

IMF chief issues stark warning on economic crisis

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Theme: [Global Economy](#)

Global Research, December 16, 2008

Guardian 16 December 2008

Tuesday 16 December 2008 09.24 GMT. The head of the International Monetary Fund urged governments to step up action to stem the global economic crisis or risk delaying a recovery and sparking violent unrest on the streets.

Using a speech last night in Madrid to issue his stark warning, Dominique Strauss-Kahn argued that government efforts to tackle the economic downturn so far have been uncertain and largely insufficient, which could lead to severe consequences. He singled out the eurozone nations as he attacked the inadequate global response.

His hard-hitting comments came as fears of a prolonged slump intensified after China showed signs that its economy could be in more trouble than initially expected next year. Factory output in the rapidly growing economy registered the weakest growth in almost a decade last month.

The IMF's managing director said such news signalled that a world recovery may not take place until late next year or into 2010 unless swift action is taken.

"A lot remains to be done, and if this work is not done it will be difficult to avoid a long-lasting crisis that everyone wants to avoid," he said.

Governments in leading economies have been called upon by the IMF to commit a combined 2% of global GDP, equivalent to £1.075bn, to try combat the dangers of a global recession. But the IMF chief blamed governments, saying they were unwilling or unable to use more public funds to jump-start economic activity.

"If we are not able to do that, then social unrest may happen in many countries - including advanced economies," Strauss-Kahn said.

He added that violent protests could break out in countries worldwide if the financial system was not restructured to benefit everyone rather than a small elite.

Revealing his concerns of a deeper economic slowdown, he said that the IMF would probably cut world growth next year from its current forecast of 2.2%. He also predicted that China's once red-hot economy will rapidly run out of steam.

"We started with China at 11% growth ... China will probably grow at 5 or 6% [next year]," he said. "The possibility of a global recession is real. We realise something must be done."

Strauss-Kahn's comments were in sharp contrast to Jean-Claude Trichet, president of the European Central Bank, who yesterday told European leaders they should stick to EU's

controversial Stability and Growth Pact, which limits government borrowing and total debt. But Strauss-Kahn said that existing rules should be scrapped to allow governments to deliver essential economic stimulus packages.

“We are facing an unprecedented decline in output and we have evidence of substantial uncertainty limiting the effectiveness of some fiscal policy measures,” he said, “What was decided by Brussels ... 1.5% of GDP in the form of stimulus, is a bit below what we need.”

His views reflect the continued clashes between European governments on how they should react to the crisis.

Germany has been uncertain about injecting large amounts of public money into economies to encourage growth and resisted pressures to join in with a more coordinated EU effort.

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