

Gloom, perplexity, divisions dominate World Economic Forum in Davos

31 January 2009

Some 2,500 representatives of the world's business and political elite, including 41 heads of government and scores of cabinet ministers, are attending the annual World Economic Forum, which opened Wednesday in the Swiss alpine resort of Davos. This year's forum, taking place in the midst of a global financial meltdown and economic slump that have shattered the complacent verities about the superiority of the "free enterprise system," presents a picture of deep crisis and disarray among the leaders of world capitalism.

The mood that prevails, according to all accounts, is one of gloom and foreboding. While it is generally acknowledged by the participants that they confront the most serious economic crisis since the Great Depression, the speeches and discussions have underscored the lack of any agreement on the basic causes of the crisis or any unified conception as to how it should be addressed.

The *Washington Post* quoted media baron Rupert Murdoch as saying the participants were "depressed and traumatized," adding that "\$50 trillion of personal wealth" had vanished since the crisis worsened last September with the collapse of the US investment bank Lehman Brothers.

The *Post* went on to quote the billionaire hedge fund manager George Soros, who said, "The size of the problem confronting us today is larger than in the 1930s."

The World Economic Forum was first launched by its founder and still-president, the Swiss economist and businessman, Klaus Schwab, in 1971 in the midst of a mounting financial crisis that led in August of that year to the collapse of the Bretton Woods System, the international monetary framework, based on US dollar-gold convertibility, that had undergirded the post-war economic expansion. In the ensuing years, the forum developed into a semi-official gathering of business chiefs and government officials that discussed and debated both international economic and political issues.

In the more recent period, since the collapse of the Soviet Union, it has become a venue to affirm the supposed triumph of the "free enterprise system," with American investment bankers holding court, surrounded by a small army of economists and media, complemented by film stars and other celebrities.

One year ago, after the initial collapse of the US housing market and eruption of the credit crisis, concern at the forum over these worrisome developments, which had been almost universally unanticipated, was tempered by assurances from American

bankers and politicians that the disorder would be quickly resolved and that, in the worst case scenario, a US recession would be mild and brief. Most of the discussion centered on the widely held notion that the problems in US financial markets would not spread to Europe or Asia, due to the phenomenon of "decoupling."

Robert Greenhill, the forum's chief business officer, set the tone for this year's forum by declaring, "The meeting was founded at a time of division and uncertainty in the 1970s and this year is a return to its roots. People are coming to compare notes on what they need to do to emerge from a serious crisis."

Just how serious and universal a crisis was underscored on the opening day of the forum by the International Monetary Fund's downwardly revised estimate of world economic growth for 2009 of a mere 0.5 percent, including major contractions in the US, Britain, France, Germany and Japan. That followed the previous week's IMF forecast that world trade volumes would shrink 2.8 percent in 2009. Also on Wednesday, the International Labour Organization warned that some 51 million jobs could be lost worldwide this year.

The two dominant and interrelated features of this year's forum are a general sense of shock and near-panic over the inexorable and rapid manner in which the crisis has overtaken the efforts of central banks and governments to shore up the banks and revive economic activity—amounting to trillions of dollars in loans, guarantees and cash infusions—and the devastating loss of American prestige and credibility.

The *Financial Times* on Wednesday wrote: "Most notably, faith that a mix of globalization, financial innovation and free-market competition would build a better financial system has withered away, as bank losses have piled up. Thus the critical question that now hangs over this year's meeting at Davos is: 'What, if anything, can replace this creed?'"

Along similar lines, the *New York Times* on Friday quoted James Rosenfeld, a co-founder of Cambridge Energy Research Associates, as saying, "We've all been building this big, integrated financial system. We didn't consider what would happen when it disintegrated."

As for the position of the United States, the opening day of the forum was given over to Chinese Premier Wen Jiabao and Russian Prime Minister Vladimir Putin, both of whom lambasted the US, without directly naming the target of their attacks, for precipitating the world crisis, and called for measures to lessen US dominance on world financial markets.

Wen urged an expansion of regulatory "coverage of the

international financial system, with particular emphasis on strengthening the supervision on major reserve currencies." He said the financial crisis was "attributable to inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption, excessive expansion of financial institutions in blind pursuit of profit." He also denounced "the failure of financial supervision."

Putin was, if anything, more blunt. He attacked the concept of a "unipolar world," called for an end to the privileged position of the US dollar as the world's major reserve currency, and noted that "just a year ago, American delegates speaking from this rostrum emphasized the US economy's fundamental stability and its cloudless prospects." He continued, "Today, investment banks, the pride of Wall Street, have virtually ceased to exist. In just 12 months, they have posted losses exceeding the profits they made in the last 25 years."

Alan Blinder, the Princeton economist and former vice chairman of the Federal Reserve Board, responded, "The sad thing is that we might have scoffed at this a while ago. But we really dragged the world down."

The Obama administration, for its part, signaled its disinterest in any serious international coordination or financial regulation by failing to send a single high-ranking official to the forum. While an array of government leaders from around the world were in attendance, including German Chancellor Angela Merkel, British Prime Minister Gordon Brown and Japanese Prime Minister Taro Aso, none of the top US delegates who had been advertised—chief economic adviser Lawrence Summers, Treasury Secretary Timothy Geithner, National Security Adviser General James Jones and chief of the US Central Command General David Petraeus—showed up.

The virtual official boycott by the United States underscores the bitter tensions and divisions simmering beneath the diplomatic decorum of the forum. While general statements are being issued at Davos abjuring protectionism, and warnings are being made about the disastrous implications for the world economy of such policies, the reality is a growth of economic nationalism. Less than a week before the opening of the forum, US Treasury Secretary Geithner issued a provocative threat of possible trade sanctions against China, accusing the Chinese of "manipulating" their currency to obtain a trade advantage over the US.

Steven Roach of Morgan Stanley Asia spoke at Davos of a "rising tide of economic nationalism." And delegates from so-called developing countries complained that the massive US deficits resulting from Obama's stimulus program and bank bailouts would suck up the bulk of available private credit on world markets.

"Large economies are accessing international capital markets for themselves," said Trevor Manuel, the finance minister of South Africa. Ernesto Zedillo, the former Mexican president who was in power during that country's financial meltdown in 1994, said, "The US needs to show some proof they have a plan to get out of the fiscal problem. We, as developing countries, need to know we won't be crowded out of the capital markets, which is already happening."

New York Times cited Lord Adair Turner, the chairman of Britain's Financial Services Authority, as voicing similar concerns, speaking of "the risk of a new mercantilism" centered on credit availability rather than trade.

These tensions erupted into the open on Thursday, when Turkish Prime Minister Recep Tayyip Erdogan stormed off the stage after an angry exchange with the Israeli president, Shimon Peres, during a panel discussion on the Gaza crisis. Erdogan, whose government maintains close political and military ties with Israel, told Peres, "When it comes to killing, you know well how to kill."

The Davos forum underscores the impossibility of developing a rational and coordinated international policy to resolve the economic crisis within the capitalist framework of private ownership of the means of production and finance and the division of the world between rival nation states. Putin, speaking as a defender of capitalism, referred to the financial parasitism that fueled the massive fortunes of the financial aristocracy over the past three decades as a "pyramid of expectations [that] would have collapsed sooner or later," and indicated who is to pay the price for its collapse: "This amounted to unearned wealth, a loan that will have to be repaid by future generations."

Within the existing economic and political system, the only future is one of increasing poverty and repression and the growth of national antagonisms leading inevitably, as in the last great depression, to the horrors of global war.

The specter haunting Davos is the emergence of an independent movement of the working class fighting to put an end to capitalism and build a socialist society based on the satisfaction of human needs, not private profit. The disintegration of the world economy poses with the greatest urgency the development of a unified struggle by the working class on the basis of an international socialist program.

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