No new proposals from IMF on European debt crisis

Barry Grey
26 September 2011

The annual meetings of the International Monetary Fund (IMF) and World Bank in Washington, DC concluded Sunday with no agreement on specific measures to avert a default by Greece and the threat of a new financial meltdown and global depression.

Following several days of meetings, press conferences and speeches by central bankers, finance ministers and IMF and World Bank officials, replete with warnings of imminent catastrophe and demands for urgent and coordinated action, the IMF issued a boilerplate communiqué notable for the absence of any concrete proposals.

"Today we agreed to act decisively to tackle the dangers confronting the global economy," the statement read. "These include sovereign debt risks, financial system fragility, weakening economic growth and high unemployment. . . We will therefore act collectively to restore confidence and financial stability, and rekindle global growth."

Along with a reaffirmation of its commitment to imposing austerity measures on the working class, in the name of "fiscal consolidation," and its call for European banks to be "recapitalized" with public funds, the IMF recycled the promise that euro zone countries would do "whatever is necessary to resolve the euro-area sovereign debt crisis and ensure the financial stability of the euro area."

Warning of the likely response of the financial markets to such pro forma generalities, Swedish Finance Minister Anders Borg, measuring his words carefully, said, "There is some risk of market disappointment due to the fact there were no further, more specific pledges from the euro countries."

The meetings were held in the midst of plummeting stock markets, mounting credit downgrades of banks and entire countries, and economic data confirming a sharp slowdown in economic growth in virtually every part of the world. Last week, the Dow Jones Industrial Average dropped 738 points (-6.4 percent), the worst weekly fall in two years.

On the eve of the conferences, the Greek government announced new and even more brutal austerity measures in an attempt to satisfy the demands of the IMF, European Commission and European Central Bank (ECB), which have withheld an 8 billion euro installment of the rescue fund that was set up in 2010. Greece will run out of money to pay wages and pensions by mid-October if the funds are not approved by October 8. The new measures announced by the social democratic PASOK government include 50,000 public sector job cuts, deeper reductions in wages and pensions, and new consumption taxes.

In a speech Sunday before the Institute of International Finance, a global association of banks and finance houses meeting in Washington on the sidelines of the IMF-World Bank conferences, Greek Finance Minister Evangelos Venizelos insisted Greece would not default or exit the euro zone. He pledged that his government would take the necessary steps to satisfy the banks and financial organizations "at any political cost."

The sense of crisis dominating the meetings was evident in the IMF's "Consolidated Multilateral Surveillance Report," which declared, "The global economy has entered a dangerous phase." The report forecast that the best scenario, assuming that the euro zone was able to avert a series of sovereign and bank defaults, would involve "an anemic recovery in major advanced economies and a cyclical slowdown in emerging economies," in which "many economies will continue to struggle with very high unemployment."

To achieve even this, the report said, "Policy responses are urgently needed to decisively reduce rising uncertainty and fear." It continued: "The world economy has entered a dangerous phase in which negative developments could quickly run beyond the control of policy makers."

In her opening speech, IMF Managing Director Christine Lagarde said risks had "increased sharply" and produced a "crisis of confidence." Later she suggested that the current lending capacity of the IMF would have to be dramatically increased, saying it "pales in comparison with the potential financing needs of vulnerable countries and crisis bystanders."

World Bank President Robert Zoellick warned of "the

© World Socialist Web Site

looming danger that failure to take decisive action in Europe and the United States may shake the entire global economy."

US Treasury Secretary Timothy Geithner told the steering committee of the 187-nation IMF on Saturday, "The threat of cascading default, bank runs and catastrophic risk must be taken off the table."

Despite such dire warnings, the best the assembled officials could manage was a promise to announce new bailout measures to salvage the euro when government heads meet at the next G20 summit of leading economies, to be held in Cannes, France on November 4. As British Treasury chief George Osborne put it, perhaps optimistically, "The euro zone has six weeks to resolve this political crisis."

Behind attempts to put a brave face on the situation, however, conflicts and tensions between the US and the European Union, between countries within the EU, and between policy makers and the banks were evident.

The US together with the IMF are pushing for the European Union to dramatically expand the financial reach of the 440 billion euro European Financial Stability Facility (EFSF), upon which agreement was reached last July 31. They are proposing that the rescue fund be leveraged by allowing it to coordinate with the European Central Bank—which has the ability to print euros. The idea, similar to schemes employed by the Bush and Obama administrations to expand the bailout of US banks, is for the ECB to inject capital into troubled European banks and have the EFSF guarantee it against any losses.

This, however, is opposed by Germany and by officials within the ECB itself. François Baroin, France's finance minister, on Friday told reporters that there would be no legal impediment to the EFSF conducting joint operations with the ECB. But German Finance Minister Wolfgang Schäuble poured cold water on the idea, saying "There are other possibilities than going to the ECB." ECB Governing Council member Ewald Nowotny said acidly, "It is not helpful that we have an avalanche of new proposals every week."

Germany, for its part, is pushing a restructuring plan, as part of a second bailout fund for Greece agreed upon last July, in which private holders of Greek government bonds would have to accept a 50 percent discount on the face value of their investments, instead of the 21 percent to which the banks agreed over the summer. That deal was based on a proposal drawn up by the Institute for International Finance, the world banking organization, under which, according to a recent estimate by economists at Barclay's Capital, the banks would really lose only 5 percent.

It is widely believed that the 21 percent deal to which the banks agreed would fall far short of enabling Greece to avoid defaulting on its debts. But on Sunday, Josef Ackermann, speaking as the head of the Institute for International Finance, flatly rejected any renegotiation of the earlier deal. "It is not feasible to reopen the agreement," said Ackermann, who, as CEO of Deutsche Bank, presides over a firm with large-scale holdings of Greek debt.

While the public stance presented at the meetings over the weekend was a commitment to averting a Greek default, the growing private consensus within the financial markets and among policy makers is that Greece cannot be saved. It should be allowed to go bankrupt, the thinking goes, but kept in the euro zone, while other highly indebted countries such as Portugal, Ireland and especially Italy and Spain are somehow "ring-fenced" and prevented from suffering a similar fate.

German newspapers reported over the weekend that the government of Chancellor Angela Merkel has stepped up preparations to shield German banks from the impact of the type of restructuring of Greek debt it is advocating, which amounts to a de facto default by Greece.

The center-left *Ethanos* newspaper reported, citing sources in Brussels, that the German government foresees a 127 billion euro bailout of Germany's ten biggest banks. The newspaper also wrote that following such a debt restructuring, Greece would be forced to impose even more draconian austerity measures and accept budget terms that include ensuring a balanced budget each month.

The center-right newspaper *Kathimerini* reported that the plan calls for the appointment of a European official in Athens who would have oversight, including veto powers, of Greece's fiscal program.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact