World Bank president warns economic crisis poses “human calamity”

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The head of the World Bank warned over the weekend that the deepening global economic crisis threatens to unleash “a human and developmental calamity.”

World Bank President Robert Zoelick issued the warning in the context of a meeting of the bank and the International Fund in Washington that came on the heels of meetings by G7 and G20 finance ministers in the US capital.

Zoelick said that developing countries will see “especially serious consequences with the crisis driving more than 50 million people into extreme poverty, particularly women and children.”

The IMF and World Bank warned Sunday that global unemployment is set to rise from 5.3 percent to 8.5 percent, leaving some 90 million more people “trapped in extreme poverty.” He added: “The number of chronically hungry people is expected to climb to over 1 billion this year.” These stark warnings stood in stark contrast to the relatively sanguine assessment adopted by the finance ministers from the G7 and G20 groups of leading nations in their meeting last Friday. Despite this more optimistic tone, the ministers neither offered any new policies nor resolved any of the issues that divided the previous G20 summit.

While the G7 communiqué begins by noting that the meeting takes place during the deepest and most widespread economic downturn and financial stress witnessed in decades, the G7 ministers present a markedly rosy assessment of the future trajectory of the world economy.

Their communiqué states, “Economic activity should begin to recover later this year amid a continued weak outlook, and downside risks persist.” The group added, “Recent data suggest that the pace of decline in our economies has slowed, and some signs of stabilization are emerging.”

The relatively optimistic tone of the document flies in the face of reports issued last week by the IMF. The organization's Global Financial Stability Report, published last Tuesday, predicted that total credit write-downs worldwide may reach over $4 trillion, and that the world banking system was close to insolvency.

The following day, the IMF published its World Economic Outlook, sharply reducing the estimates of world growth it had made in January. The bank said that it expects the world economy to shrink by 1.3 percent in 2009, and that the world economy would grow at a rate of only 1.9 percent in 2010. The advanced economies, including those represented in the G7, are expected to see no growth next year

The US financial system, given huge infusions of government cash and ever-more lax regulatory standards, has in fact returned to profitability, prompting White House officials to proclaim that the economy may be nearing recovery. Favorable borrowing rates have led to increased refinancing activity, generating an uptick in profits.

But the crisis in the real economy has only gotten worse. The UK economy contracted in the first quarter faster than anticipated, while German Central Bank President Axel Weber said that the German economy may have contracted by as much as 3 percent in the first quarter, which would be the highest on record.

Following the release of the communiqué, the *Financial Times* Monday warned against any overly optimistic view of the world economy, noting that at least twice in [Japan's] “lost decade,” fleeting signs of recovery yielded to the reality that the economy had not yet overcome a crisis emanating from its burst bubble at the start of the 1990s.

Conflicts between the US and Europe continued to simmer under the relatively placid tone of the communiqué. There are sharp divisions on all major questions, including the amount of stimulus to be provided by each country, and whether there is to be any international regulation and restrictions on financial speculation.

The IMF had previously recommended that G20 countries allocate 2 percent of their gross domestic products as stimulus spending. While the IMF said on Sunday that, on aggregate, this figure has been reached, there are severe disparities in the amount of stimulus spending various national governments have been willing to undertake

The United States has pressed for countries to adopt a rigorous and intensive stimulus, while Euro Zone members argued that 2 percent of GDP was too much. On Sunday, the IMF released its estimates of the total stimulus levels for the G20 countries. Russia had the highest government stimulus of 4.1 percent, while Japan's stimulus program amounted to 2.4 percent of its GDP. The US package was an even 2 percent of output.

The other G7 member countries pledged significantly lower amounts of stimulus funds. France's stimulus plans amounted to only 0.7 percent of GDP, while Germany allocated 1.6 percent and Britain 1.4 percent.

As in the G20 Summit three weeks ago, sharp divisions surfaced on the question of world financial regulation. Christine Lagarde, the French finance minister, told the *Financial Times*, "I have this concern that as things pick up...a lot of people will want to go back to the old games. Go back to making money and exploiting [regulatory] systems as much as they can." These comments referred implicitly to the United States, which has resisted any international restrictions on its financial system.

Guido Mantega, the Brazilian finance minister, said that the overriding issue was cleaning up the global financial system. "If the United States and other countries that have banks with toxic assets do not clean up their financial system, this crisis will last for a long time," he said.

The Obama Administration has challenged the IMF's bleak picture of bank balance sheets, claiming that the US banking system is fundamentally sound. The IMF said last week that write-offs at US banks could total $2.7 trillion.

The communiqué stressed the need to repair bank balance sheets in order for recovery to proceed. "All the experience we have of past banking crises...is that you never recover before you complete the cleaning up of the balance sheet of the financial sector," it said. "You can postpone it. At the same time, you postpone the recovery."

There were difficulties even raising the funds pledged by the G20 summit to the IMF. The G20 pledged an additional $500 billion at its meeting 3 weeks ago. Thus far, however, only $375 billion have been raised, and Friday's meeting ended without new pledges.

The communiqué issued by the G7 pledged to abstain from protectionist measures. The resolution of the G20 conference in London made a similar solemn pledge, but according to Bloomberg.com, the US, UK, Germany, France and Italy have all introduced protectionist measures since then.