In wake of IMF meeting

Dollar plunge highlights fault lines in global economic "recovery"

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The US dollar fell to a 14-month low against other currencies Thursday, capping several days of downward volatility in the immediate aftermath of the semi-annual meetings of the International Monetary Fund (IMF) and World Bank, held in Istanbul.

The US currency, down 11.9 percent against a basket of currencies since President Barack Obama took office, fell an additional 0.7 percent on Thursday. Central banks in South Korea, Taiwan, the Philippines, Thailand, Indonesia and Hong Kong intervened to slow the dollar's fall against their currencies.

In tandem with the fall in the dollar, gold prices soared to new records, hitting $1,056 an ounce on some futures markets.

Late Thursday, Federal Reserve Chairman Ben Bernanke stated that the US will have to raise interest rates once the economy has "sufficiently improved." Although he gave no indication as to when that might be, his intervention had the desired effect of enabling the dollar to recover some of its losses.

The downward drift of the dollar had accelerated Tuesday, the first official day of the IMF meeting, after the British *Independent* newspaper published a report that secret discussions had been held between Arab oil-exporting countries and China, France, Japan and Russia on replacing the dollar with a basket of currencies for trade in oil. Most of the governments named subsequently denied the report.

Another factor in the burst of speculation against the dollar was the decision of the Australian central bank, announced Tuesday, to raise interest rates.

The increased pressure on the dollar is a telling sign of the systemic nature of the economic crisis and the heightened tensions among the major world economic powers. It provides a stark contrast to the official declarations coming from the IMF meeting forecasting a return to economic growth—albeit at a snail's pace—and promising a new era of global economic collaboration and governance.

The weakening of the dollar reflects the breakdown of the global capitalist economic order that emerged after World War II, which was based on the unchallenged economic dominance of the US. Last year's Wall Street crash and resulting global recession highlighted the immense decline in the world economic position of American capitalism and further compromised the prestige and influence of the US in world economic affairs.

Washington, however, is seeking to leverage its exploding budget deficit and soaring national debt—fueled in large part by trillions of dollars in government subsidies to Wall Street—to place the burden of the economic crisis on its major competitors. Its chief creditors, such as China and Japan, are increasingly concerned over the devaluation of their dollar holdings, but terrified at the prospect of a collapse of the dollar.

In order to boost US exports at the expense of rivals whose economies are highly dependent on exports, such as China, Japan and Germany, Washington has been tacitly favoring a steady fall in the dollar, which has the effect of cheapening US exports and making imports more expensive. This nationalist policy has already increased international tensions and runs the risk of leading to a full-blown dollar crisis, with devastating consequences for both the US and world economy. It is also further undermining the privileged position of the dollar as the major world reserve and trading currency.

Last week, World Bank President Robert Zoellick warned, "The United States would be mistaken to take for granted the dollar's place as the world's predominant reserve currency. Looking forward, there will increasingly be other options to the dollar."

The *Wall Street Journal*, in a Friday editorial entitled "The Dollar Adrift," bitterly commented: "The Fed is telling the world that it is concerned primarily—perhaps only—with the domestic US economy. If the dollar falls against other currencies, that's their problem…

"The more immediate danger—in the coming months—would be if the fall of the dollar becomes a rout… But even if there is no dollar panic, the volatility of currency markets…could also lead to a round of competitive devaluations, as other nations try to placate their own domestic export constituencies."

The IMF at its Istanbul meeting notably ignored the increasingly contentious question of US monetary policy. This was in keeping with an effort—reflected last month at the G20 summit of leading world economies in Pittsburgh and continued at this week's IMF and World Bank meetings—to paper over growing trade and economic conflicts and promote vague guidelines for reviving the world economy and staving off another collapse.

In its latest forecast, the IMF estimates that global economic output will decline 1.1 percent this year and rise 3.1 percent in 2010. The projected growth for 2010 is far below pre-crisis rates and implies a continued rise in unemployment and poverty.

Moreover, the anemic growth that is projected is largely dependent on massive state subsidies to the banks and other stimulus measures, totaling thus far, according to the IMF, $2 trillion worldwide. No one knows what will happen when governments begin to pull back from these subsidies, which are fueling staggering and unsustainable levels of debt, stoking protectionist measures, and raising the specter of state bankruptcies.

At the meeting, the IMF endorsed the decision of the G20 summit to make the G20, which includes major "emerging" countries such as China, India and Brazil in addition to the established industrialized countries grouped in the G7, the chief forum for international economic collaboration.

The IMF also endorsed the "Framework for Strong, Sustainable and

Balanced Growth" that was adopted at the G20 meeting. This plan, pushed by the United States over the resistance of economic rivals, principally Germany and China, calls for debtor countries, such as the US, to reduce their deficits by slashing domestic consumption and increasing their exports, and for surplus countries, such as China, Japan and Germany, to cut their surpluses by increasing domestic demand and carrying out structural "reforms," including the gutting of remaining protections for workers, to further open their markets to US and international investment.

China, Germany and other countries signed on to the "framework" only because it avoids any sanctions or enforcement mechanisms against countries that fail to make the proposed changes. The IMF is assigned the job of providing analysis to facilitate the use of "peer pressure" to bring countries into line.

Notwithstanding formal agreement, the plan is widely seen as an attempt by the US to impose the brunt of its crisis on its rivals.

Another major component of the "framework" is an increase in the voting power within the IMF of emerging economies by "at least" 5 percent. This proposal sparked bitter resistance from Germany and France, which stand to see their influence within the IMF reduced.

At its meeting this week, the IMF endorsed the 5 percent increase in voting power for emerging countries, but put off any concrete proposal to implement it until January of 2011. As the *New York Times* commented, "This leaves ample room for friction between IMF members that stand to gain in influence and those losing it, as well as within the community of advanced countries.

"European countries, including France and Germany, are already quietly maneuvering to preserve their own leverage, possibly at the expense of their neighbors.

"Also, the IMF did not address one of the most contentious issues, that of the effective United States veto at the organization. With a 17 percent voting share in a body that requires 85 percent for major decisions, the United States can block any significant move."

A third plank of the G20 "framework" endorsed by the IMF is tougher global regulation of the banks. The adopted recommendations, however, include no enforcement mechanisms or sanctions. At the G20, the US defeated proposals from France and Germany to impose caps on bankers' compensation.

Commenting on this aspect of the recovery framework, the *Financial Times* noted on Tuesday that US banks have blocked all serious proposals to increase regulation, and concluded: "In short, an overhaul of international standards of bank regulation remains a clear but highly uncertain goal. It involves curbs on enormously wealthy individuals and institutions whose political influence appears as strong as it was before the credit crisis hit in 2007."

While no measures are to be taken to rein in the speculative practices of the banks, the impact of the crisis which they precipitated is profound and spreading. The IMF reports that a staggering 10 percent of global output has been lost due to the crisis and will not be recovered. This means that the world's population has grown significantly poorer.

The World Bank estimates that the crisis has thrown another 90 million people into "extreme poverty," living on less than $1.25 a day.

According to the Organization for Economic Cooperation and Development, joblessness has already reached a high since World War II of 8.5 percent in the 30 high-income OECD countries. It warns that unemployment could rise further to nearly 10 percent in the developed world by the end of next year, meaning 25 million people will have lost their jobs since the recession began.

Noting the especially severe impact on young workers, the OECD speaks of the risk of a "lost generation."

For its part, the IMF is warning of the likelihood of a "jobless recovery." Many prominent economists predict that unemployment will not fall to pre-crisis levels until 2015 at the earliest. IHS Global Insight forecasts that unemployment in the US will still be at 8.1 percent in 2013.

As for the much vaunted restabilization of the financial system, the IMF estimates that total losses and write-downs within banks, insurers, hedge funds and other financial firms will amount to $2.8 trillion between 2007 and 2020 in the US, Europe and Asia. This represents 5 percent of all loans and securities held by these institutions. As only half of these losses have to date been acknowledged, the global financial system remains poised on the brink of a precipice.

IMF Managing Director Dominique Strauss-Kahn hailed this week's meeting as "a unique opportunity to reshape the post-crisis world, to usher in a new era of collaborative global governance."

Other prominent commentators were far less sanguine. The Chinese web site *Xinhuanet.com* wrote: "Unlike the rapidly-spreading and powerful crisis, the recovery is set to be slow and fragile. Financial markets remain far from stable, jobs are still diminishing, protectionism is on an alarming rise and poverty is exacerbated in low-income countries."

Michael Geoghegan, chief executive of HSBC bank, told the *Financial Times* that he anticipated a new downturn in the coming months. Posing the question of whether the world was in a "V recovery or a W," he said, "It's the latter."

Billionaire investor George Soros said in Istanbul that the US banks were "basically bankrupt," and their insolvency would impede any significant recovery.

New York University Professor Nouriel Roubini, who predicted the market crash of last year, warned in an interview, "Markets have gone up too much, too soon, too fast." Noting that stock markets have soared by around 50 percent since their lows last March, he added, "The real economy is barely recovering while markets are going this way."

He warned that "easy money" had already created "asset bubbles in equities, commodities, credit and emerging markets," and concluded, "… we may be planting the seeds of the next cycle of financial instability."

Robert Prechter, founder of Elliott Wave International Inc., predicted that the Standard & Poor's 500 Index would probably fall "substantially below" its 12-year low reached on March 9.

In an October 6 editorial entitled "Picking Through Economic Wreckage," the *Financial Times* asked who would pay for the colossal loss of economic output. The answer was indicated by Carlo Cottarelli and Jose Vinals, two IMF staff economists, who wrote: "Addressing the fiscal problem will require clarity of intent and firm political resolve: health and pension entitlement reforms, cuts in the ratio between other spending and GDP, and tax increases will be necessary."

In other words, the international working class is to pay for the crisis.