Growing world slump overshadows IMF-World Bank meeting

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The annual meeting of the International Monetary Fund and World Bank starting in Tokyo today is being held amid growing signs that the world economy is headed for a major downturn.

According to a leaked report, the IMF has lowered its forecast for world growth in 2012 to 3.3 percent, down from the estimate of 3.4 percent in July. The world growth forecast for next year was cut to 3.6 percent, down from the estimate of 3.9 percent three months ago. It predicted that the euro zone economy would shrink by 0.4 percent this year and expand by only 0.2 percent in 2013. It says that "the further cooling of global economic growth this year and next year" will be "accompanied by a significant increase in downside risks."

The World Bank issued similar forecasts, pointing to the downturn in China and East Asia and giving the lie to the claim that this region could provide a boost to the world economy despite a worsening situation in Europe and the United States. It said China would grow by just 7.7 percent this year, down from 9.3 percent last year, the lowest growth rate this century. Growth in developing East Asia, which excludes Japan and India, would fall to 7.2 percent, down from 8.3 percent in 2011.

The downturn in so-called "emerging markets" extends beyond East Asia. Brazil, which had also been touted as a new centre for growth, is expected to grow by less than 2 percent this year, compared to a growth rate of 7.5 percent in 2010.

In the last month, the world's major central banks, spearheaded by the US Federal Reserve, have been pumping additional liquidity into the global financial system, claiming that these policies will lift the world economy. But these measures have only provided ultra-cheap money to banks and financial institutions to continue their speculation in financial markets while doing nothing to boost the real economy.

Summarising the outlook for the world economy, the latest data published by the Brookings Institution-Financial Times tracking index pointed to the threat of a global recession. Professor Eswar Prasad of the Brookings Institution warned that "global economic recovery is on the ropes" and that without decisive policy measures "the world economy may soon be down for the count."

Mounting geopolitical tensions, fueled by the gathering slump, are also having an impact. Tensions between China and Japan, the world's second and third largest economies respectively, over the disputed Senkaku/Diaoyu islands in the East China Sea are already having a significant economic impact, as Japanese firms in China cut production.

The dispute spilled into the IMF-World Bank meeting, as Chinese banks decided not to attend the meeting. The boycott involves the country's four state-owned banks, including the Industrial and Commercial Bank of China, the world's largest lender by market value.

An IMF official tried to put the best face on a bad situation, saying it was not unusual for the list of participants to change in advance of the meetings. However, the Chinese boycott is undoubtedly a result of the dispute with Japan. Earlier there were even reports that Chinese government officials might not turn up.

The very location of the IMF-World Bank meeting focuses attention on the historical significance of the ongoing global economic crisis.

The last time Tokyo hosted an IMF meeting was 1964. At the time, the Japanese government showcased the economic recovery that had taken place since the end of World War II, just 19 years earlier. Japan was then in the middle of what later became known as the "miracle decade," with annual growth rates exceeding 10 percent.

The contrast with today could not be starker. In 1964 Japan's growth rate was 11.2 percent in real terms, and unemployment was 1.1 percent. Last year the country's nominal gross domestic product shrank by 2.8 percent, with an official, and understated, unemployment rate of 4.6 percent.

But 48 years ago, though Japanese and world capitalism appeared to be on a path of continuing expansion, the seeds of new crises were rapidly germinating. Just seven years later the Bretton Woods monetary system, created along with the IMF and World Bank in 1944, broke down as President Nixon removed the gold backing from the US dollar.

The processes of economic globalization which resulted from the subsequent deep recessions of 1974-75 and 1982-83 gave a boost to the world economy by providing access to cheap labour around the world, notably in East Asia and, particularly in later years, in China. But globalization did not signify a return to the conditions of the post-war boom. Rather the ever-increasing reliance on financialisation, especially in the US, created the conditions for the development of a series of financial bubbles, culminating in the financial collapse of 2008.

Now the world economy has entered its most serious crisis since the 1930s.

The 20,000 government leaders, IMF and World Bank officials, banking and corporate chiefs gathered in Tokyo have no program to promote "economic recovery." There is no "reform" of capitalism waiting in the wings, if only governments had the wit and wisdom to introduce it.

But this is not to say that the ruling elites and their governments do not have a strategy. They do. All their policies are aimed at imposing the burdens of the historic crisis of the profit system on to the backs of the working class the world over. This is the meaning of their mantra of the need for "fiscal consolidation" and "structural economic reform". Social spending must be slashed, all the gains made by the working class in the post-war period destroyed, and wages and working conditions attacked in order to intensify exploitation.

The international working class can only meet this offensive with its own global strategy thought out and fought for to the end, with no less determination than the ruling elites are seeking to impose their agenda. To prevent a social and economic catastrophe, it must undertake a revolutionary struggle to build workers' governments which will expropriate the banks, financial institutions and major corporations as the first step in the establishment of an international socialist economy.

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