G20 meeting: Upbeat assessments mask deep rifts

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The words were relatively upbeat but the reality is that the G20 finance ministers' meetings held in Paris over the weekend did not come closer to untangling the mare's nest that is the European sovereign debt and banking crisis than any of the previous meetings and summits.

The major non-European powers, spearheaded by the US and joined by Britain, insisted that the eurozone countries come up with a plan for tackling their financial crisis by the time of the European summit scheduled for October 23 in preparation for the G20 leaders' meeting on November 3.

In the lead-up to the meeting, there was talk of a possible increase in the resources of the International Monetary Fund to enable it to provide increased support to the European financial system. This was opposed by the US, Canada and Britain. In the words of US Treasury Secretary Timothy Geithner, the fund's reserves, totaling around $390 billion, were a "substantial amount of financial firepower."

UK Chancellor George Osborne told journalists that increased IMF funding could not be a "substitute for action by the eurozone to support their own currency." Canadian Finance Minister Jim Flaherty said the focus had to be on "the Europeans solving this crisis" and not non-central questions like increasing the resources of the IMF.

The communiqué issued from the meeting contained a convoluted passage calling on the IMF to find "new ways" to provide liquidity to prevent systemic financial shocks, while "building on existing instruments and facilities." As the *Financial Times* commented, the rather tortured language enabled Geithner to indicate the US would support IMF intervention "if the circumstances were right," along with "a more substantial commitment of European resources," while maintaining that there was no need for new IMF resources.

The European powers claim to have a comprehensive plan, but they have yet to set it out. The reason lies in the mass of conflicting economic and political interests arising from the financial crisis. Not only are there divisions between countries but also between the major banks and governments.

The last European plan, devised on July 21 but now recognised to be completely inadequate, called for bond holders to take a 21 percent "haircut" on their Greek debts as part of an overall bailout package. With the worsening of Greece's economic position since the plan was announced—not least because of the impact of the austerity measures imposed under the so-called bailout plan—German authorities are pushing for a figure closer to 50 or even 60 percent.

France is resisting because its banks would be adversely affected under conditions where they are being scrutinised and downgraded by credit rating agencies.

Then there is the question of bank recapitalisation—the injection of more equity capital into the banks to compensate for the loss in value of the financial assets, especially sovereign debt, they hold.

German authorities are pushing for this to take place through private markets and national governments, with the European Financial Stability Facility (EFSF) only intervening as a last resort. France, however, is worried that any injection of national funds into its banking system will adversely affect its AAA sovereign credit rating, which is already under pressure following the S&P downgrade of the US credit rating in August.

In addition, the banks and their representatives have raised objections to any forced recapitalisation. In what has been characterised as a "furious letter" to German Finance Minister Wolfgang Schäuble, the country's five banking associations insisted that any risk assessment should be based on current concepts of capital requirements and not the tighter measures planned for the future. "It cannot be in the interests of stabilising financial

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markets to fabricate an imaginary weakness of the European banking industry through the artificial tightening of capital requirements," the letter stated.

Josef Ackermann, the chief executive of Deutsche Bank, warned that rather than accepting state funds he would sell off assets to boost the bank's capital ratio. Such a move would result in a rapid tightening of credit markets and deepen the financial crisis.

The Institute of International Finance, a major lobby group for global banks and finance houses, also weighed into the conflict. IIF Managing Director Charles Dallara attacked moves to reopen the July 21 deal in order to increase the "haircut" on bond holders, saying a "deal's a deal." Asked about these objections, European Monetary Affairs Commissioner Olli Rehn said the July agreement required technical revision: "We are not reopening the deal, rather revisiting the deal."

The size of the Greek "haircut" is not the banks' only concern. Dallara said moves by the European Banking Authority to require banks to value their sovereign debt holdings at current market prices would create "serious risks." Such measures would put pressure on the debt markets of those countries, leading to a further decline in the value of their bonds. This could lead to a "vicious circle … where capital goes through the front door and comes out the back door, as the value of sovereign debt remaining on the banks' balance sheet declines."

Dallara's remarks underscore the futility of all attempts to resolve the financial crisis by imposing tighter regulations on the banks. Faced with such a prospect, they simply respond by threatening measures that would create an even deeper crisis.

Nor is there any possibility of unified action by governments. The G20 meeting was another demonstration of the fact that every government acts in the interests of its own corporate and financial interests.

The US has pressed for a bailout in order to protect the interests of American banks, which, while not heavily exposed directly to European debt, would suffer major losses in the event of any default because of the credit default swaps they hold.

Britain is determined to defend the interests of the City of London—sometimes known as the Guantánamo Bay of the international finance system because practices deemed illegal elsewhere have been carried out with impunity—against any regulations that would impinge on its activities. And the European powers cannot agree on a plan because of the conflicting interests of their respective banks.

On the eve of last weekend's G20 meeting, the *Financial Times* published an editorial entitled "Bringing back the spirit of 2009."

"The state of the world economy could hardly be gloomier," it began. "Developments in the bond markets, particularly in the case of sovereign debt, are causing much anxiety among investors. Little reassurance is offered by macroeconomic trends: in the US and Europe, employment data offer no room for optimism and even China's growth rates have been affected by the slowdown in global trade. Business decisions are on hold and the risk of a double-dip recession appears even harder to escape."

Recalling the agreements reached at the April 2009 G20 summit, the editorial called for another dose of such "constructive efforts," insisting that only the "vital commodity of confidence" could help the world "avert disaster." Confidence had been restored before and could be again.

Agreements were possible in 2009 only because the interests of the dominant capitalist powers were temporarily aligned. Two-and-a-half years on, the very development of the crisis has intensified the inherent conflicts among them.

The bourgeoisie has no answer to the crisis the profit system has produced, unless deepening poverty, austerity and war are considered a solution.

As the G20 meeting was being held, the global Occupy demonstrations pointed to where the solution lies: the mobilisation of the working class on an international scale for socialism, based on the reorganisation of economic life under democratic control to meet social needs, not corporate profit.

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