G20 summit sets stage for sharpening of international tensions

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The Pittsburgh summit of the Group of 20 leading economies concluded Friday with the issuing of a joint communiqué contrived to mask sharpening conflicts between the major powers over policies to revive the world economy and stave off another financial meltdown.

The major points of contention—between the US and Europe, the US and China, the so-called emerging economies of Asia and Latin America and the most powerful Western economies—were evaded in the summit declaration, ensuring that national and regional tensions will continue to fester in the coming weeks and months.

The imperialist interests that dominated the summit were expressed in the decision by US President Obama, French President Sarkozy and British Prime Minister Brown to use the meeting as a forum to escalate their diplomatic and economic attack on Iran and increase the threat of eventual military action against Tehran. The joint appearance of the three leaders Friday morning to denounce what they called a secret nuclear installation in Iran and issue an ultimatum ahead of talks with Tehran scheduled for October 1 overshadowed the deliberations and decisions of the heads of state on economic matters.

In his press conference at the conclusion of the summit, Obama, who spoke as the leader of the host nation, again raised the issue of Iran's nuclear program, and almost all of the questions from reporters concerned Iran and the war in Afghanistan, with scant attention paid to the summit itself.

The main substantive decisions taken by the summit were to continue economic stimulus measures and subsidies to the banks until the purported recovery is firmly in place—something that had been agreed by all parties in advance of the meeting—and to make the G20 group the central forum for international economic discussion, rather than the old G8 group of established industrialized countries.

The latter decision represented an acknowledgment of the increasing weight of countries such as China, India and Brazil in world economic affairs and the relative decline of both the US and Europe. But it also, like most of the initiatives advanced by the US, was designed to strengthen the position of Washington in relation to its major European competitors, especially Germany. It is the European powers that will see the most significant dilution of their influence as a result of the replacement of the G8 by the G20.

Similarly, the US pushed through an agreement to increase the voting power of the "developing" countries in the International Monetary Fund by "at least" 5 percent, a change that will negatively affect the Europeans far more than the US.

The fraught state of international relations was reflected in the headline of Friday's *Financial Times*: "Tensions Over IMF Threaten to Mar G20." The article explained that the UK and France reacted with shock and anger to a US proposal submitted Thursday to cut the IMF board from 24 to 20 seats, with fewer European representatives. The proposal would threaten both countries' seats on the IMF board of directors.

Britain and France, according to the *Financial Times*, argued in response that all questions concerning the governing of the IMF should be placed on the table, including the US' de facto veto power. In the event, the US decided to pocket the proposal and it does not appear in the final communiqué. Instead, the statement declares that the issue of IMF reform will be decided at upcoming IMF conferences.

On the eve of the summit, German Chancellor Angela Merkel denounced the Obama administration's insistence that rebalancing the global economy be the central focus of the deliberations. Both Germany and China consider this an attempt by the US to offload the burden of its massive deficits and attack their export-oriented economies and resulting trade and current account surpluses.

For their part, Germany and France lobbied to make global regulation of the banks and restrictions on bankers' pay the central issues—an effort to place the onus for the financial and economic crises on Wall Street and take advantage of the discrediting of US banking methods to advance the interests of their own banking sectors.

"We should not start looking for ersatz issues and forget the topic of financial market regulation," Merkel declared.

Another contentious issue was the US demand that banks be pressed to maintain substantially higher capital reserves, something that would give American banks, which already have higher reserves than their European counterparts—in part because of the massive scale of the US bailout of Wall Street--a distinct advantage. The final communiqué deferred decisions on capital reserve rules until the end of 2012.

On bank executive pay, France and Germany agreed to drop their call for caps on compensation in the face of fierce opposition from the US. The communiqué instead urged banks to restructure pay and bonuses so as to discourage exorbitant risk-taking and focus on long-term performance—a toothless request that entails no sanctions and includes no enforcement mechanism.

A series of other recommendations—limited regulation of derivatives, a vague commitment to end subsidies for fossil fuels, pro forma disavowals of protectionism, calls to develop "exit strategies" to wind up government stimulus and bank bailout programs, pledges to address soaring unemployment, hunger and poverty—were packaged within what the communiqué called a Framework for Strong, Sustainable and Balanced Growth.

The so-called "framework," pushed by the US and Britain, calls for deficit countries, such as the US and the UK, to reduce domestic consumption and slash budget and trade deficits, and for surplus countries, such as China, Japan and Germany, to reduce their trade and current account surpluses and increase domestic demand.

Under the "framework," the G20 countries are to review one another's performance, with the assistance of the IMF, and use peer pressure against those members that fail to reduce their imbalances. Both China and Germany initially opposed the scheme, and agreed to sign on only when they were assured that the IMF would have no enforcement powers and there would be no penalties or sanctions against countries that failed to comply.

As for the so-called BRIC countries—Brazil, Russia, India and China—they "are not fighting the US in public on the balanced growth framework but they are wary and will sign up to the communiqué only because it does not formally have teeth," wrote the *Financial Times*.

The newspaper continued: "'The BRICs remain concerned that a strengthened IMF surveillance procedure could once again be used by the US to advance its own international economic policy agenda,' said Eswar Prasad, a professor at Cornell and former IMF official."

The "framework" was hailed by some leaders as a milestone in world economic history. "Here in Pittsburgh," said British Prime Minister Gordon Brown, "leaders representing two-thirds of the planet's population have agreed to a global plan for jobs, growth and a sustained economic recovery."

Other commentators took a more sober view. "Without sanctions, this agreement doesn't mean anything," said University of Maryland economist Peter Morici. "The countries will just discuss changes and make statements."

The lynchpin of the "rebalancing" framework, to the extent that it has a real content, is a brutal reduction in US consumption. The Obama administration has tied the global fortunes of US capitalism, including the credibility of the US dollar as the main world reserve currency, to dramatically slashing the living standards of the American working class.

As Gary Hufbauer, a trade specialist at the Peterson Institute for International Economics in Washington, told the *Wall Street Journal*, the "G20 rebalancing process depends on the willingness of the US to carry through on its commitments first, such as sharply cutting government spending and raising taxes."

Neither Obama nor the G20 attempted to square a policy of reducing wages, consumption and government social spending with their lofty phrases about creating jobs and reducing poverty.

There is nothing in the G20 proposals to seriously regulate the banks or rein in speculation and fraud. Nor is there anything that goes toward rebuilding industry and expanding productive investment, especially in the US. And there are no measures contemplated to halt the destruction of jobs and living standards for the masses of working people or provide relief from the social devastation caused by the breakdown of world capitalism.

Instead, the conflict between rival national groups of capitalists for control of markets and sources of cheap labor will intensify, fuelled by massive state debts resulting from the bailout of the world's financial elite. Protectionism—which has increased dramatically since the first G20 summit last November—will continue to intensify, and along with it, ever more severe attacks on the working class of each country.