Conflicts come to the surface at IMF-World Bank meeting

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In the aftermath of September 2008 and the onset of the global financial crisis, the international meetings of the major capitalist powers were characterised by a degree of unanimity, at least on the surface. All were agreed that vast amounts of money had to be pumped into the financial system to prevent a collapse.

No action would be taken against the banks and financial institutions whose speculative activities had sparked the crisis. In fact they would be rewarded with trillions of dollars in bailout money.

This was accompanied by claims that such action was necessary to prevent a global disaster. Government leaders, it was asserted, had learned the lessons of the 1930s. There would be no return to the conflicts of that era, and action would be taken to ensure there was no repeat of the experiences of the Great Depression.

Today, it is a very different picture. The world economy is moving deeper into recession, and the conditions for a new crisis are being created because of the ever-increasing commitment of central banks around the world to propping up international financial markets.

The underlying conflicts and antagonisms that were somewhat hidden four years ago have come into the open. They were on display at the annual International Monetary Fund-World Bank meeting held in Tokyo last week, undoubtedly one of the most acrimonious since these institutions were established under the Bretton Woods Agreement of 1944.

Chinese banking officials set the tone for the rest of the week when they decided not to attend in order to signify the growing hostility to Japan sparked by the dispute over the Senkaku/Diaoyu islands in the East China Sea.

Two days into discussions a row erupted between IMF managing director Christine Lagarde and German finance minister Wolfgang Schäuble over the pace of austerity programs. Lagarde, reflecting the fears of US and Britain that a collapse in Europe will impact on their financial systems, called for more time for Greece and others to repay their loans, sparking the ire of the Germans, who fear that their banks are going to be left footing the bill and will be dragged deeper into the eurozone crisis.

No sooner had that dispute been papered over than the US and Brazil clashed over the policy of “quantitative easing,” with Brazil’s finance minister, Guido Mantega, denouncing the Americans’ monetary policy as “selfish” because it lowered the value of the US dollar, thereby promoting a “currency war.”

The underlying cause of the divisions is revealed in the projections on global growth contained in the IMF’s *World Economic Outlook*. The world growth forecast for 2013 was cut to 3.6 percent, down from the 3.9 percent estimate made just three months ago.

Even more significant than the overall figure are the estimates for the major economies. The IMF revised its previous forecast for the advanced economies to 1.5 percent, down from 2.0 percent last April. The eurozone is expected to grow by only 0.2 percent next year after a contraction of 0.4 percent for 2012. Even the German economy, regarded as the strongest in Europe, is expected to grow by only 0.9 percent this year and the same amount in 2013.

When the crisis first broke, it was recognised that the advanced economies would undergo a significant downturn, if not recession. But the prospect was held out, and endlessly recycled in the financial and other media, that the world economy would receive a boost from China, India and other emerging markets. The process of “decoupling,” it was claimed, in which the economies of these countries became less dependent on the advanced economies, would enable them to become new growth centres for global capitalism.

This fiction, created to cover up the historic implications of the crisis, has well and truly been shattered.

The rapid growth in the Indian and Chinese economies in recent years was never an independent phenomenon. It was the outcome of investment by transnational corporations that sought to outsource their operations in the never-ending search for sources of cheaper labour. Far from providing a new platform for global growth, the so-called "emerging" economies remained dependent on markets in the major economies.

The myth of "decoupling" was sustained for a brief period by the Chinese investment boom, fueled by stimulus measures of the Chinese government and the provision of massive amounts of credit by the state banks that financed major real estate and infrastructure projects. That has now come to an end, and the Chinese economy has entered a slowdown. Exports are being hard hit by the crisis in Europe (China's biggest market), with Chinese firms warning they face a situation that is as serious as 2008-2009, if not more so.

The Australian economy, the world's twelfth largest, has acted as a kind of barometer for this process. In 2010-2011, the rise in the prices of iron ore, the country's major export, resulting from the China "boom," was hailed as creating the conditions in which the country would be exempt from the global downturn. The situation has changed dramatically in the past few months with at least one major economist warning that government finances face a situation as serious as that of the 1930s.

As the global economy moves into recession, the actions of the world's major central banks—the US Federal Reserve, the European Central Bank and the Bank of Japan—are setting up a new financial crisis.

Their provision of ultra-cheap money is leading to a bubble in markets for financial assets, while doing nothing to boost the real economy. In other words, the conditions that led to the 2008 meltdown are being recreated. However, the implications are even more serious because the central banks themselves are now involved as central players. A collapse in bond markets and a rise in interest rates would see them incur massive capital losses, calling into question the viability of government finances.

Four years into the crisis, it is necessary to draw a balance sheet. As the IMF-World Bank meeting so clearly revealed, not only do the global elites have no solution, they are preparing even bigger disasters.

The working class must intervene with its own independent program—an internationally unified political struggle for the establishment of workers' governments based on a socialist program, starting with the expropriation of the banks, financial institutions and major corporations, bringing them into public ownership under democratic control.

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