

G8 summit in Italy dominated by deepening financial crisis

By Stefan Steinberg
9 July 2009

There is a grim symbolism in the convening of this year's Group of Eight (G8) summit of leading industrial nations yesterday in the Italian town of L'Aquila. Earlier this year the small Italian town was rocked by an earthquake which left its medieval centre in ruins and claimed the lives of over 300 victims.

The decision by the right-wing Italian prime minister Silvio Berlusconi to transfer the summit from its planned venue—a luxury ship sailing off the coast of Sardinia—to a finance ministry police college barracks on the outskirts of the ruined town of L'Aquila, was a cynical manoeuvre by the media mogul aimed at diverting attention away from the country's intensifying social crisis. Nonetheless, in many respects the setting is entirely appropriate.

More than a quarter century after its foundation, the club of G8 nations also lies in ruins. In the wake of the international financial crisis the G8 nations have proved completely incapable of developing any joint response or policy to contain the biggest crisis to afflict the capitalist system since the 1930s. On the contrary, national antagonisms and regional tensions are rapidly escalating between the main G8 players.

Originally founded in 1975 on the basis of an initiative by the leaders of Germany and France to create a coherent financial framework following the devastating oil crisis of 1973, the group is made up of the states: Canada, France, Germany, the United States, Italy, Japan, Russia and the United Kingdom. An additional seat at the G8's annual summit is allocated to the European Union which cannot host or chair a summit.

For decades the premise for the successful collaboration of the G8 group was the economic, military and political dominance of the United States. Now, the deepening financial crisis has revealed the extent of the economic and social crisis of the US and thrown international political relations into flux. The entire framework of post-war political relations is breaking apart, and leading politicians from G8 member states now openly concede that the group is unrepresentative of the current state of international relations and has outlived its function.

The G8 currently excludes a number of the world's most rapidly growing economies—notably China, now the world's fourth largest economy, India and Brazil—both with GDP figures equivalent in size to G8 member Russia.

The Italian government sought to rectify the imbalance in the composition of the G8 by inviting no less than 40 additional nations and international organizations to the meeting, and for the first time the G8 plans to issue a joint statement with the G5 group of emerging nations—China, India, Mexico, Brazil and South Africa—plus Egypt.

The frenetic agenda set by the Italian government—a host of meetings over three days with up to 40 different nations—cannot hide the fact that the G8 group is incapable of agreeing upon any binding decisions or genuine measures to confront the social and political implications of the financial crisis.

Experienced political commentators are already winding down any expectations for the summit. According to Milena Elsinger, an analyst at the German Council on Foreign Relations (DGAP) the summit will produce only “vague declarations of intent.”

As for the G8 itself, just a week prior to the summit German Chancellor Angela Merkel openly told the German parliament that the forum was no longer capable of dealing with the challenges ahead. “We are seeing that the world is growing together and that the problems that we face cannot be solved by the industrialized countries alone,” Merkel said. She then downgraded the G8 to merely a forum for preliminary discussions with the “relevant global decisions being made in a bigger format.”

Merkel and other European leaders are intent on establishing a new economic and political framework which increases the specific weight of leading European countries in world affairs—in particular, against the persisting dominance of America. In this respect, strengthened relations with emerging economies such as China, India and Brazil are crucial. Prior to leaving for the L'Aquila summit, French President Nicholas Sarkozy hosted a high-level visit on the part of Brazilian President Luiz Inacio Lula da Silva.

The stakes are high. Despite the best attempts by Berlusconi and other G8 heads of state to put the best face on the crisis and stress the significance of alleged “green shoots” of growth, the summit is dominated by the deepening financial crisis.

On the eve of the summit, British Prime Minister Gordon Brown declared that a second wave of the financial crisis was imminent, while World Trade Organization chief Pascal Lamy

warned that “the worst of the crisis in social terms is still to come, which means that the worst of the crisis in political terms is still to come.”

Behind the scenes at the G8 meeting, a wild scramble is taking place to establish new political alignments and alliances. In particular, many states across the globe are intent on deepening their trade and political relations with the world’s fastest rising new economy—China, whose participation was seen as vital to the success of the G8 agenda.

Lamy’s warning was promptly confirmed on the first day of the G8 summit, when the president of China, Hu Jintao, was forced to return to his homeland in response to the social upheavals and ethnic strife in the province of Xinjiang.

National and regional antagonisms prevail

While the leading nations represented at the G8 summit are keen to establish new political alliances, their practice in the current economic crisis is increasingly characterised by national egoism and self interest. This was clear from the first day of discussion at the summit on Wednesday, which was largely dedicated to the environmental issues and climate change.

Even prior to the summit, senior diplomats from the enhanced 16-nation Major Economies Forum dropped a reference in the summit draft communiqué to the goal of halving greenhouse gas emissions by 2050. China and India issued objections to the goal, citing the lack of progress made by the world’s biggest CO2 polluter, the United States.

The recent climate change and energy conservation bill passed by the US Senate and House of Representatives does not envisage any relevant cuts in CO2 emissions until the year 2050. The bill also included protectionist provisions favoring American trade and industry.

On the basis of the US environment bill, the Obama administration is regarded as a lame duck on climate issues. The communiqué issued Wednesday made no concrete proposals and merely confirmed the complete inability of the G8 nations to obtain any sort of viable agreement on decreasing greenhouse gas emissions.

Also on the agenda Wednesday, and no doubt dominating discussions for the rest of the week, was how to respond to the global financial crisis. In recent months, reactions to this crisis by leading G8 powers have been wildly at odds with one another, and the differences are growing. A European axis centred on the German and French governments has called for an “exit strategy” from the crisis and effective action to regulate the speculative practices of major banks.

Opposed to such a stance are the US and British financial sectors and governments, which favour more bailout measures for the banks and are opposed to any effective controls on banking investment strategies.

The difference between the two camps erupted at the meeting of G8 finance ministers in June intended as part of the

preparation for the current summit. At the G8 finance ministers summit, German Finance Minister Peer Steinbrück called for a rapid end to spiraling debt and stressed the danger of inflation. He declared that further stimulus programs were “neither necessary nor advisable”. He was supported by the delegates from France and Italy.

Steinbrück was countered at that meeting by US Treasury Secretary Timothy Geithner. He was supported by IMF director Dominique Strauss-Kahn, who declared that governments had to be prepared to increase their bailout programs for banks and industry. The position of the US and Strauss-Kahn was also backed by British Prime Minister Gordon Brown.

Since the meeting in June, the differences between the two sides have intensified. Just a few days before the L’Aquila summit, Steinbrück accused Prime Minister Brown of merely taking the position of the London financial lobby in talks over planned EU regulatory authorities. Brown’s latest statements, warning of a second wave of the crisis, must be seen as his government’s answer to the German government. It is also a nod to the British banks that London is prepared to free up further cash to rescue the country’s ailing finance system.

More detailed discussions on how to respond to the economic crisis will take place on Thursday and Friday, but based on the past record, all the indicators point to an intensification of tensions between the rival US-British axis and leading European nations. The antagonism between these two camps, coupled with signs of growing protectionism on the part of the US, China and other leading nations, also rings the death-knell for the WTO’s Doha round of talks—aimed at lowering trade barriers around the globe—which G8 leaders had pledged to finalize at this year’s summit.

Just one day into its meeting and with such contentious issues as the US-led war in Afghanistan and relations with Iran also on the agenda, this year’s G8 summit already mirrors the enormous extent of political discord and rivalry between the major powers.

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