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The Rich Countries' Faltering "United Front"

Left Margin

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Black**C**ommentator.com **Editorial Board**

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By now we've heard "The worst economic crisis since the 1930s" – or words to that effect - so many times it's become like a mantra. But as the days roll on it begins to appear that it might just be an understatement and that not only does the economic situation appear more like the late 1920s, the politics of the world sound much like that period as well.

Early in a full page article on the present economic situation, Martin Wolf, associate editor and chief economics commentator for the *Financial Times*, referred to "a huge recession if not something worse…" Later, he observed "a huge financial crisis, together with a deep global recession. If not something worse…" You can be sure if Martin Wolf is not sure how bad the situation is – or will become – there is little reason for optimism.

And when the commentator who has tried to convince us that the world is flat (technologically speaking) starts to sound like Henny Penny, I sit up and take notice. "It's always great to see the stock market come back from the dead. But I am deeply worried that our political system doesn't grasp how much our financial crisis can still undermine everything we want to be as a country," writes columnist Thomas Friedman in the *New York Times*. "Friends, this is not a test. Economically, this is the big one. This is August 1914. This is the morning after Pearl Harbor. This is 9/12. Yet, in too many ways, we seem to be playing politics as usual."

On Sunday, the chair of the President's Council of Economic Advisers, Christina Romer, said the country is involved in an "economic war," the outcome of which is yet to be

determined. Meanwhile, the *Financial Times* says editorially that "the world economy has already stumbled over the edge of a ravine" and the historian Paul Kennedy writes on its pages of the need to "put the shattered Humpty-Dumpty of international capitalism back together again." It called for the major powers to form a "united front."

The crisis is, indeed, worldwide and system-wide and if the current actions being taken by the major players to head off something much more serious that what we are witnessing today are any indication, all the kings horses and all his people are making a mess of things.

In some respects, the situation in the rest of the world is even worse than it is here. Trade is down within the European Union and between it and the rest of the world. For Germany, exports are down around 20 percent. But the hardest hit are the formerly socialist countries of Eastern Europe where, for most a decade or so, economic growth and relative prosperity has been bought on credit which has now run out. The pain is widespread in the region as well as in the banks of some Western European countries, notably Austria, to which they are in hock.

The worst victims of the crisis, however, are the people of the planet whose lives in the era of globalization are always the most precarious. "The odd situation is that we have trillions of dollars directed at banks and bail-outs but we're told there's nothing for the poor," says Jeffrey Sachs, a special UN economic adviser. "Meanwhile, we are teetering on the brink of collapse and violence in parts of the world where people have been pushed to the brink."

Kevin Watkins, director of UNESCO's Global Monitoring report, observes:

"With the slowdown in growth in 2009, we estimate that the average income of the 391m Africans living on less than $1.25 a day will take a 20 per cent hit. When you convert economic growth effects into human costs the picture looks even grimmer. Best estimates point to an increase in infant mortality of somewhere between 200,000 - 400,000 [a year]."

It is against this backdrop that next month's G20 world leaders are headed for a meeting that is beginning to look more like a 1920s-style showdown between rival camps in the capitalist world. The conferees will include the Group of Seven industrialized countries - Britain, Canada, France, Germany, Italy, Japan and U.S, the European Union and leading developing nations like Brazil, China and India.

A new level of international cooperation is the imperative of our age. It is critical for confronting climate change, AIDs and other plagues, violent conflicts, world poverty and a world economic system verging on the dysfunctional. In the runup to April 2, the prospects in the area of economic relations don't look too promising.

You might not know it, if you are dependent on the U.S. mass media, but when President Obama travels to Britain for the London gathering he will be attending a turning point event. What the leaders who confer there April 2 are supposed to do is come up with a coordinated plan to avert "something worse," plot a recovery from the present crisis and try to ensure against repeat. Well informed observers agree that failure to do so could have grave consequences.

"The summit of the group of 20 leading advanced and emerging countries in London on April 2 will fail," writes Wolf of the *Financial Times*.

The stumbling block – in a nutshell – is that Washington is calling for the other rich countries to increase spending to stimulate their economies. European governments are stubbornly refusing to commit to such a course. On the other hand, the U.S. is resisting Europeans' call for "global" regulation of the world financial system, the lack of which the Europeans maintain brought on the crisis in the first place. The White House says the U.S. has two goals for summit: to make sure there is "concerted action around the globe to jump-start the economy" and to achieve consensus on regulatory reform to take place "in each country"

The spin is on; every effort is being made in advance to play down expectations for the summit. The U.S. is unlikely get a commitment from the Europeans for greater stimulus efforts and there is scant chance of any real headway in the area of international financial regulation. They will probably agree to "step up efforts to revive bank lending and regulate hedge funds."

Washington's goal of increased contributions to the IMF relief fund for poorer countries might get through but even that is being viewed by some Europeans as just another way to get them to put up more dough. The Chinese and others might go along with that if… The four major emerging economies at the meeting - Brazil, Russia, India and China - last week jointly called for a bigger role in running the IMF. According to *Reuters*, the pre-summit gathering of G20 finance officials meeting last week agreed that "IMF governance needs to reflect the changed global economy and the growing role of developing countries." However, the target date for realizing the goal was reportedly set for 2011.

The G20 meeting could be a major embarrassment for British Prime Minister Gordon Brown, the meeting's host. Only a few weeks ago he was in Washington, proposing a wide ranging international "global new deal" to the newly elected U.S. President. Alas, there most likely won't be much of a deal at all. "Though the summit might not end up like what a British expert put as 'going to achieve nothing,' what the White House has said recently, and what Brown said at his joint press conference with Merkel, showed that leaders across the Atlantic were trying to downplay the upcoming G20 meeting," writes Ma Jianguo for the Chinese news agency *Xinhua.*

Last week the London-based financial magazine *The Economist* dismissed the "epic agenda" Brown had set forth. "A big agenda can give everyone something they want, but it can also give everyone something to disagree about," the editors wrote. "Americans are suspicious of the European desire for a system of global regulation that may threaten their sovereignty Europeans do not agree with American demands that governments spend yet more money - partly because they are worried about the size of the state; Asians, who blame America and Britain for the crisis, do not want a souped-up IMF unless they have a greater say in how it is run. The summit may agree on minutiae like tax havens (none of which will be represented) and bankers' bonuses (nobody loses votes bashing bankers). But on the important stuff, the stage is set for disappointment."

The *Economist* did come up with a united front proposal – so to speak. "The second priority is to present a united front against protectionism. This does not just mean fine words. They are too easy to ignore. The London summit should promise tariff cuts and pledge to put aside the arsenal of legal trade protection, such as anti-dumping suits, which have been surging lately, and to ensure that subsidies do not discriminate against foreign companies. If the world's leaders could do those two things, they would be doing the best they can." Even that is unlikely to happen. It's difficult to see how the major economies could agree to such trade principles in anything other than rhetoric, as each acts to shore up their own manufacturing industries and exporting potential.

Much attention will be focused on the world's stock exchanges in the days and weeks ahead. A perception that the summit will fail to come up with a united front could jolt investor confidence. Alistair Darling, the British Chancellor of the Exchequer, says failure to use coordinate approach could even deepen the ongoing crisis. "In 1933 governments failed to reach agreement with disastrous consequences," he said.

"For economists, the German-American conflict brings back unpleasant memories," said the German magazine *Der Spiegel* Monday. "During the world economic crisis of the 1930s, the European countries and the United States were also unable to agree on a common strategy. The result was a worldwide trade war, which accelerated the economic plunge into depression."

"At their first summit meeting last November in Washington, the industrialized nations made it clear that this cannot be allowed to happen again. But now there is a growing rift between the United States and continental Europe."

In response to the continuing conflicting statements concerning the issues before the G-20 summit, Dominique Seux, editor and chief of the French daily financial newspaper *Les Echos*, wrote "These exchanges are worrying because they show the differences in mind-set a few weeks before the G-20 … They are of all the more concern considering that - according to the World Bank and the IMF - the planet could experience its first global recession in 60 years this year. That means that growth in emerging countries will not be sufficient to compensate for the big developed countries' retreat. There is absolutely no doubt that the economy will pick up again, but after having plunged millions of men and women into poverty and unemployment."

"Each side defends its own position. Barack Obama, who has put 787 billion dollars on the table to sustain economic activity, is asking Europeans and Asia to contribute more to that effort. In his view, the recovery is the main issue for the London meeting. It's difficult to disagree with him: The reconstruction of a house on fire can't take place until the fire is put out. But continental Europeans don't want to allow their agenda to be dictated. Even though they don't say so this clearly, they're inviting the United States to clean up the mess on its own doorstep by first and finally settling their banking crisis."

"Above all, they refuse to go any further as long as Washington has not clarified its position on the reforms of the financial system that are deemed indispensable, something Federal reserve President Ben Bernanke timidly began yesterday. 'What are you ready to do concretely and do you agree to draw up the new rules together?' the Europeans ask the American president and Gordon Brown. Obviously, these are normal

arguments. But they also show that a G-20 failure is possible."

"While global leaders disagree about what to do, the world economy tumbles at accelerating speed," *Financial Times* Associate Editor Wolfgang Munchau wrote Monday. "Last week's news of the virtual collapse of the German manufacturing sector is the clearest sign yet that Europe is heading into a depression. Japan is going the same way, as are other Asian countries."

"Our ability to solve these various collective action problems will ultimately determine how bad this crisis is going to get," concluded Munchau. "The G20 is clearly not the ideal forum because it is too large for effective intergovernmental co-ordination. But for the moment, there is no alternative. The US proposals offer a glimmer of hope. The European reaction is disappointing. But this is probably the global economy's last chance to avoid a depression."

Brazilian President Luis Incacio Lula da Silver has called for building of a "new world financial architecture," saying the London Summit must take a hard look at the banking system and offer some reforms. Pointing to the economic downturn affecting working people, he said, the "G20 must do something about this. We can't go to London and end up scheduling another meeting."

"This crisis doesn't yet have a name," writes Editor Bob Kuttner, co-editor of the magazine *American Prospect*. "It has all the hallmarks of a depression, but people are understandably reluctant too use the D-word. So let me suggest one: The Great Collapse, since this was both a financial collapse and an ideological one."

"This great collapse doesn't have to be a second Great Depression – if government does nearly everything right, and soon. And when we come out the other side, we could have a more decent and sustainable society."

"But if government doesn't do more, and fast, this could be worse than the 1930s."

The danger is not of doing nothing, but rather of doing to little," Wolf wrote in the *Financial Times.*

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