Sharp conflicts at G8 finance ministers meeting

By Peter Schwarz
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The meeting of finance ministers of leading industrial countries (G8) held last Friday and Saturday was characterised by sharp conflicts over economic policy, with especially pronounced and growing differences between Germany and the US. The meeting ended—as is the norm on such occasions—with a resolution designed to disguise the conflicts, while offering no means to resolve them. The meeting, held in the Italian town of Lecce, was part of the preparations for the summit of G8 heads of state and government due to take place next month in the Italian city of L'Aquila.

Superficially, the conflicts in Lecce centered on the issue of an "exit strategy", an end to the state programs of financial support and stimuli granted to banks and big businesses, which have led to an explosion of state debt.

In particular, Germany's Finance Minister Peer Steinbrück urged a rapid end to spiraling debt, stressing the danger that it will trigger inflation. He called for a speedy reduction of debt and declared that further stimulus programs were "neither necessary nor advisable". He was supported by the delegates from France and Italy, which currently chairs the G8.

Italy's Finance Minister Giulio Tremonti warned the big stimulus programs used to fight the recession may already be recreating the kind of financial speculation that was at the root of the economic crisis. Speculation had returned, especially in oil markets, he said, where prices have recently risen sharply, posing a threat to the recovery: "Instead of financing the real economy, the extra liquidity in the system has this tendency to fuel speculation."

He was sharply contradicted by US Treasury Secretary Timothy Geithner. "We need to reinforce the improvement in global demand and continue to lay a foundation for a durable recovery. It is too early to shift toward policy restraint", he said. Geithner was backed by IMF director, Dominique Strauss-Kahn, who said: "Before the exit strategy we have to exit the crisis." Strauss-Kahn stressed that the main focus for policymakers should be to continue combating the existing crisis.

In any event, the final declaration of the meeting made a noncommittal reference to an "exit strategy."

"We discussed the need to prepare appropriate strategies for unwinding the extraordinary policy measures taken to respond to the crisis once the recovery is assured," it stated, adding, however, that these strategies "may vary from country to country." It furthermore sought to avoid the problem by passing it to the IMF:"We asked the IMF to undertake the necessary analytical work to assist us with this process."

Behind the apparent technical conflicts over an "exit strategy" are fundamental political issues. Washington is using the privileged position of the dollar, its military strength and its residual global dominance to offload the full brunt of its crisis onto its rivals. This offloading is being carried out through massive borrowing by the Federal Reserve and the buildup of a huge federal budget deficit.

In the first place, such measures lead to a decline in the value of the dollar, which in turn boosts the euro and undermines the European, and especially German, export industries. The latest figures for German exports are catastrophic. In April, exports were 29 percent lower than in the same month the previous year—the most pronounced drop in the country's postwar history. The export federation BGA has estimated that the fall in German exports for 2009 will average 15 percent.

Industrial production in the Eurozone fell in April to its lowest level in 12 years. In Lecce, Finance Minister

Steinbrück conceded that the way out of the economic crisis for Europe and Germany would be “much more shallow” than for the US. Should the dollar continue to decline in value, this could lead to a complete implosion of export industries and, in turn, further intensify the crisis in Europe.

Secondly, the massive American indebtedness has resulted in the US absorbing the bulk of international private capital as well as state investment, making credit more scarce and expensive in Europe and further placing Europe, and Germany at a competitive disadvantage.

For these reasons, German Chancellor Angela Merkel criticised the US at the beginning of June in an unusually fierce tone. In a speech to business representatives in Berlin, she openly attacked the policies of the US Federal Reserve and the Bank of England accusing the US and British governments of investing billions in their financial markets before new rules could be introduced to regulate their activities. The aim of this policy, she said, was to ensure their continuing domination of world banking. (See: “What lies behind the tensions with the US?”)

On this issue as well, i.e., more extensive regulation of finance markets, the G8 ministers were unable to arrive at a consensus. The US adamantly rejects any international control over the antics of Wall Street, while it basically gives the banks and finance houses a green light to resume their speculative ways. On the initiative of Italy, there was an agreement to "develop" global standards for finance markets (“Lecce Framework”), but no one anticipates any rapid emergence of a binding agreement on such standards.

Meeting in Beijing over the weekend, the Institute of International Finance (IIF), a federation of over 370 international finance institutes chaired by the head of Deutsche Bank, Josef Ackermann, warned that individual action by single governments would lead to a fragmentation of the global financial system.

“We are seeing governments taking measures that are leading to the fragmentation of the global financial system”, IIF Managing Director Charles Dallara said. “The authorities of individual countries have often adopted these measures with little, if any, consultations with partner countries.” Deutsche Bank CEO Ackermann warned: “The trends that have come to the foreground, if continued, could create a protectionist environment that will be damaging for all.”

In analyzing the relationship between the US and Europe more than 80 years ago, Leon Trotsky concluded: “In the period of crisis the hegemony of the United States will operate more completely, more openly, and more ruthlessly than in the period of boom. The United States will seek to overcome and extricate herself from her difficulties and maladies primarily at the expense of Europe, regardless of whether this occurs in Asia, Canada, South America, Australia, or Europe itself, or whether this takes place peacefully or through war.” (“The Third International after Lenin”)

This analysis is being completely confirmed today. The world is once again hurtling toward economic and ultimately military war as the major powers scramble to carve out their shares of power in another re-division of the planet.