World Bank chief sounds the alarm

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Concerns are growing in the leadership of some of the major institutions of world capitalism that the economic devastation, which has swept the East Asian region in the past 18 months, will have major political consequences.

These fears were highlighted in a speech delivered by World Bank president James Wolfensohn to a global finance and development symposium in Tokyo on March 1. Pointing to the "extraordinary period of financial turmoil" he warned that while measures to reform the "global financial architecture" were being considered, it was also necessary to "establish really solid foundations to underpin that architecture."

"To create solid foundations on which something lasting might be built, I think you need to address a whole set of issues which are not typically addressed in the financial analysis alone. A stable financial architecture cannot be achieved without the proper structural, institutional, social and human foundations needed to make a modern market economy work. Without these underpinnings, our building will collapse. It will also collapse if we are not joined in our labors by hands and voices from every corner of the globe."

Wolfensohn's comments were in marked contrast to the type of pronouncements, which characterised the first years of this decade, when the World Bank first coined the term "East Asian miracle."

If any lessons were to be learned from the past 18 months, he told the Tokyo conference, it was that it was not simply a question of "getting the macroeconomic numbers right or of ensuring transparency or of revising the way in which capital flows are regulated."

"If we do not learn these lessons--and now is surely the time to show that we can--our foundations will be shallow and our house insecure and at risk," he said.

According to Wolfensohn, social and political stability requires action to protect the most vulnerable, including the establishment of "social safety nets that are in place for times of crisis."

"When you look at the transition economies [the World Bank term for the former Stalinist-ruled regimes in Eastern Europe] you might see a list of successful privatizations. But look at them another way and you see where the social safety nets provided by the lumbering state corporation of old have been stripped away and not always replaced.

"This creates extreme vulnerabilities which can lead to political disturbance and a dangerous sense of disillusion among those left out in the cold. We have seen a dangerous backlash against globalization and there are real and deeply human reasons people feel this way."

Fear of mounting political instability was also the theme of an article that Wolfensohn co-authored with South Korean President Kim Dae Jung, published in the February 26 edition of the *International Herald Tribune*.

"The global economy must be open to all people if it is to endure," Kim and Wolfensohn wrote. "Politicians can no longer ignore the manifest urgency of building economic development in parallel with an environment of social and human justice. People will simply not support a world economy which is exclusively about growth rates and private capital flows. It must be about more than that."

While the more far-sighted spokesmen of global capitalism, such as Wolfensohn, can clearly see the dangers posed to the present economic order by the deepening financial and social crisis, their efforts to reform the global economy to overcome these effects amount to trying to square the circle.

This is because there is an inherent and irresolvable contradiction at the heart of their agenda. According to Wolfensohn, the task is to create a "modern market economy" with sound institutional and social underpinnings. But it is the very operation of the market economy that destroys these social foundations.

Contrary to the claims of its proponents, the capitalist market is not a mechanism for the efficient distribution of goods and services by means of competition between corporations and financial institutions responding to consumer demands. Capitalist production is not production for material wealth as such, but is carried out for profit. Accordingly, the struggle on the market is the means by which each section of capital wages war against its rivals for the appropriation of profit.

When profits as a whole were expanding this struggle took the form of almost friendly rivalry. But those days have long gone. Under today's conditions, in which virtually every industry is characterised by overproduction, overcapacity and declining prices, the struggle on the market increasingly takes the form of a global war, in which each section of globally-organized capital strives to eliminate its rivals.

This is the underlying meaning of the economic crisis that has ripped through East Asia over the past 18 months.

As its many critics have noted, the International Monetary Fund's response to the crisis--reflecting the demands of the dominant global financial institutions--was not to put in place policies to restore economic stability to the affected countries, but to impose harsh high-interest rate regimes which bankrupted local financial institutions and industries.

In other words, while Wolfensohn insists that the answer to the social crisis is the development of a "modern market economy," the inherent logic of the market has ensured that it is precisely the most "modern sectors" of the East Asian economies that have been hardest hit. In effect, their more powerful rivals have eliminated them in order to open the road for the appropriation of greater profits.

This process can be seen in the latest unemployment statistics issued by the International Labor Organization. In a report prepared for a special two-day symposium held last week, the ILO noted that upwards of 24 million jobs in East Asia alone had been destroyed by "massive business failures".

The report pointed out that "the bulk of the job losses came in the modern, industrial and service sectors of East Asian economies--where wages, productivity and working conditions tend to be higher than average--forcing increasing numbers of workers into informal or agricultural sectors, which are already crowded and which offer generally poorer earning opportunities."

Unemployment rates in Hong Kong and the Philippines have nearly doubled, rising from 2.8 to 5 percent and from 7.4 to 13 percent respectively in the two years to the end of 1998. Other countries have experienced three and four-fold rises in the same period, including Indonesia 4 to 12 percent, Korea 2.6 to 7.6 percent, Malaysia 2.5 to 6.7 percent and Thailand 1 to 4.4 percent. "Under current trends," the report noted, "the upward spiral of unemployment growth appears to be slowing, but unemployment is still increasing from record high levels in most of the region's labour markets, with often disastrous consequences for workers and their families."

The report stated that while a return to economic growth was a necessary prerequisite for overcoming the social consequences of the crisis, "the likelihood of a return to 7-8 percent growth rates of the previous decades was slim to nonexistent."

In fact, the entire region has experienced the most severe economic contraction since the Great Depression of the 1930s. According to the ILO, by the end of 1998 "the enormity of the shock" led to a 15 percent decline of Gross Domestic Product in Indonesia, 6.5 percent in Thailand, 5 percent in Korea and 3-4 percent in Malaysia and Hong Kong.

The report noted that "in the absence of adequate systems of social protection in the region" the economic and social hardships arising from the crisis were being borne "directly by workers and their families" and that under current conditions "the risk factor for child labour is increasing as families are pressured by the crisis to reduce expenditure".

While the leaders of the World Bank and the ILO fear that such conditions are going to produce major social and political upheavals, voices of alarm are also being raised with regard to the deepening trade war conflicts, which have seen the eruption of disputes over bananas and steel, to name but two of the many commodities involved.

An article entitled "Trade War's Logic is Vintage 1914," published in the March 9 edition of the *International Herald Tribune*, claimed that rarely had it seemed "so obvious that the world's two economic giants--the United States and the European Union--ought to be closely cooperating in their own and the world's best interests."

But rather than working to preserve "the openness of the international trading system when economic globalization is running into a backlash in many parts of the world" the United States and the EU "are heading to a trade war, ostensibly over bananas, with all the inexorable, blinkered logic of the European great powers mobilizing their forces for World War I."

The article noted that underlying the conflicts over specific commodities was US resentment that Europe was not doing enough to absorb exports from Asia and that with little stimulation likely in the near future, protectionist pressures in the US would mount if the economy slowed down.

It concluded with a call for the political leaders of both sides to intervene to "settle this unnecessary and dangerous dispute" and prevent a "disastrous trans-Atlantic trade war that could spread destructive beggar-thy-neighbour policies around the globe and spark a world recession".

But like the economic and social devastation in East Asia, the mounting trade war is an expression of the irreconcilable contradictions and conflicts that lie at the heart of the "modern market economy".