Divisions in G-20 open on summit eve

Nick Beams
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Significant divisions among the major capitalist powers have emerged in the lead-up to the G-20 leaders' summit to be held in Toronto over the weekend.

The divergences centre on the continued role of fiscal stimulus measures to promote economic growth, and the demand by the United States that countries running large export surpluses—in particular China and Germany—do more to expand domestic consumption and thereby boost global demand.

While statements from Washington and Berlin over the past few days have sought to downplay the conflict, lest the summit, in the words of one report, turns into a "shouting match," the differences remain deeply entrenched.

They first came to the surface at the G-20 finance ministers' meeting on June 4-5, when, contrary to initial expectations, the final communiqué emphasised the need for government debt and deficit reduction rather than government stimulus measures to bolster economic growth. The change in tone reflected the impact of the "sovereign debt" crisis in Europe, which threatened to spark a financial crisis even more serious than that which followed the collapse of Lehman Brothers.

The "euro crisis" was seen by the European governments as a directive from financial markets. The task of clawing back the massive debts incurred after the eruption of the global financial crisis in September 2008 could no longer be delayed. A series of austerity programs aimed at drastically lowering the social conditions of the working class had to be launched immediately.

However, this turn raised concerns in the Obama administration that its attempts to restore America's economic position by boosting US exports would be jeopardised if European markets dried up. An initial letter from US Treasury Secretary Timothy Geithner voiced fears that "policy adjustments" in Europe could "undercut the momentum of the recovery". President Obama then issued a letter to G-20 leaders last week, declaring that the "highest priority" in Toronto had to be to "safeguard and strengthen the recovery".

"A strong and sustainable global recovery needs to be built on balanced global demand," he wrote. "Significant weaknesses exist across G-20 economies. I am concerned by weak private sector demand and continued heavy reliance on exports by some countries with already large external surpluses... In Pittsburgh [at the G-20 leaders' meeting in September 2009], we agreed that countries with external surpluses would need to strengthen domestic sources of growth."

This was a direct reference to Germany and China, the world economy's two largest exporting nations. China responded by announcing on June 19 that it would pursue a more flexible policy on its currency, allowing the yuan to move up against the US dollar, in line with the long outstanding demand of successive American administrations. By allowing a limited currency revaluation, the Chinese regime aims to keep out of the line of fire at Toronto.

The Obama letter brought a different response from the government of German Chancellor Angela Merkel. She and her ministers took up a public defence of their government's decision to initiate a program of €80 billion worth of spending cuts over the next four years.

Speaking to reporters on Monday, Merkel said: "If we do not achieve sustainable growth, but instead just generate once again inflated growth, we will pay for it with another crisis." Finance Minister Wolfgang Schäuble supported Merkel, saying: "Nobody can seriously dispute that excessive public deficits, not only in Europe [a thinly-veiled reference to the US], are one of the main causes of this crisis. This is why they have to be cut." Schäuble rejected the implicit criticism that Germany was abandoning agreements reached at Pittsburgh. He insisted: "We will face up to the international debate and I think we can do that with a great deal of self-confidence."

The German economy minister, Rainer Brüderie, was even more direct. He said it was "absolutely necessary for monetary stability that public budgets returned to balance. This is something we should tell our American friends."

The German government received backing from the president of the European Central Bank, Jean-Claude Trichet. In an address to the European parliament on Monday night, he made clear that the austerity program was being driven by the demands of the financial markets. Cuts in government spending were necessary to restore confidence. He spoke of a budget policy "which you might describe as restrictive from a certain point of view [but] is in fact a policy which we could call confidence building". If public finances were on an unsustainable path, "investors will know that they are going to have difficulty getting a return".

While the Toronto meeting is expected to take place without a direct confrontation—at least not in public—the underlying differences will not be resolved.

Speaking to the *Financial Times,* Dan Price, a former G20 negotiator under the Bush administration, pointed to the growing divergences among the major powers. "The unity of the G-20, which has been the hallmark of past summits and the source of its effectiveness, is beginning to fray as countries increasingly go their own way," he said. "Before no other G20 summit have so many leaders written so many letters seeking to shift attention to other countries' shortcomings."

Whatever the immediate outcome of the summit, the conflicts are certain to intensify. In a comment published on June 15—one of a series pointing to the dangers of too rapid a drive to fiscal austerity—*Financial Times* columnist Martin Wolf warned that the transformation of the eurozone into a "huge Germany" would be seen as "an act of mercantilist warfare upon the US. How much longer would the latter put up with the hypocrisy of surplus countries that blame borrowers for the deficits that their own surpluses make inevitable? Not much longer, would be my guess..."

Ever in search of the "golden mean" in the vain belief that capitalism can be subjected to rational management if only world leaders can be made to see reason, Wolf called for measures to sustain strong growth in the short run while constraining the huge deficits in the long run.

However, in the final analysis, the divisions are not the product of the inability of governments to follow rational policies. Rather, they express the fundamental and irresolvable objective contradictions of the global capitalist system—above all that between the world economy as a whole and the nation-state system. Confronted with a crisis, each capitalist power seeks to bolster its own position in the fight for markets and profits at the expense of its rivals, leading to a struggle of each against all.

This means that, sooner rather than later, the "war of words" that has preceded this weekend's G-20 summit will give way to far more serious economic, and even military, conflicts.

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