Dire warnings but no agreement at World Economic Forum

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Government and corporate leaders from the world's major powers meeting in the Swiss ski resort of Davos over the past week have warned that the international economy faces new crises in coming months--but could not agree on ways of averting them. In fact, this year's World Economic Forum was dominated by sharpening financial and trade tensions between the United States, Europe and Japan.

Such elite gatherings have been held in Davos annually since 1971, first to discuss unifying the European economies and how to strengthen their hand in the global market, and then to try to find solutions to world economic problems. This year's forum assembled in the wake of the Asian financial meltdown, Russia's default and currency collapse, and the near-disintegration of Brazil's financial system.

Speakers at the conference, which attracted 40 heads of state, and almost 2,000 government, business and academic power-brokers, presented a picture of a volatile global economy facing unpredictable shocks which could trigger further national financial breakdowns, worldwide slump, trade war and widespread social unrest. As if to highlight these fears, helmeted riot police with submachine guns, shields, water cannon and tear gas rifles barricaded the conference centre while a police helicopter hovered overhead--all to deal with 200 demonstrators chanting slogans against global capitalism.

Many speakers pointed to looming financial and political problems:

• Billionaire speculator George Soros urged the International Monetary Fund (IMF) to immediately provide emergency funding to Brazil to prevent the disintegration of its currency and banking system. "Brazil is in a very acute situation, because on Friday you effectively had the beginning of a run on the banks and a run on the currency," he said, referring to the Brazilian currency's fall below the two-per-US dollar level last week.

• German Chancellor Gerhard Schroeder invoked Soros' warnings to demand serious negotiations on a new international financial system. "Speculative capital movements help drive national and international exchanges--indeed, entire national economies--to the brink of ruin and cause precarious instability in many parts of the world," he said.

• Britain's Chancellor of the Exchequer, Gordon Brown, said a new global financial structure was needed by April. Economic surveillance, early warning and crisis prevention mechanisms were urgently required. "In a world that has seen in the last year Russia default, Indonesia undergo revolution, Japan nationalise some of its banks and Hong Kong buy public stakes in private companies, we must not be so complacent or attempt to rebuild the present in the image of the past."

• A Harvard Institute for International Development report told the participants that the Asian financial meltdown is only part of a wider crisis stemming from the rapid rise of global capitalism. "Policy failures matter, but they are only part of the story in Asia's financial storm. As much attention should be paid to the financial hurricane itself, specifically the tendency for international markets to over-react both to positive and to negative news."

• Egyptian President Hosni Mubarak warned of a "bitter sense of injustice" in poor countries, "a sense that there must be something wrong with a system that wipes out years of hard-won development because of changes in market sentiment". He added: "Our global village has caught fire. We have put most of it out but there are still pockets that can threaten us all again," as the Brazilian crisis showed.

There were also pleas for protectionism and a return to national regulation. Leading US trade union official, AFL-CIO president John Sweeney said: "Our task is not to make societies safe for globalisation but to make the global system safe for decent societies." Russian Prime Minister Yevgeny Primakov said the free market policies that had been pursued in Russia were "quite wrong" and had helped bring about Russia's economic collapse. Malaysian Prime Minister Mahathir Mohammed said the policy of free markets and free trade had run Southeast Asian economies into the ground.

All these warnings, objections and appeals received short shrift from the key figures at the forum--the officials of the IMF and the representatives of the US government.

IMF deputy managing director Stanley Fischer, who supervised the austerity and restructuring packages imposed on Indonesia, South Korea, Thailand and Russia over the past year, made clear there would be no change of policy. He said he was fed up with hearing "arrant nonsense" from people who accuse the IMF of indifference to the social consequences of its programs. "It is an outrage and an offence to be told things which are patently not true." He claimed that poverty in Indonesia is not as severe as predicted.

The Clinton administration sent a high-powered cabinet team to the forum with a definite agenda: to rebuff all talk of regulating the capitalist markets and to demand the further lifting of barriers to US trade and investment. Headed by Vice President Al Gore, the delegation included Treasury Secretary Robert Rubin, Rubin's deputy Lawrence Summers and Assistant Secretary of State for East Asia and the Pacific, Stanley Roth.

Rubin categorically rejected the European calls for international financial regulation. He ridiculed the notion of an "early warning system" for identifying countries vulnerable to sudden outflows of capital, claiming it would engender panic.

Even more bluntly he declared that currencies could only be protected by governments that were prepared to take tough economic decisions, despite rising opposition to globalisation and market economics. The most important issue, he said, was effective political leadership and the willingness to implement policies that might cause "short-term pain".

Gore launched a broadside at Europe and Japan. Clearly targeting the European Union's farm subsidies, he announced that the US would seek an "outright elimination" of agricultural export subsidies during the next round of global trade talks, now likely to start at the end of the year.

Invoking the prospect of trade war, Gore said Europe and Japan had to further deregulate, stimulate and open up their economies to more imports. They could not keep running trade surpluses while the US runs record deficits. Policy changes were needed "if we are to prevent the financial crisis of 1998 from becoming the trade crisis of 1999. America cannot be the importer of only resort."

Japan's senior trade diplomat, Vice Finance Minister Eisuke Sakakibara, defended Japan's record, insisting that its packages to stimulate the economy and shore up its financial system were bearing fruit and could lead to growth by mid-1999. In an unusually frank retort, he said: "The implementation program that we have is almost American. It is really un-Japanese."

Sakakibara was immediately rebuked by Deputy Treasury Secretary Summers. Pointing to Japan's decade-long stagnation, he said Japan had made such pronouncements of imminent economic recovery "at the last eight meetings of the Davos economic forum". He would "wait and see what happens before declaring victory".

The picture that emerges from Davos is hardly edifying. Even in the face of unmistakeable signs of further financial and social catastrophes, the rival major powers are simply incapable of agreeing on any preventative action, let alone a rational economic plan, or measures to alleviate poverty and social inequality. Instead, they are headed for new conflicts with each other, accompanied by even harsher attacks on the living conditions of ordinary people.