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G-20 Summit Rules Out Coordinated Stimulus

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The G-20 meeting of finance ministers and central bankers held in Shanghai over the weekend has failed to come up with any coordinated plan of fiscal stimulus to revive the global economy. In fact such a plan was not even considered because of the deepening divisions among the major economic powers.

The communiqué from the meeting said downside risks to the global economy had increased, amid volatile capital flows and a large drop in commodity prices, but did nothing to initiate coordinated fiscal policies to boost growth. This was despite calls for a move in this direction from the International Monetary Fund and the Organisation for Economic Cooperation and Development in the lead-up to the meeting.

The closest it came was an acknowledgment in the communiqué that "monetary policy alone cannot lead to balanced growth." Anything more than that was ruled out as each of the major powers insisted it was up to others to take action.

In the words of French Finance Minister Michel Sapin: "We are absolutely not talking about a global fiscal stimulus package. In France we don't have the capacity to do this just yet. Other countries have more capacity and they can use this capacity to continue to support global growth."

Germany's finance minister Wolfgang Schäuble, speaking before the meeting, said the space for using monetary policy had been exhausted and using debt to fund growth just leads to "zombifying" companies. "Talking about further stimulus just distracts from the real tasks at hand," he said. Policymakers in Germany did not agree with a "G-20 fiscal stimulus package, as some argue, in case outlook risks materialise." He said the fall in oil prices had given a "huge" stimulus to demand and expansive fiscal policies could lay the groundwork for a future crisis.

The attitude of the British government was exemplified by Chancellor George Osborne. He made it clear that instead of increasing spending in the face of a worsening global economic outlook, the Cameron government was considering still further spending cuts following the release of figures which showed that the British economy grew by just 0.5 percent in the last quarter of 2015.

"The storm clouds are clearly gathering in the world economy and that has a consequence for lots of countries, including Britain," he said. The latest figures had revealed that expansion in Britain was not as big as had been hoped "so we may need to undertake further reductions in spending because this country can only afford what it can afford and we will address that in the budget."

Summing up the summit, financial analyst David Loevinger, a former China specialist at the US treasury, told *Bloomberg* "hopes of coordinated policy actions proved to be pure fantasy. It's every country for themselves."

In the face of deep divisions among the leading members of the G-20, it appears the drafters of the communiqué decided to paper over the worsening situation confronting the world economy.

After pointing to a series of risks, it stated:

> "While recognising these challenges, we nevertheless judge that the magnitude of recent market volatility has not reflected the underlying fundamentals of the global economy. We expect activity to continue to expand at a moderate pace in most advanced economies, and growth in key emerging markets remains strong."

In fact, data issued on the eve of the meeting point to a worsening of the "underlying fundamentals."

According to the World Trade Monitor, compiled by the Netherlands Bureau of Economic Policy Analysis, the value of world trade fell by 13.8 percent in 2015, in the first contraction since the depths of the financial crisis in 2009, with indications the situation will worsen this year.

The Baltic Dry Index, which measures global trade in bulk commodities, has been reaching historic lows. One of the most significant indicators is the 60 percent fall in container exports from China to Brazil, the world's ninth largest economy, last year. The Maersk Line, the world's largest shipping company, has reported that container imports to Brazil halved in the past year.

Global trade as a whole grew by 2.5 percent last year, below economic growth of 3.1 percent, reversing the situation which prevailed before 2008 when trade expanded at more than twice the rate of increase for global output.

As for the claim that growth in key emerging markets "remains strong," the Chinese economy is slowing, with indications that its real growth rate is closer to 4 percent than the 6.5 percent rate claimed by the government, and Brazil is in a severe recession.

Excluding China, emerging markets, according to the IMF, grew by only 1.92 percent last year, lower than the rate for advanced economies which expanded by 1.98 percent.

The head of emerging markets research at Citi, Guillermo Mondino, told the*Financial Times* lower growth for emerging markets "should be a particular cause of concern" and, with the very sharp fall in oil prices, capital flows to these countries "are in a state of collapse."

At the same time, the global financial order is becoming increasingly unstable. Mervyn King, the governor of the Bank of England from 2003 to 2013 has warned that another financial crisis is "certain" and will come "sooner rather than later." While greedy bankers and incompetent policymakers contributed to the crash 2008, "the crisis was a failure of a system," he stated in a just-published book.

The downturn in the global economy is driving the growing discord among the major economic powers. The only area in which money is being spent is on the military as each of them boosts preparations for war.

In the immediate wake of the financial crisis, the G-20 meeting in London, held at the beginning of April 2009, saw verbal commitments to co-ordinate economic policies claiming the lessons of the 1930s had been learned and there would be no repeat of the conflicts which marked the Great Depression. Now even these words have gone.

As the *World Socialist Web Site* explained at the time, "inter-imperialist antagonisms were manifest throughout the summit and will inevitably sharpen as the economic crisis worsens" and that,

> "far from having laid down a globally coordinated program to rescue world capitalism, the London summit has only demonstrated the irreconcilable contradiction between the globally integrated economy and the nation-state system, and the impossibility of the rival nation states adopting a genuinely international approach to the crisis."

That analysis has been confirmed many times over in the past seven years.

In an article previewing the latest meeting, the *New York Times* noted that since London, G-20 meetings have been "known mostly for agreeing on generalities and making few changes, culminating in an unproductive series of meetings in Turkey last year." As the well-known international economist, Ken Courtis, put it: "The Turkish presidency of the G-20 led to no progress on any front."

Each of the major powers is pushing for its own interests. Britain managed to secure a reference to Brexit in the communiqué expressing concern any UK exit from the European Union would be a contributing factor to downside risks to the global economy.

The communiqué reaffirmed previous commitments not to engage in competitive currency devaluation and that exchange rates would not be targeted for "competitive purposes." However, it added the phrase that "we will consult closely on exchange markets" following the devaluation of the Chinese renminbi last year, and fears that it could fall further, and the shift by the Bank of Japan to negative interest rates.

Pointing to the growing tensions, Eurogroup chief official Jeroen Dijsselbloem said the renminbi was not the only cause for concern. "The debate was also about Japan, to be honest—there was some concern that we would get into a situation of competitive devaluations" and that once one country devalues "the risk is very large that another follows and we get into competitive devaluation."

However, he ruled out proposals for co-ordinated fiscal policies, saying: "I don't think there is any need for a big plan, there is no crisis."

The continued flow of negative data on the world economy, the lack of agreement on any concrete measures, the mounting instability of the financial system and the deepening conflicts between the major powers give the lie to such assertions.

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