# Conflicts dominate Washington meeting: World leaders at International Monetary Fund conference acknowledge global economic crisis

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**8 October 1998**

One central theme has emerged from the deliberations and discussions surrounding the joint annual meeting of the International Monetary Fund and World Bank in Washington over the past week. The organizations and institutions set up in the aftermath of World War II to regulate the affairs of world capitalism and prevent a recurrence of the 1930s Depression have broken down under the impact of globalized capital flows.

One year ago the IMF-World Bank annual meeting in Hong Kong convened in an almost celebratory atmosphere to hail the 'Asian miracle' and the global triumph of the capitalist market. The Asian crisis had begun to develop but it was regarded as a minor problem, a mere a 'glitch' along the road, as US President Clinton was later to describe it.

The contrast with the present gathering in Washington could not be more stark. An air of gloom hangs over the discussions as the leaders of world capitalism acknowledge that they confront a deepening world slump and financial crisis but are unable to advance any measures to confront it.

In his remarks to the opening ceremony Clinton repeated his warning that the world faced 'its most serious financial crisis in half a century'.

'The gains of global economic exchange have been real and dramatic,' he declared, 'but when tides of capital first flood emerging markets, then suddenly withdraw; when bank failures and bankruptcies grip entire economies; when millions in Asia who have worked their way into the middle class suddenly are plunged into poverty; when nations half a world apart face the same crisis at the same time; it is time for decisive action.'

He warned that the 'global economy simply cannot live with the kinds of vast and systemic disruptions that have occurred over the past year'. It was necessary to find a way to control the 'volatile swings of the international market place'.

'Just as free nations found a way after the Great Depression to tame the cycles of boom and bust in domestic economies, we must now find ways to tame the cycles of boom and bust that today shake the world economy.'

However the very next sentence of Clinton's speech underscored why it is impossible for the leaders of world capitalism to devise such a system.

'The most important step, of course, and the first step,' he declared, 'is for governments to hold fast to policies that are sound and attuned to the realities of the international market place.'

It is precisely the 'realities of the international market place'--the movements of capital and finance across the globe in the never-ending search for profits--which have led to the crisis in the first place.

IMF managing director Michel Camdessus echoed Clinton's address. He told the opening meeting of the Board of Governors that they met this year in the midst of a crisis-'a crisis that has already cost hundreds of billions of dollars, millions of jobs, and the unquantifiable tragedy of lost opportunities and lost hope for so many people, particularly among the poorest.'

No country had been left immune. The financial contagion had spread through 'emerging markets' to Europe and North America and was now travelling full circle back into Asia. He said that while it was 'perhaps too dramatic yet to talk of global recession' and that 'we are not in 1928', the evidence of risk called for immediate action.

'Let us be clear: we are speaking not just of countries in crisis, but of a system in crisis, a system not yet sufficiently adapted to the opportunities and risks of globalization.'

The dire warnings at the opening session followed the publication of the IMF's World Economic Outlook last week that pointed to a sharp downturn in the world economy.

A statement issued by the interim committee of the IMF board of governors said the outlook for the world economy had 'worsened considerably' since its last meeting in April 'with a scaling down of prospects for growth of output and trade'.

'Recessions in Japan and several Asian emerging market economies have deepened; Russia's financial crisis has contributed to a general retreat by investors from emerging markets; stock markets worldwide have declined significantly from their recent peaks; and commodity prices have weakened further.'

The statement said that problems had been aggravated by a general weakening of market confidence, reflecting 'the greater prevalence and intensity of contagion in an increasingly globalized economy.' And in an indication of the systemic nature of the crisis, the statement added that while these 'contagion effects' had been most evident in countries with 'weak policies and inadequate institutions' many countries 'with sound fundamentals have also not been spared'.

Since the emergence of the financial crisis in July last year the prevailing 'conventional wisdom' in global financial circles has been that it was not the outcome of the market itself, but resulted from deficiencies in its operations caused by insufficient information, or corrupt practices.

The former chairman of the US Federal Reserve Board Paul Volcker has now directly challenged that view. In a recent speech to the International Finance Institute, published in the *Financial Times*, he declared: 'The problems we see with such force today are systemic--they arise from within the ordinary workings of global financial capitalism. ...

'A year ago, to express that view was enough to question my allegiance to all that is holy and good: the sanctity of markets and their unfailing ability to adjust, the freedom of capital and trade, maybe even to democracy itself. Then the prevailing view was that the difficulties lay not in the system but in the policies and practices of small countries. Thailand had mismanaged its exchange rate. Banks were not well capitalized. There was no Securities and Exchange Commission, no Chapter 11 bankruptcy code.

'All those things were and are true. But it is totally unconvincing to say that those shortcomings are uniquely or primarily responsible for the current global predicament.

'Just suppose all those policies and practices were somehow changed to something closely in tune with the American or European model. There is no evidence that financial crises would be ended. Consider the latest bit of evidence from the US itself; one unsupervised and unregulated financial institution--an institution boasting the most elaborate models of market behaviour and sophisticated advisors--carried the possibility, by testimony of the US Federal Reserve, of pulling down the financial tent.'

Volcker was referring to the multi-billion dollar bailout of the Long Term Capital Management hedge fund.

In their addresses to the IMF board of governors both Clinton and Camdessus emphasized the need for international collaboration to develop new mechanisms to ensure that the global economy was not subject to the violent eruptions experienced over the past year.

According to Camdessus: '[W]e need to move to a higher level of international cooperation particularly now as we face simultaneously the difficult tasks of renovating the system while managing the crisis.'

But the proceedings have been marked by growing divergences between the major capitalist powers. The leaders of the G7 met for six hours on Saturday but despite promising 'intensified co-operation' failed to announce any concrete policy measures. The participants pledged strong economic growth and financial stability but then ruled out a co-ordinated interest rate cut, declaring that the 'challenges that face each of our economies differ'.

The *Financial Times* reported that both at the G7 meeting and at the interim committee of the IMF 'there was widespread disagreement, and some undiplomatic jousting, about how best to deal with both the short- and long-term implications of the crisis.'

The United States openly denounces Japan for failure to deal with the crisis in the banking system and revive its domestic economy. Japan, for its part, denounces the United States for the failure of the Clinton administration to secure passage through the Congress of legislation providing an additional $18 billion for the IMF.

As for the European powers, they are opposed to further interest rate cuts, pursuing their own course with the launch of the euro at the start of 1999. The president of the German Bundesbank, Hans Tietmeyer, declared that 'the causes of the problems we have in Europe are certainly not monetary policy'.

Yet it is the United States itself that provides the most graphic demonstration of how conflicts between different sections of the capitalist class is working to deepen the global economic crisis. Even as Clinton was warning of the worst financial crisis in 50 years, and calling for strong global leadership, the war against his administration being waged by powerful sections of the American bourgeoisie was intensifying with the House judiciary committee recommending an unrestricted investigation as to whether ground existed for his impeachment.