No agreement at G8 summit on deepening financial crisis

Nick Beams
21 May 2012

An editorial in the British newspaper the *Independent* called it the most important G8 summit for three decades, as the deepening financial crisis in Europe threatened the entire global economy. The communiqué issued after a day of talks at the US presidential retreat at Camp David, however, revealed there was no plan to meet the crisis, just a decision to put the best face on a worsening situation.

It began with two outright falsehoods—declaring that “our imperative is to promote growth and jobs” and that the “global economic recovery shows signs of promise.”

President Obama emerged from the summit to declare “so far so good” and claim “there’s now an emerging consensus that more must be done to promote economic growth and job creation, right now.” In a later statement, he pointed to the record of his administration in putting in place “some of the strongest financial reforms since the Great Depression”—an assertion belied by the recent $3 billion-plus loss by JPMorgan Chase in derivative trades.

The communiqué sought to do two things: give the impression that the G8 leaders have some response to the global crisis, and paper over differences where these exist. Much has been made in press coverage of the emphasis placed by Obama and his supporters in the G8 on “growth,” while German Chancellor Angela Merkel is portrayed as the chief proponent of austerity.

The differences are minor and largely tactical. Insofar as the US favours growth, it wants to see more money injected into the European financial system to protect the banks, and thereby US financial interests, as well as the implementation of “structural reforms” to drive down wages and working conditions. It would also like to see some limited infrastructure projects to provide a lift to the European economy, assisting American exporters.

The communiqué welcomed “the ongoing discussion in Europe on how to generate growth, while maintaining a firm commitment to fiscal consolidation to be assessed on a structural basis.” In other words, the austerity measures, involving cuts in government spending targeting social programs, will be continued.

While there were minor differences in emphasis, all the G8 leaders agreed there would be no return to the fiscal stimulus measures of 2008-2009. In any case, such measures could not be carried out in the face of ferocious opposition from global financial markets, representing the interests of the banks and financial institutions.

If Spain, Portugal or even France were to initiate spending measures aimed at boosting jobs, their bonds would be sold off *en masse* on financial markets, forcing up interest rates and creating a financial crisis.

As for Germany, Merkel’s opposition to an easing of the austerity program reflects the fear of German finance capital that it will be dragged deeper into the mire if it is forced to provide more money for rescue operations.

Merkel indicated her support for the call in the communiqué for “investment in education and in modern infrastructure,” but added “this doesn’t mean stimulus in the traditional sense.” US officials were reported to have agreed, saying growth did not require outright public spending, but could take the form of public-private partnerships and the loosening of credit.

One-on-one talks between Obama and Merkel after the conclusion of the formal session made clear there were no fundamental differences. A White House official, briefing reporters after the discussion, said there was an understanding that the push for growth was “not to take the place of fiscal reform” but that the two would go “in tandem.”

“There’s a growing recognition of the need to take steps in the immediate term that can promote growth in the euro zone… and also pursue fiscal consolidation that Chancellor Merkel and others have been focused on,” he said.

On the crucial issue of the future of Greece, the summit declaration said only that “we reaffirm our interest in Greece remaining in the euro zone while respecting its commitments.” In other words, austerity measures that have plunged the country into economic conditions not seen since the 1930s have to be continued.

The summit leaders left Camp David without anything even resembling a plan to meet the crisis and with no one committed to anything, despite the worsening situation.

On the eve of the talks, the British government’s chief economic forecaster warned that the UK economy would suffer “permanent damage” and would “never quite get back up” if the euro collapsed. UK Chancellor George Osbourne said the “storms” of the euro zone crisis were gathering again.

Even as the summit was convening, fresh concerns emerged over the stability of Spain, with the news late on Friday that its 2011 public deficit was significantly higher than previously reported because of adjusted accounts in three of the country’s regions.

The public deficit for 2011 is now estimated to be 8.9 percent of gross domestic product, compared to the previous estimate of 8.5 percent. The news of the Spanish government’s worsening position will add to pressure on the interest rates on 10-year government bonds, which have already gone over 6 percent, reaching levels considered to be unsustainable.

While advancing no measures to meet the economic crisis, the G8 leaders indicated their backing for the US push for regime-change in Syria, welcoming the current UN mission in Syria and resolving to “consider further UN measures as appropriate.”

The line-up behind the US extended to Iran, with the communiqué expressing “grave concern over Iran’s nuclear program” and calling on its government to “address without delay all outstanding issues related to its nuclear program.”

The focus of economic attention will shift back to Europe this week, where EU leaders are holding an informal summit on Wednesday. Among the items to be discussed is a proposal to empower the euro zone’s €500 billion rescue fund to directly recapitalise European banks and to issue euro zone bonds.

The proposals have been floated before but rejected because of German opposition. But now there are fears that a bank run is developing in parts of the European banking system, following questions about the stability of the Greek and Spanish banks last week.

Two comments are devoted to this question in today’s *Financial Times*.

According to columnist Gavyn Davies; “A bank run is now happening within the euro zone. So far it has been relatively slow, but it is a run nonetheless. And last week, it showed signs of accelerating sharply in a way which demands an urgent response from policymakers.”

European economics commentator Wolfgang Münchau pointed to press reports that Spanish savers had withdrawn €1 billion from the troubled Bankia conglomerate, noting that while this was not a bank run, “it may be the beginning of one.”