G20 summit failure brings world recession closer

Nick Beams
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The G20 meeting held in Cannes, France, over the past two days, has once again revealed the deepening fractures in the world economy and the inability of the ruling elites to even begin to tackle its problems, let alone resolve them.

The meeting began with fears over the consequences of a Greek default and withdrawal from the eurozone. It ended in disarray amid concerns that Italy was about to take the place of Greece at the centre of the European debt crisis.

Britain's *Guardian* newspaper described the second day of the talks as one of "unrelenting gloom". It warned that "a world recession has drawn closer after a fractious G20 summit failed to agree to fresh financial help for distressed countries and debt-ridden Italy was forced to agree to the International Monetary Fund monitoring its austerity program."

In the lead-up to the summit, there had been talk that the G20 would agree to boost IMF resources by as much as $250 billion in order to try to alleviate the financial crisis. But disagreements over the proposal—the United States and Britain have been strongly opposed to additional IMF funding—meant that a decision was put off until a meeting of the G20 finance ministers next February.

The meeting convened amid turmoil over Greece following the announcement by Prime Minister George Papandreou that he intended to hold a referendum on the austerity program dictated at the eurozone summit meeting of October 27. Coming under intense pressure from France and Germany, Papandreou withdrew the plan, hailing the establishment of "consensus" when the Greek opposition announced it would back the austerity program.

The Greek crisis dominated the G20 not simply because its default and withdrawal from the eurozone could set off a financial chain reaction—serious as such a consequence would be. If the problem were simply the €350 billion Greek debt, it could be relatively easily resolved through an injection of funds from the rest of the eurozone. The fact that it cannot makes clear that the crisis has deep roots within the very structure of the eurozone itself.

The establishment of the eurozone in 1999 was driven by powerful economic forces, which necessitated the establishment of a single currency in order to cut transaction costs and facilitate the movement of finances across the increasingly integrated European economy.

However, financial integration did not extend to the establishment of a central bank that would function as a lender of last resort. This was ruled out by the stronger, northern European economies, especially Germany, on the basis that the eurozone would become a "transfer union" in which funds would be continually channelled to the poorer regions.

In other words, the eurozone embodied in its very foundations one of the most fundamental contradictions of the capitalist economy: that between the integrated character of economic activity and the conflicting interests of rival nation-states.

With the onset of the sovereign debt crisis, attempts have been made to overcome this fatal flaw. The European Financial Stability Facility (EFSF), set up in May 2010 as the Greek financial crisis was developing and since augmented at the summits in July and October, is supposed to provide a bailout for indebted countries. But it is not a fund with its own pool of money able to provide lender of last resort facilities. Rather, it is a so-called special purpose vehicle for the raising of funds on international financial markets for indebted countries.

The EFSF does not overcome the contradictions of the eurozone; it just reproduces them in ever-more bizarre forms. Under the structure of the EFSF, all countries of the eurozone act as its guarantor on financial markets. This means that indebted countries are a backer for the very fund that is supposedly bailing them out. If a country such as Italy—a major guarantor—requires a bailout, there is a big question mark over the ability of the EFSF to raise the necessary funds on international markets.

The G20 meeting provided no assistance. The idea that the IMF might lend money to the EFSF was scotched, with IMF managing director Christine Lagarde making clear that the fund "lends money to countries, not to legal entities."

The explosive potential of the contradictions gripping the world economy was made clear in the comments on the Greek referendum proposal and the prospect of default as the meeting was convening. British Labour peer Lord Soley remarked: "When the history of this period is written it may well be that the Greek decision will be seen as the economic equivalent of the assassination of Archduke Ferdinand at Sarajevo in 1914. It will trigger events way beyond the borders of Greece or even Europe."

A *Financial Times* editorial also recalled the spark that set off World War I: "From the economic point of view, the eurozone has what it takes to solve its crisis without any external help. It must do so. The 20th century started with a small Balkan state blowing up the world. History must not be allowed to repeat itself in the 21st. There is something deeply wrong with the global economy if a small country like Greece can become such a big threat."

Indeed there is. The contradictions wracking global capitalism are creating potential "Sarajevo moments" everywhere. These conflicts were at the heart of the G20 meeting.

The Europeans want funds from the IMF for the EFSF but are thwarted by the US and Britain. The US wants China to lift the value of the renminbi, but the Chinese regime cannot do so for fear of losing international competitiveness. There is near universal agreement that an export "surplus" country like Germany must lift expenditure at home and boost consumption in order to correct global imbalances. Germany insists that the problem is not its surpluses but the debts of other countries. And the list goes on … everyone for himself and devil take the hindmost.

At the conclusion of the summit, as on so many other occasions, the official communiqué called for measures to "reinvigorate economic growth". However, as the *Financial Times* noted, the "action plan" for growth and jobs "committed countries to almost nothing they were not already pursuing." It cited former IMF senior official Eswar Prasad who castigated the G20 for offering nothing but "vague promises for the future and a series of short-term fixes that are hostile to the political circumstances in individual countries."

In other words, no solution to the global crisis can even begin to be advanced because of the irreconcilable conflict of the national interests among the major capitalist powers.

The eruption of this conflict to the very centre of world economics and politics has the most profound historical significance. Marx explained that a revolutionary epoch arises when "the material productive forces of society come into conflict with the existing relations of production." Such a period has now opened up. The ruling global elites have no answer to the crisis of their system—unless war, depression, and impoverishment of millions of people be considered a solution. It can only be resolved on a progressive basis by the global working class fighting on the program of international socialism.

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