Differences widen at IMF meeting

Nick Beams
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The International Monetary Fund semi-annual meeting held in Washington on Saturday was dominated by fears of the impact of a weakening global economy amid mounting currency and trade conflicts among the major capitalist powers. It failed to make progress towards a solution of either. In fact, the meeting revealed that the differences among the major powers, especially between the United States and China, are widening.

As the *Financial Times* noted today: "The hostility between Washington and Beijing has escalated into something resembling trench warfare."

On the eve of the meeting, IMF managing-director Dominique Strauss-Kahn warned that worsening global unemployment resulting from low growth in the major industrial countries threatened political stability and could even lead to war.

"During this crisis," he declared, "the global economy lost about 30 million jobs. On top of that, in the coming decades, 450 million people are going to enter the labour market, so we really face the risk of a lost generation.

"When you lose your job, your health is likely to be worse. When you lose your job, the education of your children is likely to be worse. When you lose your job, social stability is likely to be worse, with a threat to democracy and even peace."

Speaking directly to delegates, Strauss-Kahn said, they were gathering "at a pivotal moment facing a very uncertain future. Growth is coming back but we all know that it is fragile and uneven." He warned that history showed that the use of currencies as a weapon did not work and could even lead to a "catastrophe."

However Strauss-Kahn's rhetoric failed to bring the major powers closer together on any of the key policy issues, least of all on the question of currency values.

In a campaign to boost exports, the US is demanding that the Chinese renminbi (yuan) be revalued and that China do more to boost its domestic economy. For their part, Chinese authorities have insisted that while they are in favour of increasing the value of their currency it must be carried out gradually and not through "shock therapy."

The final communiqué of the IMF policy-setting committee pledged to "work toward a more balanced pattern of global growth, recognising the responsibilities of surplus and deficit countries" and vowed to "address the challenges of large and volatile capital movements, which can be disruptive."

But as Strauss-Kahn acknowledged after the meeting, the language was "ineffective" and would not change things.

Statements presented to the meeting by central bankers and finance ministers underscored the lack of a common approach, as each of the major powers placed central emphasis on its own interests.

A statement by US Treasury Secretary Timothy Geithner warned that the greatest risk to the world economy was that the largest economies "underachieve on growth." But, without mentioning it by name, the statement then went to criticise China.

"For the recovery to be sustainable there must … be a change in the pattern of global growth. For too long, many countries oriented their economies toward producing for export rather than consuming at home, counting on the United States to import many more of their goods and services than they bought of ours."

In a further criticism of China, which holds foreign currency reserves of almost $2.5 trillion, Geithner said that countries with large surpluses had to implement policies to boost their domestic demand. "This is particularly important for countries whose currencies are significantly undervalued."

He went on to call for the IMF to "strengthen its surveillance of exchange-rate policies and reserve accumulation practices."

Chinese authorities voiced their own criticisms as central bank governor Zhou Xiachuan told the IMF that the high debts, low interest rates and unconventional stimulus measures of the richer nations were a major global problem.

"The continuation of extremely low interest rates and unconventional monetary policies by major reserve currency issuers have created stark challenges for emerging countries in the conduct of monetary policy," Zhou's statement declared. While the US was not directly named, there was no doubt about where the central banker's fire was directed.

Zhou called on the IMF to monitor the policies of the advanced countries that were "more damaging to global economic growth." The focus on exchange rate policies effectively left developed countries "outside the Fund's oversight."

"The most fundamental problems at present are the slow progress of developed countries in repairing and reforming their financial system, and the continued reliance on policy support for the stability of the financial sector," he said.

"Considering the enormous amounts of maturing debts and fiscal deficits in developed countries in the current and coming year, sovereign risks could deteriorate at any time, producing systemic effects on global financial stability," Zhou said.

Other leaders, likewise, advanced the interests of their own nation. The Japanese finance minister, Yoshihiko Noda, sought to counter criticism of the Bank of Japan's intervention into foreign exchange markets to lower the value of the yen, saying that it was aimed at stabilising the market, not at weakening the currency to gain an advantage in export markets.

The chairman of the euro-zone finance ministers, Jean-Claude Juncker, would clearly like a return to the days when the old powers held sway in the financial world. "In the G20 framework there are too many people and too many interests to be able to find a currency arrangement," he told Reuters. "The ideal forum would by G7 [the US, Britain, Canada, France, Germany, Italy and Japan] plus China."

Some engaged in wishful thinking. Brazil's Finance Minister Guido Mantega, who last month warned of an international "currency war", said he was optimistic a battle could be avoided. "I think in the G20 meetings we can arrive at an agreement something like the Plaza Accord," he said, referring to the 1985 agreement reached by five major countries to push down the value of the US dollar.

Australian Treasurer Wayne Swan, his eyes firmly fixed on the news cycle at home and seemingly incapable of considering any wider issues, went out of his way to emphasise how much better the Australian employment situation was than the United States where a further 95,000 jobs were lost last month.

Attention will now turn to the meeting of the G20 scheduled to be held in the South Korean capital Seoul next month. But proceedings at the IMF meeting make it clear that the differences may well have sharpened by then.