Published on *League for the Fifth International* (https://fifthinternational.org)

The G20 didn?t stop the economic crisis: what comes next?

Peter Main Tue, 08/11/2011 - 18:00
Peter Main

No matter what they try, nothing seems to work? The world leaders have gathered at the G20, and European leaders are having regular summits, but the economy is just getting worse.

TWENTY PRESIDENTS and prime ministers, who together preside over 85 per cent of the global economy, assembled in Cannes promising to take bold actions to dispel the dark clouds of a renewed recession. Instead they found themselves discussing the political turmoil in a country of only 11 million inhabitants ? forced to summon the Greece?s premier for a dressing down.

The summit was not just a failure; it was a complete fiasco. The most powerful leaders on earth were revealed as completely powerless. The only significant decision they took was a recognition of failure ? that the 10 year-old Doha Round trade talks should be wound up, having failed to complete their business.
The number one item was, of course, the ?euro-crisis?, more specifically the Greek debt crisis. The possibility that the October 26th ?rescue package? might be put to the Greek people in a referendum, in which it would surely be rejected, paralysed these political giants like rabbits in an oncoming vehicle?s headlights. It revealed all too clearly the fragility of the entire European project.

Yet, even before Papandreou?s referendum announcement, it was clear that the global economy as a whole was not recovering from the recession of 2008-9 as it had from all previous post-war recessions. In September, Mervyn King, Governor of the Bank of England, made the point that this was no ordinary downturn, it was ?possibly the worst financial crisis in history?. Immediately before the Cannes summit, he emphasised that, ?we are not out of the crisis yet?.

His argument was backed by the latest report of the Organisation for Economic Development and Cooperation (OECD) which cut its previous projections for economic growth in almost all the G20 states. For the USA, still the biggest economy by far, the forecast of 2.6 per cent growth next year was reduced to 1.7 per cent and for the following year from 3.1 per cent to 1.8 per cent. For the EU, the projection was for a slowdown from 1.6 per cent this year to 0.3 per cent next year.

A downturn was also expected in the ?emerging economies? ? China is now expected to see growth fall from 9.3 per cent next year to 8.6 per cent the year after. Although these still seem high, the direction confirms that these economies remain very dependent on their exports, in particular to USA, EU and Japan.

Taken as a whole, the picture is of a world economy that, as King said, has not recovered from the crisis. In other words, the policies adopted to resolve the crisis have not worked. The flood of money used to bail out banks and major corporations, hundreds of billions of dollars, euros, pounds and yuan, only deferred the consequences of the crisis.

From the point of view of capital, crises are resolved by the destruction of huge amounts of accumulated capital ? whether in the form of stocks of goods that perish or become obsolete, factories that are demolished as firms go bust, savings that are devalued through inflation or entire economies that are laid waste by war. Only then do ?investment opportunities? arise for those who still have capital resources to invest.

The effect of the bail outs was to limit the scale of capital destruction and, at the same time, to create ?sovereign debt?, that is, debt owed by states, on a vast scale. Now, as the temporary effects of the bail outs wear off, the problems of declining growth are reappearing. Predictably, this is worst in the most advanced imperialist economies, which have the greatest volume of accumulated capital.
This time, however, the mountains of debt mean that the same policies cannot be so easily repeated. On the contrary, governments are imposing ?austerity packages? to reduce their own spending so that taxation can be used to repay those debts. These policies themselves slow down economic activity, increase unemployment and, therefore, reduce revenue to government.

Trade and China
These are the factors that ensured the Cannes summit would be unable to revitalise the world economy, even had there been no coincidence of the political crisis in Greece. The only way out for the ?advanced industrialised nations?, that is, the old, established imperialist powers, was to try to engineer a deal to transfer resources from the ?emerging nations?, most notably China.

Proposals to increase exports to those countries, or reduce imports from them, such as a revaluation of the Chinese yuan, were met by non-committal assurances but there was an agreement to discuss increased funding for the IMF. This is important for China because any increase can be made conditional on acceptance of its preferred policies for the Fund. For example, Beijing has proposed that the Special Drawing Rights of the IMF, essentially funds advanced to countries for specific purposes, be developed into, effectively, a reserve currency. Were that to happen it would greatly reduce Washington?s ability to advance its interests by manipulating the value of the dollar.

Such potential policy clashes, like the expansion of the G8 into the G20 itself, reveal the new world order that is developing. The crisis that broke in 2008 was the product of ?globalisation? in the 90s and the early years of this century. That period marked the high point of US global superiority but inevitably also undermined it. Time and again, US capital avoided the consequences of its declining profitability by one means or another, most frequently by exploiting its financial strength, but in doing so it encouraged the growth of more profitable industry elsewhere.

The inability of the Cannes summit to develop any coherent policy direction may appear, at first sight, to be a consequence of the inadequacies of the various leaders present; Sarkozy hoping to gain an electoral boost, Merkel fretting about splits in her own party, Cameron trying to lecture others as his own policies prepare a further decline in the UK?s fortunes, Obama hamstrung by Congress and Hu, waiting for retirement next year. In reality, however, Cannes was an accurate reflection of a world whose economy has never before been so integrated but which is moving inexorably towards another convulsive crisis, a crisis which everyone present knew could not be resolved by talking.

Euro crisis
Greece is not alone in having huge debts because, as a eurozone country, its credit was assumed to be guaranteed. The fear now is that, if Greece could not, or would not, repay its creditors, and the rest of the Eurozone would not come to the rescue, then this could also be true of much bigger countries. Above all, it could be true of Italy, which has debts €1.9 trillion. Without a doubt, the consequences of a default on that scale would be catastrophic for the whole global economy.

Barack Obama, whose own economic policies have been completely thwarted by the stalemate in Congress, did not appear to notice the irony in his complaints about the ?complicated? nature of the EU?s decision-making procedures. He was, however, right to recognise that the main obstacle to a solution to the Greek crisis is political. Greek debt may well be in excess of 100 per cent GDP ? but Greek GDP is only some 2 per cent of the EU?s GDP so Europe as a whole could cover the debt. The problem is that the EU is not ?a whole?.

The EU illustrates, in practice, what Marx meant when he said that capitalism?s own development would create a situation in which its productive forces, in this case the EU?s economic potential as the biggest ?economy? on the planet, would come into conflict with its ?property relations?, that is, the way the economy is owned and organised on the basis of separate states, each of which puts its own interest before that of the whole. To treat the resources of the whole EU as if they belonged to a single ?country? and to transfer funds to one small part of that ?country?, namely Greece, would be to override the interests of other parts. If that could be done for Greece, then why not for Ireland, or Spain, or Italy or anywhere else?

The biggest capitalist concerns, which have to operate internationally because of their size, have long wanted to see the EU become a unified system ? but only on the condition that every region was obliged to follow the same economic rules and policies. The most obvious supporters of this strategy have been in the north of Europe, particularly, but not only, in Germany. Significantly, Gordon Brown recently revealed that, had the Euro been introduced on that kind of basis, he would have supported Britain adopting the currency.

Moving towards European unification was the strategy behind the European Constitution, which was famously thrown out as a result of a referendum in Denmark. Having failed to get what they wanted that way, the big capitalist supporters of unification are now trying a different approach.

By refusing to allow central EU funds to be used to bail out Greece, or anywhere else, they are forcing the governments of the so-called ?peripheral? states to confront a harsh choice. In effect, they are saying; either continued national sovereignty, which will lead to national bankruptcy, or unification under economic policies dictated by the European Central Bank which would then decide what transfers might be allowed.
