

# Currency conflicts surface at G-7 meeting

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Rising geo-economic tensions, resulting from the continuing stagnation of the world economy, came to the surface at a meeting of G-7 finance ministers and central bankers at Sendai, Japan, at the weekend held in advance of the group's summit meeting this week.

The immediate point of contention was sharp opposition from the US over statements from Japan that it stands ready to intervene in currency markets to push down the value of the yen, a move aimed at boosting the Japanese position in the struggle for export markets. On top of the currency conflict, there were deep divisions over the role of increased government spending in trying to revive the global economy.

The currency dispute came into the open with statements by an unnamed US Treasury official as the meeting opened criticising remarks by Japanese government and financial officials that the recent upward movement in the value of the yen was “disorderly” and that intervention through the selling of yen may be necessary.

“If the perception and/or reality is that it's for gaining unfair advantage, that is very disruptive to the global economic system,” the US official said. “It's hard to imagine that if one country were perceived to be doing it that it wouldn't lead to other countries doing the same.”

The Japanese warnings of intervention have come in response to the surprise increase in the value of the yen—at one point it has been up by as much as 13 percent—following the decision of the Bank of Japan (BoJ) at the end of January to initiate a policy of negative interest rates. While the BoJ move did not have the stated objective of lowering the yen's value, it was expected this would take place.

However, the move of the currency in the other direction has had a significant impact on major Japanese corporations, many of which are reporting lowered profit expectations as a result of tougher

conditions in international markets because of the yen's rise.

This has prompted the calls for intervention, including from the Japanese finance minister Taro Aso. Echoing his views, a top Japanese financial official, Masatsugu Asakawa said in a recent interview: “What we need to be conscious of is that excessive volatility and disorderly movements will have an adverse impact on economic stability.”

However, the claim of “disorderly” movements was directly discounted by the US treasury official, making it clear the present situation did not fall into that category by referring to the conditions which followed the 2011 earthquake in Japan when it was agreed that there should be intervention.

“I think you have to distinguish the kind of crisis that was presented in those circumstances from the kind of fluctuations in a market that just happen,” the official said.

US Treasury secretary Jack Lew raised the issue from the beginning of the talks. A statement from the US Treasury said he had underscored the commitments made at the February meeting of the G-20 in Shanghai to “refrain from competitive devaluation and communicate closely” saying they have “helped to contribute to confidence in the global economy in recent months.”

Lew emphasised these points at a news conference saying that it was important that the G-7 have an agreement not to engage in competitive devaluations and to communicate “so that we don't surprise each other.” “It's a pretty high bar to have disorderly (currency) conditions,” he said.

While Aso said there had not been a “heated” exchange with Lew and that it was natural that countries had differences over how they view currency movements, he persisted in his original assertion about the increase in the value of the yen.

“I told (Lew) that recent currency moves were one-sided and speculative,” Aso said at a news conference, adding that the gains in the yen over the past weeks had been disorderly.

But Japan received no support from other participants. The French finance minister Michel Sapin said monetary policies were “well adapted” and there were “no big discrepancies in currencies, so there is no need to intervene.”

Behind the currency conflict is the fear that, as the ongoing stagnation of the global economy—characterised by lowered growth rates, deflation, and falling investment—increasingly comes to resemble the decade of the 1930s, the beggar-thy-neighbour policies of that era will return. Each of the major powers will increasingly resort to economic nationalist measures to protect its own position.

As with other major economic summits of the recent period, the G-7 finance ministers meeting failed to produce any coordinated response to global stagnation. The US and Japan want to see a boost in fiscal spending. But this is completely opposed by Germany and to some extent by Britain.

Germany has opposed both the quantitative easing monetary policies of the European Central Banks and any suggestion that it should use its stronger fiscal position to initiate stimulus measures. Its opposition is rooted in the fear that any relaxation of its demands for austerity measures will lead to a weakening of the German financial system and work to the advantage of stronger US banks and finance houses.

Consequently there was no agreement on coordinated measures. There was a completely vague, general agreement on the need to employ a mix of monetary, fiscal and structural measures, with the rider that these measures should take into account “country-specific circumstances.” In other words, what has been described as “go your own way” approach.

Emphasising his opposition to both fiscal and monetary stimulus, German finance minister Wolfgang Schäuble said “structural reforms”—the code phrase for deepening attacks on labour protections and social conditions—were the most important and there was greater recognition in the G-7 that “structural reforms are crucial.”

While the differences over currency values between the US and Japan did not lead to an open breach, the

tensions will continue. This is because what were once regarded as “normal” conditions for the functioning of the capitalist economy are breaking down.

The chief factor in the global stagnation that is fuelling currency conflict is the lack of investment in the real economy. In Europe, investment levels are running some 25 percent below where they were before the global financial crisis of 2008.

In the US, major companies instead of re-investing profits in new plant and equipment are now hoarding cash. A *Financial Times* article at the weekend, citing a report by Moody’s, noted that five major US hi-tech companies—Apple, Microsoft, Alphabet (Google), Cisco and Oracle—were sitting on \$504 billion in cash at the end of 2015, nearly one-third of the total of \$1.7 trillion being held by US non-financial corporations.

Moody’s reported that capital spending in the US had contracted for the first time since the official end of the US recession in 2009, down by some 3 percent. One of the chief factors was the reduction in investment by mining and energy companies as a result of the sharp fall in commodity prices, itself another expression of falling global growth.



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