G20 issues empty declaration against currency wars

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The meeting of G20 finance ministers and central bankers held in Moscow has issued a statement against competitive currency devaluations in the wake of growing concerns about the development of a “currency war”. However, the words contained in the G20 communiqué issued on Saturday will have virtually no impact on present policies.

The governments and central banks of the major economic powers will continue their own versions of “quantitative easing” (printing money), thereby working to drive down the value of their currency in international markets. The only stipulation from the G20 is that they do not actually say that is what they intend to do.

The finance ministers’ statement reiterated “our commitments to move more rapidly towards more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and avoid persistent exchange rate misalignments.”

It added: “We will refrain from competitive devaluation. We will not target our exchange rates for competitive purposes, will resist all forms of protectionism and keep our markets open.”

The key phrase is “for competitive purposes”. Provided countries say that increasing the money supply through central bank intervention in financial markets is aimed at boosting the domestic economy, then their actions will fall within the G20 guidelines. But the inevitable consequence of such action is to weaken the exchange rate of the given national currency in international markets.

The currency war issue occupied a central place on the G20 agenda in the wake of directives issued by the newly-elected Japanese government to the country’s central bank to boost the money supply in a bid to revive the stagnant economy. As a result, the yen has lost about 7 percent of its value this year.

Japanese ministers and government spokesman have openly talked about the need to bring down the value of the yen. In an interview on the eve of the G20, a close parliamentary ally of Prime Minister Shinzo Abe said it would be “appropriate” for the yen to trade at around 100 to the US dollar, compared to its present level of 93.

The tone for the G20 was set by the G-7 group of major powers, which issued a statement on the eve of the meeting warning against competitive devaluation. This was widely interpreted as being directed against Japan. But the G20 meeting did not want to issue a direct condemnation of Japan, lest this set off a broader conflict.

According to one financial analyst who spoke to Bloomberg, the message from the G20 is that while it will be “harder for the Japanese to talk down the yen … they will let their policies do the talking.”

The underlying cause of the currency conflict, however, is not the latest actions of the Japanese government but the “quantitative easing” program of the US Federal Reserve, which is printing money at the rate of $80 billion a month, or $1 trillion per year, through its bond purchases.

Federal Reserve chairman Ben Bernanke defended the policy at the Moscow meeting, saying that if it succeeded in stimulating domestic demand then “we are helping to strengthen the global economy as well.”

In fact the policy has nothing to do with boosting US economic growth but is aimed at providing ultra cheap money for the major banks as they seek profits through speculative operations on the financial markets. Far from strengthening the world economy, the Fed’s policy is creating growing economic tensions.

Because the dollar is the foundation of the international monetary system, the inevitable consequence of “quantitative easing” is to lower the value of the dollar in relation to other countries. This creates economic difficulties for US rivals both in export markets and in their domestic markets, due to the increased pressure of international competition.

Japan has been among those countries adversely affected. However, its program of lowering the value of the yen has impacted on its competitors, in particular South Korea. The head of South Korea’s central bank has warned that its future growth could be adversely affected.

Before the meeting got underway, stern warnings were issued about the dangers of competitive devaluation. “We refuse to enter into any kind of currency war,” the French finance minister Pierre Moscovici declared.

Britain’s chancellor of the exchequer, George Osborne, took an even stronger line. “Currencies should not be used as a tool of competitive devaluation,” he said. “The world should not make the mistake that it has made in the past of using currencies as the tools of economic warfare.”

However, following Osborne’s remarks, the senior Bank of England policymaker Martin Weale advocated precisely that. In a speech delivered on Saturday, he said that a 25 percent depreciation of the British pound in 2007-2008 had had little impact on boosting exports and that further depreciation was required. “The perhaps most natural means of resolving the problem is for the nominal exchange rate to fall,” Weale said.

The growing divergence between official stated policy and actual practice underscores warnings by Brazilian finance minister Guido Mategna, who first raised the danger of a currency war in 2010. “The currency war has become more explicit now because trade conflicts have become sharper,” he said in an interview. “Countries are trying to devalue their currencies because of falling global trade.”

These mounting problems were expressed in the latest growth figures showing that the US, Japan, Britain, and the eurozone all experienced economic contractions in the fourth quarter of last year. It is the worst result since 2009, the period immediately following the eruption of the global financial crisis.

The G20 meeting held in April 2009 was full of promises of coordinated action to stimulate the world economy. At the Moscow meeting, however, there was barely even pretence that such action would be taken. This was despite the fact that at least one-third of G20 countries are officially in recession. The communiqué simply said that “ambitious reforms and coordinated policies” were the key to achieving strong sustainable growth, without specifying what they might be.