Perplexity and divisions mark G-20 meeting

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Finance ministers and central bankers from the G-20 group of countries, covering more than 80 percent of the global economy, have started a two-day meeting in Shanghai, China, amidst the worst economic outlook since the immediate aftermath of the 2008 financial crisis.

The meeting takes place against the backdrop of fears that any semblance of economic stimulus provided by an ultra-low interest rate regime and quantitative easing, through which central banks have pumped more than $5 trillion into the global financial system, has run its course and the spread of negative interest rates is making a bad situation worse.

Consequently, in the lead-up to the summit, a series of economic institutions have called for a switch in policy, with an emphasis on government spending on infrastructure projects to make up for the shortfall in investment, which is running well below pre-2008 levels in all the major economies.

Last week, the Organisation for Economic Co-operation and Development (OECD) pointed to the need for such measures. It was joined Wednesday by the International Monetary Fund (IMF), which called for "bold multilateral action" to boost growth and contain risks in a briefing note issued for the G-20 meeting.

In its summary of the overall situation, the IMF said "the global recovery has weakened further amid increasing financial turbulence and falling asset prices". Economic activity slowed towards the end of 2015, and the valuation of risky assets dropped sharply, increasing the likelihood of a further weakening of the outlook. The IMF did not revise down its estimates for global growth, but it indicated this was likely at its April meeting.

It voiced concerns about what it called "China's transition to more balanced growth"—a reference to the slowdown in the Chinese economy—and pointed to "signs of distress" in other large emerging market economies, particularly as a result of falling commodity prices.

"These developments," it said, "point to higher risks of a derailed recovery, at a moment when the global economy is highly vulnerable to adverse shocks." To counter these dangers, it said the G-20 had to "act now" to implement growth strategies and plan for coordinated demand programs to boost public investment.

An even gloomier analysis of the world economy was set out in a column by *Financial Times* chief economics commentator Martin Wolf on Wednesday. He began by noting that "the world economy is slowing, both structurally and cyclically." In other words, on top of a downturn in the business cycle, there are also longer-term processes which are lowering economic growth.

Wolf cited the OECD report, which pointed out that the global economy was growing at the lowest pace in five years. "Behind this is a simple reality: the global savings glut—the tendency for desired savings to rise more than desired investment—is growing and so the 'chronic demand deficiency syndrome' is worsening." In other words, no amount of financial stimulus is going to boost investment in the real economy.

In fact, from the very outset, despite the assertions that cheap money would provide a boost to growth, its real aim was to shore up the position of the speculators and banks who brought the world economy to the point of meltdown in 2008 and enable them to continue the vast looting operation that has transferred trillions of dollars into the hands of the ruling financial elites at the expense of the working class.

There is now a growing realisation that these massive money-printing operations have done nothing to boost global growth but have only fuelled the growth of socially-destructive parasitism and speculation, creating the conditions for another financial crisis, the consequences of which would be even more serious than that of 2008–2009.

Reflecting the growing perplexity in ruling circles over economic policy, Wolf commented: “No simple solution for the global economic imbalances of today exist, only palliatives.” Given that “palliative” care is most often associated with someone suffering from a terminal disease, placed in a hospice with no prospect for a cure, this is a revealing assessment of the state of global capitalism.

Warning that the effect of further quantitative easing would be to lower currency exchange rates as each country sought to increase its exports, in a policy that is “bound to blow up,” he insisted the only alternative was fiscal policy, that is, increased government spending to boost demand. This meant a break from what he called the “lunatic” obsession with austerity.

In reality, the actions of the global policymakers arise from the insanity of the present social order based on the profit system and the division of the world into rival and conflicting nation-states. Indeed, even as the IMF and OECD call for international economic cooperation, all the global powers, led by the United States, are sharply expanding military spending in preparation for global military conflict with their rivals.

This is why the calls by the IMF and other bodies for a coordinated policy will fall on deaf ears as each of the major powers pursues its own interests, insisting that the global crisis is the responsibility of its competitors.

The tone was set by US Treasury Secretary Jack Lew. He discounted an emergency G-20 response, calling for China to do more to boost domestic consumption and for countries in Europe running a surplus, in particular Germany, to carry out fiscal stimulus.

“These last few months have made clear that weakness in demand globally is a problem that can’t be solved just by everyone looking to the United States,” he said, declaring that real economies were doing better than financial markets thought. “This is not a moment of crisis. Don’t expect a crisis response in a non-crisis situation.”

Likewise, all the other major powers look to their own interests. The German ruling elite is strenuously opposed to fiscal stimulus in Europe, arguing that such demands from the US will lead to a weakening of its financial system and thereby strengthen the position of American banks against their German rivals.

A Japanese official warned that, while financial markets needed “something refreshing,” there was little prospect of a global deal and “no magic bullet.” The Japanese government would like to see further stimulus, but in the rest of the world, not in Japan where the debt to gross domestic product ratio is among the highest in the world. China, too, would like to see further stimulus but is constrained at home by mounting debts and the instability of its financial system. And so the list goes on.

The austerity program is not a product of defective thinking on the part of the ruling elites as all the would-be reformers of global capitalism claim. It is a class policy imposed in the interests of definite social forces. Directed by the ruling corporate and financial elites, it is aimed at weakening the position of the working class, through unemployment, wage cuts and attacks on social conditions as one of the central mechanisms for increasing profits.

Whatever the immediate outcome of the G-20 meeting, and whatever declarations to take action emerge from Shanghai, this program will be intensified in the coming period as the crisis of the global capitalist system deepens and the divisions between the major powers widen.