US Economic Decline Overshadows IMF-World Bank Meeting

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The annual spring meetings of the International Monetary Fund and World Bank held in Washington over the weekend comprised the treasurers and central bankers, together with financial experts and analysts, from all the major capitalist economies. However not a single proposal was advanced from this high-level meeting to alleviate, let alone resolve, the mounting problems besetting global capitalism.

The reason is not hard to find. The meetings were dominated by the ongoing disintegration of the very structures of the post-war economic order of which the IMF and the World Bank have constituted two major pillars.

While it was not officially on the agenda, the announcement by China that it had secured the agreement of 57 countries to become founding members of its proposed Asia Infrastructure Investment Bank (AIIB) was a hot topic of discussion in the backrooms and corridors, especially at the World Bank.

The IMF and World Bank have been the two most prominent institutions reflecting the economic primacy of the US in the post-war world. But the establishment of the AIIB, and the decision of major economic powers, including Britain, France and Germany, to sign up is an expression of major shifts in the world economy and the position of the US within it.

A *New York Times* article headlined "At Global Economic Gathering, US Primacy is Seen as Ebbing," published on the eve of the meetings, captured some of the mood. In an interview with the NYT, Arvind Subramanian, the chief economic advisor to the Indian government, said the US was almost handing over legitimacy to the rising powers. "People can't be too public about these things, but I would argue this is the single most important issue of these spring meetings."

The article went on to cite comments made by former treasury secretary and a top adviser in both the Clinton and Obama administrations, Lawrence Summers, that the inability of Washington to prevent key allies from joining the AIIB signalled "the moment the United States lost its role as the underwriter of the global economic system."

US treasury secretary Jack Lew disputed the notion that there was any decline in the American position, saying there was a lot of "noise in Washington" and this occasion was no exception "but the United States' voice is heard quite clearly in gatherings like this."

It may well be, but talk is cheap. The fact remains that the US is unable to offer any economic measures to boost the global economy in the way that it once could. This is under conditions where, as the main document prepared for the meeting, the IMF's *World Economic Outlook* (WEO) drew out, lower growth, and even stagnation, is becoming the "new normal." The WEO was accompanied by the IMF's *Global Financial Stability* report, which showed that far from lessening, financial risks are on the increase.

Those risks are certain to be increased by another major issue that dominated unofficial discussion—the looming prospect that Greece may default on its loans, possibly as early as the middle of next month.

The official mantra within the euro zone is that the financial risks posed by a Greek exit are not as severe as they were in 2012. This is largely because the outcome of the austerity measures imposed under the so-called troika has been to take Greek debt off the hands of the private banks and transfer it to the European Central Bank and the IMF.

In the lead up to the meeting and during its sessions, the IMF and European financial authorities made clear there would be no accession to calls by the Greek government for some relief. In fact, the *Financial Times* has reported that in private and off-the-record discussions some European government representatives were in favour of pushing Greece out of the euro zone.

The hard line against Greece was laid down by IMF managing director Christine Lagarde. Adopting the tone of a school ma'am lecturing an errant student, she said: "We have been able to express and explain the policy of the IMF in terms of payments delays and give the precedents and history of that to Mr Vourafakis [the Greek finance minister]."

Speaking at a press conference during the Washington talks, ECB president Marion Draghi said the euro zone was much better equipped than it had been in the past to deal with a Greek crisis and sought to downplay the risks of financial contagion.

However, he added: "We are certainly entering into uncharted waters if the crisis were to precipitate, and it is very premature to make any speculation about it."

Summing up the American position, Lew warned that a crisis in Greece would place a cloud of uncertainty over the European and global economies. "I do not think anyone can predict how markets will respond to dramatic changes in circumstances," he said. "We have been clear in our conversation with all parties there is an urgent need to come together around a comprehensive approach."

While the US views the prospect of a European crisis with alarm because of its impact on the American economy it is not able to significantly intervene. That is a measure of its economic decline. Gone are the days when a crisis would see the US convening an international economic summit to hammer out measures to overcome it.

In fact there was considerable discussion over whether US financial policy may contribute to financial instability, when the Federal Reserve begins to increase official interest rates. In 2013, indications that the Fed was moving to wind back its program of asset purchases—quantitative easing—brought a sharp movement of funds out of emerging markets in what was dubbed a "taper tantrum."

In the lead up to last weekend's meeting, the director of the IMF's monetary and capital markets department, José Viñals, warned that there could be a "super taper tantrum" as the Fed moved closer to lifting official rates from their present near-zero level.

"This is going to take place in uncharted territory," he said. "Markets could be increasingly susceptible to episodes in which liquidity suddenly vanishes and volatility spikes."

However, despite the warnings of these dangers, nothing emerged from the IMF-World Bank meeting to suggest that financial authorities have any measures to meet them.

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