

G20 summit exposes deep trans-Atlantic differences

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While international leaders sought to put the best face on the G20 summit held in Toronto at the end of last week, there was no disguising the extent of divisions between major global players, particularly the United States and Germany.

The European press was generally dismissive of the summit, which failed to reach any concrete binding decisions. For the French newspaper *Le Figaro*, “The G20 has ushered in the return of ‘every man for himself.’ The attempt to define a consensus-based economic policy to get out of the crisis proved abortive. Between Germany obsessed with cutting deficits [...], the US fretful about hamstringing growth by excessive austerity and France halfway between the two, a common guideline is nowhere in sight.”

The summit had been preceded by a war of words and extensive lobbying by politicians and economists on both sides of the Atlantic arguing in favor of competing economic strategies.

In an unusual step, US President Barack Obama sent a letter to all G20 heads of state warning that too rapid austerity measures aimed at combating state indebtedness could impede global recovery. Obama fired a clear salvo in the direction of Germany and China, calling upon countries with a large export surplus to stimulate their domestic demand.

The German response was rapid. On June 23, German Finance Minister Wolfgang Schäuble wrote a comment in the *Financial Times* defending the German government’s austerity program—an €80 billion cut in spending over the next four years.

The exchange between leading politicians was echoed in a war of words between leading economists from both sides of the Atlantic. In an article for the *New York Times* titled “That ‘30s Feeling”, columnist Paul Krugman warned that Germany’s current austerity

policies evoked “the policies of Heinrich Brüning” who sealed “the doom of the Weimar Republic” and in turn played a role in opening the road to the Nazis. In a visit to Berlin, Krugman turned his venom on the head of the German Bundesbank, Axel Weber—a firm advocate of the German government’s austerity measures. Weber was a “danger to the euro,” Krugman claimed.

Krugman’s warnings were then backed up by a comment in the *Financial Times* by the US investor George Soros also warning of a return to the thirties if the German policies were replicated throughout Europe.

Writing in the country’s leading economic newspaper *Handelsblatt*, a leading German economist Wolfgang Franz acidly challenged Krugman’s arguments and declared that it was above all the US and the American Federal Reserve that were responsible for the catastrophic finance crisis.

Franz’s article was followed by a further broadside entitled “10 Unpleasant Truths for Obama,” pointing out that the US had acquired 45 percent more debt in 2010 (compared to Germany’s 5 percent), that America had 40 million inhabitants dependent on food stamps, and that it had the most unequal economy in the developed world. The article then went on to list a further seven indictments of US capitalism.

While *Handelsblatt* is quite prepared to lambaste “Anglo-American capitalism” and criticize poverty in the US, the paper is a staunch advocate of the austerity policies of the German government, which will massively increase poverty levels in the country.

Underlining these divergences are the rapidly diverging interests of US and German banking and business interests.

During the same period in which US capitalism has undergone a pronounced economic decline, Germany

has significantly raised its share of world trade. In the course of the last twenty years, German capitalism has been able to hugely increase its level of exports, which currently stand at the historically unprecedented level of 47 percent of GDP. In comparison, the world's other leading export nation, China, exports just 30 percent of its GDP.

This growth in German exports is largely due to the introduction of the euro across Europe, combined with the attacks on the German welfare state carried out by the Social Democratic-Green Party government (1998-2005), which created a huge pool of cheap labor. Germany was also able to benefit from the opening up of new markets in Eastern Europe and Russia following the collapse of the Stalinist bloc countries two decades ago. Nearly two-thirds of German exports (64 percent) now flow to the countries of the EU. The US currently accounts for just seven percent of German exports.

The SPD-Green government also lifted a number of key domestic financial regulations enabling German banks to invest the huge profits made by German industry in increasingly speculative portfolios all over the world. Mirroring the spectacular increase in German exports was an equally remarkable increase in Germany's role on the international money markets.

According to one recent study, German banks in June 2008 (i.e., directly prior to the international finance crisis) held the biggest international credit portfolio in the world—a sum of \$4.6 trillion, followed by French (\$4.2 trillion) and British banks (\$4.1 trillion).

This huge reservoir of capital was invested in the form of loans to many European countries, enabling them, in turn, to buy German exports. In the front line for loans from German banks during this period were countries such as Greece, Spain and Portugal, which now confront bankruptcy. A significant sum was also invested by German and other European banks in the US finance market, financing a great deal of American “junk” bonds.

Having burnt their fingers in the US finance market, German and other European banks are now decreasing their portfolios in America and seeking to increase their already substantial investments in Europe. In the course of the last four years, German investment in EU countries (mainly in the east) have increased by 100 percent.

Despite the intentions of Germany's chancellor,

Angela Merkel, who less than a year ago lavished praise on the American social model in her address to the US Congress, the fact is that the diverging economic interests are driving these post-war allies apart.

At the same time, Germany's attempt to translate its economic and financial power into political clout in Europe is creating new imbalances and frictions with its leading European partners, in particular France. This has led to one French expert on French-German relations to warn: “The German question is back, you can't get away from it.”

The most serious divisions are opening up between the United States and Germany, and within Europe itself, since the end of the Second World War. These tensions are only one indication of the fracturing of long-standing relations, which once again poses the threat of global conflict. This danger can be countered only through the unification of the European and American working class on the basis of a socialist program to replace the capitalist system.

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