked out in the altruistic language of cooperation and overcoming "global imbalances."

However, the US is operating from a considerably weaker position than in previous crises. The *Wall Street Journal* on Wednesday pointed to a "shift in global power since the Asian financial crisis a decade ago." The *Journal* continued, "Then the US Treasury… largely set global strategy, enlisting the IMF for help and to bankroll US plans.

"This time, with the US financial system at the heart of the problem—and big developing nations playing an ever-larger role economically—[Treasury Secretary Timothy] Geithner has to take a far more subtle approach. Part of that includes acknowledging US culpability. 'He's building a consensus rather than coercing,' said Brookings Institution economist Eswar Prasad."

Part of this more "subtle" approach is luring China, India, Brazil and other emerging economies to the US side by advocating, as a major plank of its "framework," an increase in their voting power at the IMF (International Monetary Fund)—something that is resented by the European powers, whose clout within the IMF would be thereby diluted.

The Associated Press summed up the altered position of the US at the Pittsburgh summit as follows: "With trillion-dollar deficits and a weakening dollar, the United States doesn't have the clout it once had at economic summits. Now, Germany, France and all the new kids at the table—countries like China and Brazil—are pushing their own issues."

The site of the summit itself has symbolic significance. The demise of the steel industry in what was once its global center expresses in concentrated form the decline of US industry and decay of American capitalism.

That having been said, the US still wields immense power, in part precisely because of its soaring budget, trade and current account deficits. Countries like China and Japan that hold hundreds of billions in US Treasury bonds look upon a collapse of the dollar as a catastrophe for their own economies, and those whose economies are heavily dependent on exports—China, Japan, Germany—have a huge vested interest in access to a revived and growing US market.

The Obama administration's "framework" seeks to leverage that power in accordance with the interests of the American financial and corporate elite. There are three basic components of the US proposal.

First, the US seeks a commitment by the G20 nations to address global economic imbalances between debtor nations, led by the US, and nations with trade and current account surpluses, such as China, Japan and Germany. The US would enact policies to reduce its budget deficits—estimated by the Obama administration at $9 trillion over the next decade—and surplus nations would be obliged to reduce their dependence on exports by, in the case of China, increasing domestic demand, and, in the case of Europe, making so-called "structural changes" to boost business investment.

While there would be no sanctions against countries that failed to make the required adjustments, the IMF would oversee a "peer review" process that would place pressure on noncompliant countries.

China—and even more emphatically, Germany—have criticized this proposal, which they see as a mechanism to attack their trade surplus policies. They are all the more skeptical since the US continues to dominate the IMF.

For the US ruling elite, such a "rebalancing" of the world economy is bound up with an assault on the living standards of the American working class. In an interview last Sunday on CNN, Obama linked the US proposal to the G20 to his administration's policy of driving down domestic consumption.

"We can't go back to an era," he said, "where the Chinese or the Germans or other countries just are selling everything to us, we're taking out a bunch of credit card debt or home equity loans, but we're not selling them anything."

What Obama did not say was that this reduction in US consumption would apply to the masses of working people, not the financial elite, and would be achieved by maintaining high unemployment as a weapon to drive down wages combined with unprecedented cuts in social services, such as health care, as well as entitlement programs such as Medicare, Medicaid and Social Security.

The demand for "structural changes" in the European economies is a euphemistic reference to the dismantling of remaining social protections for workers and other measures to further open these economies to US goods and investment. The European bourgeoisie, which is engaged in its own assault on the conditions of the working class, is concerned over the political implications of an open and precipitous drive to eliminate still-existing protections against layoffs and impose "American-style" labor standards.

The second plank in the US "framework" is a demand for more stringent capital reserve requirements by the banks. Geithner is calling for an agreement on such standards by the end of 2010 and their implementation by the end of 2012.

The Europeans see this as an attempt to place their banking sectors at a disadvantage in relation to US banks. The big US banks already have larger capital reserves than their European competitors, in part because of the massive scale of the US bailout of Wall Street, and could more easily meet such requirements.

French Finance Minister Christine Lagarde said of the US proposal in an interview last week, "All the banks in the world will need to be more capitalized than they were pre-crisis." But, she added, "It would be the ultimate irony if as a result of one particular set of rules we favor one group [of banks] that had to be massively restructured through public funding to the detriment of others."

The third component of the US "framework" is giving the major rising economic powers more say in the decisions of the IMF.

Britain, whose economy is overwhelmingly dependent on the role of its banking sector as a center of global finance, has generally lined up behind the US proposals. However, it wants to incorporate sanctions against its European rivals, by means of a "trigger mechanism" for penalties against countries that fail to adjust their export policies and lower their current account surpluses.

Germany and France have criticized the US emphasis on global economic imbalances as the pretext for a pro-US agenda and called instead for tougher global regulation of the banks. They seek thereby to take advantage of the decline in the prestige and influence of Wall Street to boost their own banking sectors.

They have sought to pursue their own anti-US agenda under the banner of reining in bankers' compensation. French President Nicolas Sarkozy, in particular, has called for actual limits on bankers' pay. However, in the run-up to the summit, he and German Chancellor Angel Merkel have backtracked on such demands in an attempt to patch together a resolution that will impose no serious restraints and will therefore be acceptable to the Americans.

Brookings Institution economist Prasad said of the summit that there was still "a chasm on macroeconomic issues." He added, "China continues to see the proposed framework as an underhanded ploy by the US to shift attention from its massive fiscal deficit."

The *Wall Street Journal* quoted Simon Johnson, the former IMF chief economist, as calling the US proposal "empty rhetoric" that has been tried in the past and failed.

The likely outcome of these conflicting interests will be a toothless G20 resolution that does nothing to address the systemic problems that led to the greatest economic crisis since the 1930s and sets the stage for a further eruption of economic nationalism and a deepening of international tensions.

There is no basis for an internationally coordinated and rational response to the economic crisis within the framework of capitalism. The current crisis represents a breakdown of the capitalist system itself, which is wedded to a nation state system that stands in contradiction to the development of world economy. The crisis has set off a new scramble among the major powers for control of markets and sources of cheap labor, a conflict that leads—unless it is resolved through the mobilization of the international working class in the struggle for socialism—to growing poverty and war.