Specter of global depression haunts IMF, World Bank meetings

Barry Grey
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Three years after the Wall Street crash of 2008, finance ministers, central bankers and economists assembled in Washington for the annual meetings of the International Monetary Fund (IMF) and World Bank present a picture of perplexity and fear as the crisis spins out of control and lurches toward a full-scale depression.

Following a massive sell-off on world stock markets Thursday, the finance ministers and central bankers of the G20 leading economies, meeting on the sidelines of the IMF-World Bank conferences, issued an unannounced and hastily composed late-night communiqué. Its aim was to shore up investor confidence and calm the markets.

The one-page document declared the commitment of the G20 countries to “supporting growth, implementing credible fiscal consolidation plans, and ensuring strong sustainable growth.”

Claiming that the G20 ministers and central bankers were “taking strong actions to maintain financial stability, restore confidence and support growth,” the statement asserted, “We commit to take all actions to preserve the stability of banking systems and financial markets as required.”

However, apart from vague language about increasing the flexibility and maximizing the resources of the European bailout fund, the communiqué offered no specifics. It did little to inspire confidence in the financial markets, which opened Friday in the red in both Europe and the US but ended the trading day slightly higher. The minimal gains did little to relieve the sense of gloom and crisis that produced a 5.9 percent drop (675 points) in the Dow Jones Industrial Average over Wednesday and Thursday combined.

In a Friday article headlined “Grim Mood in IMF and World Bank,” the *Financial Times* quoted Eswar Prasad, former head of the IMF’s China division and now a fellow at the Brookings Institution in Washington, as saying: “The crisis of confidence cannot be stanched merely by broad statements of concern and noble policy intentions at a time when decisive and concerted policy actions are sorely needed.” He added: “In the absence of specific and decisive policy measures, markets are unlikely to be calmed by such broad statements.”

The atmosphere surrounding the meetings can be gauged from headlines that appeared Friday in leading financial newspapers. The *Wall Street Journal* carried a banner headline declaring “Markets Swoon on Recession Fears.” Below were two articles, one entitled “World-Wide Distress Rises as Investors See Futility of Governments, Central Banks,” and the other bearing the headline “Economic Signals Heighten Worries of Double-Dip.”

The *Financial Times* gave a special insert devoted to the IMF-World Bank conferences the headline “Financial Institutions Stare into the Abyss.” The lead article began: “The world economy once again stands on a precipice.”

There are ample reasons for this assessment. Economic data pouring in shows a sharp slowdown in growth from the US to Europe to India and China.

Greece is on the verge of state bankruptcy, with the IMF, the European Union and the European Central Bank threatening to withhold a cash injection unless the government imposes new and more savage austerity measures in the teeth of mounting working class resistance.

Banks in Europe with heavy exposure to public and private debt in Greece and other heavily indebted euro zone countries are tottering, as inter-bank lending and private credit markets begin to freeze up as they did after the collapse of Lehman Brothers. American banks are also being hit, with shares of Bank of America collapsing and Morgan Stanley finding it difficult to raise funds.

On Tuesday, the IMF issued its *World Economic Outlook* report, in which it sharply downgraded its forecast for economic growth worldwide, as well as in the US, Europe, the advanced economies as a whole, and China and India. The report projects growth of 2 percent or less for both the US and the euro zone in 2011 and 2012.

It begins: “The global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing.”

The following day, the fund released its *Global Financial Stability Report*, which declares: “Financial stability risks have increased substantially over the past few months.” Pointing to the impact of weaker economic growth on both public and private balance sheets, it alludes to the mounting threat of sovereign defaults: “Public balance sheets in many advanced economies are highly vulnerable to rising financing costs, in part owing to the transfer of private risk to the public sector" (i.e., the bailout of the banks with public funds).

Noting the convergence of "shocks" such as the credit downgrade of the US, the worsening European debt crisis and the deceleration of economic growth, the report continues: "Risks are elevated and time is running out to tackle vulnerabilities that threaten the global financial system and the ongoing economic recovery."

The report warns that European banks are at risk to the tune of 300 billion euros and calls for the injection of massive amounts of capital to shore up their balance sheets, in the form of new public bailouts if necessary.

On Thursday, new data was released showing that business activity in the 17-nation euro zone actually contracted in September, the first decline since July 2009. Other data indicated that Chinese manufacturing declined in September, marking the third straight month of contraction.

On Friday, the World Trade Organization reported that global trade has slowed precipitously. The WTO cut its estimate for growth in world goods trade in 2011 to 5.8 percent from an already low forecast of 6.5 percent, and warned that the risks were "firmly rooted on the downside."

Meanwhile, the ratings agencies this week downgraded the debt of Italy and Slovenia as well as three of the biggest US banks—Bank of America, Citigroup and Wells Fargo—and several Italian banks. On Friday, Moody's Investor Service downgraded eight Greek banks, two of which are majority-owned by the besieged French banking giants Credit Agricole and Societe Generale.

In Washington on Friday, IMF Managing Director Christine Lagarde invoked the need for urgent and coordinated action to confront a deteriorating economic and financial situation. "There are dark clouds over Europe and there is huge uncertainty in the US," she said. "And with that we could risk a collapse in global demand. Well, so what? Let's remove the clouds and remove the uncertainty. Easier said than done, and it requires clearly a collective action."

World Bank President Robert Zoellick said he still believed the world could avoid a double-dip recession "but my confidence in that belief is being eroded daily."

The measures being proposed by Lagarde, with the support of the US, are themselves at best palliatives that in no way address the underlying problems that produced the crisis. Essentially, they consist of more austerity for the working class, combined with some short-term stimulus for the US and the stronger European economies and a further use of public funds to bail out the banks. These are the very policies that have exacerbated the crisis to the point where it threatens the bankruptcy of entire countries whose treasuries have been plundered to rescue the financial oligarchs, and a descent into full-scale depression.

There is little chance of coordinated action to avert this prospect. The self-congratulatory praise of multilateralism and cooperation among the major powers that attended the early stages of the crisis has given way to bitter regional and national divisions and a mood of mutual suspicion and animosity.

The US, for its part, has sought to offload the crisis onto its economic rivals, in part by pursuing a cheap dollar policy to gain a trade advantage. This has led to the downgrading of US debt, which has fatally undermined the dollar and the global monetary system based on the US currency.

It has also increased tensions with the European Union, particularly with Germany, the strongest economy in Europe and one that is highly dependent on exports. Germany is leading the opposition within the EU to a major expansion of the 440 billion euro European Financial Stability Facility or other measures, such as euro bonds, to underwrite the weaker economies—from Greece, Portugal and Ireland to Spain and Italy—largely at Germany's expense.

German officials have in recent days publicly floated the option of allowing Greece to go bankrupt in a "controlled default," and, along with their allies in Austria and other northern European countries, slapped down US Treasury Secretary Timothy Geithner when he attended a meeting of euro zone financial ministers last weekend to push for a bigger bailout fund and minimal stimulus measures.

At the IMF meeting on Friday, Wolfgang Schäuble, the German finance minister, made clear that Germany remains opposed to the policies being pushed by Washington and the IMF. He declared that a rejection of further fiscal stimulus is "widely shared" in the G20. He also suggested that a second bailout package for Greece agreed to earlier this year should be reconsidered in light of the country's failure to meet its deficit-reduction targets.

As Karen Ward, an analyst at HSBC, wrote in a note to clients cited by the *New York Times*, "Quite simply this is a beggar-thy-neighbor, not a coordinated world."

The inability of policy makers to provide a solution to the crisis stems fundamentally from the fact that it is a crisis of the capitalist system itself, and no measures can be considered by governments beholden to the banks and corporations that challenge the wealth and power of the corporate-financial elite. Instead, all factions within the bourgeoisie, however bitter their differences, seek to extricate themselves through the impoverishment of the working class.