Summit proclaims 'recovery' while economy sinks deeper

by Volker Hassmann

U.S. President George Bush came up with a good idea just after the heads of state of the Group of Seven most powerful economies met in Munich, Germany on July 6-8. He suggested that the next economic summit should simply not be held at all, since the results of these meetings have been increasingly meager. The summit's concluding statement is a remarkable document of banality and irrelevance even in the 18-year history of this institution. There sat the leaders of the world's leading industrial nations, smiling for the cameras, each of them with their hands tied down by serious problems at home: a summit of seven lame men.

President Bush is seeing his prospects for reelection dwindle daily, as each new report of economic disaster comes on the heels of the last one. British Prime Minister John Major brought the worst economic record of all Europe to the conference table, since England is undergoing its worst recession in 30 years. But a close runner-up was Italian Prime Minister Giuliano Amato, whose national debt equals the total indebtedness of all other European Community countries combined, and who considered himself lucky to be present at the summit at all. Japanese Prime Minister Kiichi Miyazawa, who is also facing a stiff electoral challenge soon, courteously smiled through the three days of proceedings, and was at pains not to enter into any financial obligations, since his country is experiencing a meltdown of its stock market. French President François Mitterrand is fearful that the French people will follow the Danes in rejecting the Maastricht Treaty on European Union, which would destroy their national sovereignty, when the treaty comes up for a vote in September. He is also being confronted with growing domestic protests. His Canadian colleague, Prime Minister Brian Mulroney, has not yet fully recovered from his own government crisis, while German Chancellor Helmut Kohl is laboring through economic bottlenecks which he himself created with his dilettantish economic policy toward Germany's new eastern states.

Everyone at the summit could therefore be expected to do everything to at least bring some small public relations success back from Munich.

Reality shrouded in mist

The world economy is currently going through its most serious crisis ever, but the G-7 leaders brushed this reality aside in their final declaration, stating instead, "There are increasing signs of a worldwide economic recovery." It seems that the thin mountain air may have clouded these leaders' vision. The latest report of the Organization for Economic Cooperation and Development (OECD) documents how the prognoses for growth made last December have had to be revised downward once again. The fiscal austerity policy practice in Europe under the pressure of the Maastrict Treaty, the weakness of government finances in the United States, the stock market collapse in Japan, and the high level of indebtedness of all the western industrial states which came as a result of the Reagan-Thatcher excesses of the 1980s, give grounds for such concern, according to the report.

The low quality of leadership of the G-7 heads of state is attested to by the declarations of intent at Munich. A "solid monetary and financial policy, in order to support the upswing" is to "create leeway for lower interest rates through reduction of disproportionately large public deficits," and "through placing limits on public expenditures." All this should then provide the needed impulse for rising consumption, and hence, growth.

Many among the 4,000 journalists and media representatives in the press center expressed queasiness about the summit's vacuous declarations. A British colleague hit the nail on the head: If anything, the heads of state invoked the same confused mixture of radical Reaganomics and Keynesianism which brought the world into the present depression. Britain's Major hawked the shopworn Thatcher syllogisms which suggested a direct relation among austerity policy, low interest rates, and growth. "But if that's so, why does the United States, with its extremely low discount rate of 3%, have the highest budget deficit of $400 billion?"

Financial markets respond

The lack of seriousness shown by the G-7 heads of state and ministers in tackling a solution to the economic crisis was reflected in the financial markets, which were in an uproar, as opposed to the relative calm during all previous summits. The dollar sank below the 1.48 deutschemark point, and the Dow Jones average on Wall Street lost 44 points on July 7. The British pound followed the U.S. dollar, after Bush and Major were unsuccessful in forcing Germany to reduce its interest rates.

The beginning of the great international economic upswing, which host Helmut Kohl joyously proclaimed in his reading of the final declaration, came to a screeching halt only one day later. Bonn announced that its trade surplus in May had suffered a sudden setback, and that both imports and exports had gone down. Instead of rising to the expected DM 3.5 billion, the trade surplus went down from DM 2.3 billion in April to only DM 1.1 billion in May. Germany's annual inflation rate remains above 4%, and industrial orders and capital investment, which have been on a downward trend for some time, are still flat. Demands from the United States and Great Britain that Germany's national bank, the Bundesbank, lower its interest rates, have now been supplanted by speculation over a possible further raising of the Bundesbank rate.

This was especially alarming to the British. On July 9 British Chancellor of the Exchequer Norman Lamont and his Finance Ministry colleagues had to intervene into the money markets in order to bring under control what one broker described as "complete panic." The pound and the dollar slumped further against the deutschemark in reaction to the disappointing summit results. Wrote the London *Financial Times,* "They are dusting off the old devaluation theory."

The failure to reach any conclusion on the General Agreement on Tariffs and Trade (GATT) also does not exactly bespeak harmony and concord among the seven leaders. The fact that outright trade war is now raging between the United States on the one side, and Europe and Japan on the other, could not be swept under the rug. From the British delegation it was reported that Major wanted to "read the riot act" to Mitterrand during their tête-à-tête, but was doused like a wet poodle. Kohl, who chaired the summit, used his veto to knock down all attempts by Major to bring in his GATT policy.

The IMF: old wine out of old bottles

Point 18 of the final declaration of the heads of state says that the industrialized nations bear "special responsibility for a healthy world economy." Therefore, it goes on, they are irrevocably committed to the policies of the International Monetary Fund toward the developing countries—i.e., precisely the world economic order which has condemned entire continents, such as Africa, to death. The G-7 nations "will especially support those nations which undertake credible efforts to help themselves," i.e., those who submit to IMF dictates. The IMF is to continue for one more year its extended structural adjustment facility, while measures by the Third World nations to meet "global challenges such as population growth and protection of the environment," will be taken as evidence of their creditworthiness.

If these economic statements coming out of the summer were prevarications, then those on aid to Russia were outright lies. IMF Managing Director Michel Camdessus had traveled from Moscow directly to Munich in order to report a "breakthrough" in his negotiations with the Russian government. Moscow had promised to hold to the IMF's conditions, and now the first tranche of $1 billion had supposedly been made available. But in reality, Yeltsin was sent back to Moscow empty-handed.

The G-7 returned to demanding the harshest IMF conditions for Russia. They state: "These reforms must be energetically pursued. The citizens of these states are called upon to continue to make great exertions and even sacrifices." Yeltsin was so desperate that he even offered Russian raw materials and factory buildings as collateral for covering the debt, in a Russian version of Henry Kissinger's infamous "debt-for-equity" scheme. But this Russian bluff won't function. The $24 billion aid package is still hung up in the U.S. Congress. Japan has refused all participation, and has continued to raise the demand that Moscow return the Kurile Islands to Japan. And even the $1 billion now promised will only be paid out provided Moscow follows the IMF's demands (in diplomatic lingo, "fulfillment of macro-economic conditions"), and will only be applied to building up currency reserves, nor for the importation of needed goods for industry and consumers. The G-7 policy is worsening precisely the problems which are making Russia unable to fulfill the demanded conditions.

An explosion in eastern Europe and the Community of Independent States is therefore bound to occur. Poland is called upon by the G-7 declaration to finally come to an understanding with the IMF. The countries of central and eastern Europe are called upon to develop their mutual economic relations "on the basis market principles and in harmony with the principles of GATT."

The seven lame men had three nice days in Munich. At the next such summit in Tokyo, they should be confronted with the statements they have just made, and with their political and economic consequences. But the prospects for that are dim, since by then, most of them will probably be out of office.