Behind the battle over new IMF chief

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The arrest and jailing of International Monetary Fund managing director Dominique Strauss-Kahn and his subsequent resignation has set off a battle among the major powers over the appointment of his successor.

The European powers are insisting that the new managing director must be a European, with French Finance Minister Christine Lagarde being put forward as a likely candidate. This is in line with the practice that has prevailed since the founding of the IMF in 1944, whereby a European heads the IMF, while its sister organisation, the World Bank, is headed by an American.

An even more powerful factor than tradition is the eurozone financial crisis. After acknowledging the claim that developing countries had on the top IMF position, German Chancellor Angela Merkel declared that “the current situation speaks for a European candidate, given the considerable problems of the euro”.

US Treasury Secretary Timothy Geithner initially called for the American deputy managing director John Lipsky to take over, at least in an interim capacity, and the appointment of former US Treasury official David Lipton as deputy managing director. He then issued a statement calling for an “open process that leads to a prompt succession”.

The so-called emerging and developing nations—including China, India, Brazil and South Africa—are also calling for a fair and open process, insisting that the structure of the IMF has to change in line with the shifts in the world economy. South African Finance Minister Pravin Gordhan said the Europeans “must be alive to changes in the world”.

In the midst of the Strauss-Kahn crisis, these issues were underlined in a report issued this week by the World Bank pointing to vast shifts underway in the structure of the world economy—shifts that signify that the conflict over the next IMF chief is just one of many more to come.

Projecting trends up to the year 2025, the *Global Development Horizons* report began by noting that “sweeping changes are afoot in the global economy” with the “growing clout of emerging markets … paving the way for a world economy with an increasingly multipolar character”.

In the postwar era, the global economic order “was built on a complementary set of tacit economic and security arrangements between the United States and its core partners with developing countries playing a peripheral role,” shaping their policies with an eye to “benefiting from the growth dynamism of the developed countries”.

That era has well and truly passed. The report found that while economic growth over the next 15 years would be substantially lower than the levels reached in 2010, “emerging economies will … expand collectively by an average of 4.7 percent per year (more than twice the developed world’s 2.3 percent rate) between 2011 and 2025”.

As a result, the report estimated that by 2025 six major “emerging economies”—Brazil, China, India, Indonesia, Korea and Russia—would collectively account for more than half of all global growth. Centres of global growth would be distributed across developed and emerging economies, giving rise to a “multipolar world”.

These shifts will have far-reaching implications for the global monetary system. According to the report, “the most likely scenario … is a multicurrency system centered around the US dollar, the euro and the renminbi [the Chinese currency, also known as the yuan]. Under that scenario, the dollar would lose its position as the unquestioned principal international currency by 2025, making way for an expanded international role for the euro and the burgeoning role for the renminbi.”

The report all but ruled out an alternative scenario for a single multilateral reserve currency administered by the major powers because this would “require countries highly protective of their national monetary policy to relinquish full control”. In other words, such a scheme for a global currency would founder on the rocks of the national interests of the major powers, just as did a similar proposal by John Maynard Keynes, the leader of the British delegation in the negotiations that set up the IMF in 1944.

The report noted that a third alternative—a continuation of the present system based on the US dollar—would see the persistence of the causes of the global imbalances that had led to the financial crisis.

But the scenario advanced in the report for a three-legged global monetary system does not provide for stability. On the contrary, under such a system there would be an immediate shift toward the formation of trade and investment blocs based around the three leading currencies. As the report itself pointed out, in the absence of coordinated international controls of currency fluctuations, the tendency would be for countries to forge an “alliance with one of the leading-currency countries, via a currency peg or monetary union” in order to reduce financial risks.

In other words, the emergence of a multipolar global economy will recreate, in an even more explosive form, the situation that arose in the 1930s. Then the world was divided into rival currency and trading blocs, giving rise to the intense economic conflicts that eventually led to World War II.

Of course, the World Bank report does not draw out the implications of its own analysis. That would be impossible for an organisation whose chief political and economic function, along with the IMF, is to police the demands of the global financial and corporate elites and to reinforce the central ideological conception that there is no alternative to the capitalist order.

But the international working class will ignore the implications of these processes at its peril. The immense movements in the tectonic plates of the world economy have raised to a new peak of intensity the contradiction between the global development of the productive forces and the division of the world into rival capitalist nation-states.

This contradiction drives the bourgeoisie into an ever-more frenzied struggle of each against all, for markets, profits and resources, leading ultimately to military conflict and a threat to human civilisation itself. It can be resolved only on a progressive basis by the international working class through the fight for political power and the establishment of a global planned socialist economy that tears down the barriers of the historically outmoded nation-state and profit system.

The changes to which the World Bank report points are the most fundamental in the world economy since the rise of Germany, Japan and the United States ended the hegemony of British imperialism at the beginning of the 20th century. Those changes led to a breakdown of the world capitalist order in 1914 and three decades of war and revolution. A new period of wars and revolutions has begun, in which the fundamental pre-condition for the victory of the working class is the building of a new revolutionary leadership on the program of world socialist revolution. This is the perspective of the International Committee of the Fourth International.

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