# The G20 summit: A spectacle of political bankruptcy

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The meeting of G20 finance ministers and central bankers held in Ankara, Turkey over the weekend underscored the inability of the major capitalist powers to initiate any measures to halt the recessionary forces overtaking the world economy. Rather than a proposal for concerted action, the official communique was a public relations exercise aimed at masking the acuteness of the crisis and the impotence of the economic and financial authorities.

The meeting was held in the midst of turbulence on global financial markets fuelled by growing fears that the efforts of central banks to prop up the economy with injections of money are being swamped by deflationary trends.

Despite an admission that “global growth falls short of our expectations” and warnings of the impact of financial turmoil and slowing growth in China on emerging markets and more broadly, the communique declared that the G20 had taken “decisive action to keep the recovery on track” and was “confident the global economic recovery will gain speed.”

There is, in fact, no global economic recovery. In a note published in preparation for the G20 meeting, the International Monetary Fund (IMF) acknowledged that its forecasts for the world economy, made only last July, were already out of date. Growth had fallen below predictions in the US, the euro zone, Japan and most poorer countries.

The predicted boost from lower oil prices had failed to materialise, the IMF acknowledged, risks to the world economy had risen, and “a simultaneous materialisation of some of these risks would imply a much weaker outlook.” The IMF is expected to again revise downward its forecasts for global growth, already at their lowest level since the immediate aftermath of the financial crisis of 2008–2009, at its next meeting scheduled for October. “After six years of demand weakness, the likelihood of damage to potential output is increasingly a concern,” it said.

Another indication of the real state of the global economy is the data on world trade released last month, showing that trade contracted in the first half of 2015 more sharply than at any time since the height of the financial crisis in early 2009.

A pointed comment published on the CNBC web site on the eve of the G20 meeting predicted that whatever came out of the gathering, global leaders would “undoubtedly try to give the impression they have a plan, no matter how far-fetched it is, because if the world markets get a sniff that there is no plan, that things are being made up on the hoof and that things are slipping out of control,” there will be increased turbulence.

This was an apt preview of the communique that emerged from the meeting.

As a result of the financial turbulence in China and mounting concerns over its growth rate—with expectations that real growth will be closer to 4 percent than the official target of 7 percent—there was undoubtedly discussion of the state of the world’s second largest economy behind the scenes.

But the comments from financial officials sought to promote an upbeat message. German Finance Minister Wolfgang Schäuble said the G20 had agreed there was no reason to fear slower Chinese growth, while Pierre Moscovici, the European Union commissioner for economic affairs, praised “the absolute determination of the [Chinese] authorities to sustain growth.” IMF Managing Director Christine Lagarde said there had been a very open dialogue with China and it was “extremely comforting to have that level of understanding.”

However, the underlying reality broke through the façade of contrived statements on one decisive question, revealing growing divergences among the major powers. The official line of the meeting was to accept the Chinese explanation that last month's currency devaluation was not aimed at bolstering Beijing's export position at the expense of its rivals, but was a move towards a market-based currency. The communique included a hollow pledge that members would "refrain from competitive devaluation" and "avoid persistent exchange rate misalignments," even as it is acknowledged that such commitments are being honoured mostly in the breach.

But in a pointed departure from normal procedure at such meetings, Japan, which stands to lose heavily as a result of a major fall in the Chinese currency, did not adhere to the official line. Speaking to reporters, Japanese Finance Minister Taro Aso said Chinese representatives had given an incomplete explanation of their motives. "They may have tried to be constructive, but they weren't detailed enough," he said.

Another area of divergence, which was also largely covered over, was on the issue of monetary policy. The United States is officially committed to an increase in its official interest rate, even if only a very small one, in the coming period. But the European Central Bank and the Bank of Japan are both committed to continuing the policy of quantitative easing, with ECB President Mario Draghi indicating on the eve of the meeting that he might extend the present asset-purchasing operation beyond the scheduled completion date of September 2016.

The IMF has urged the US Federal Reserve not to begin interest rate increases until well into next year, a position that was repeated by Managing Director Lagarde. The Fed had not raised interest rates for such a long time (nine years), that it should make a move only when there was no uncertainty and should not give it a try and then have to reverse its decision, she said.

Lagarde and others fear that any interest rate increase in the US will impact heavily on the financial position of emerging markets and spark a major outflow of capital, exceeding that which took place during the so-called "taper tantrum" of 2013, when the Fed first indicated it would wind back its asset-purchasing program.

Emerging markets are already feeling the effects of the slowdown in China, their major export market, with currency values in some South East Asian countries down to levels not seen since the Asian financial crisis of 1997–98. If a rise in US interest rates sparks a rush for the exit by major investors, it could set off a major financial crisis.

According to Troy Gayseki, a senior portfolio manager at Skybridge, a firm that specialises in hedge fund investing, several emerging market hedge fund managers suffered losses of between 3 and 35 percent in August. "There is a lot of chaos and carnage out there," he told the *Financial Times*.

In all of the reports by economic authorities on the state of the world economy, including the IMF and the Organisation for Economic Cooperation and Development (OECD), the lack of investment, now 25 percent below where it was in 2007 in some cases, is cited as the major cause of economic stagnation. There was an attempt to address this issue at the G20 heads of government meeting in Brisbane, Australia last November, at which participants committed themselves to the target of a two percent increase in growth over the next five years, much of it to be achieved through infrastructure projects. Less than a year on, the goals of the Brisbane meeting are regarded as a dead letter.

This decline in productive investment is a product of the colossal growth of financial speculation and parasitism in the world capitalist economy, with resources increasingly diverted away from investment in the material productive forces and into financial manipulations and swindles that account for an ever greater share of the income of the world's billionaires. The policy of central banks and capitalist governments of continuing to pump vast sums into the financial markets only fuels the growth of financial parasitism.

Seven years after the Wall Street crash of September 2008, the inability of the major capitalist powers and their economic and financial authorities to devise any coordinated solution to the crisis is the expression not of some intellectual incapacity, but of something much more fundamental. It is the outcome of the irresolvable contradiction under capitalism between the global economy and the national state system, which generates trade and currency conflicts and economic and political rivalries leading ultimately to war. All of these tendencies will be intensified by the gathering world slump.