

[Back to document](#)



The Global Downturn: Economic Leaders Warn of a 'Red Zone' --- Ammunition to Tackle Crisis Largely Spent, Finance Ministers, Central Bankers Face Lack of 'Clear, Coordinated Position'

Davis, Bob; Reddy, Sudeep. *Wall Street Journal* [New York, N.Y.] 24 Sep 2011: .10.

Find a copy



Base URL to Journal Linker:

<http://GS7CD3DA4L.search.serialssolutions.com/?genre=article&sid=ProQ:&atitle=The Global Downturn: Economic Leaders Warn of a 'Red Zone' --- Ammunition to Tackle Crisis Largely Spent, Finance Ministers, Central Bankers Face Lack of 'Clear, Coordinated Position'&title=Wall Street Journal&issn=0099-9660&date=2011-09-24&volume=1&issue=&spage=A.10&author=Davis, Bob;Reddy, Sudeep>

Abstract (summary)

At best, such an effort could add to pressure in Europe to come up with a way to handle the euro zone's political problems, which include approving a 440 billion euros (\$592 billion) rescue fund, giving it the power to buy debt from financially distressed...

Full Text

WASHINGTON -- The finance ministers and central bankers that gathered here for the International Monetary Fund's annual meeting face an uphill struggle convincing markets they can prevent the world from sliding into a second recession in three years.

The market turmoil around the world in the past week reflected rising fears that Europe's persistent debt woes will trigger a broader financial crisis and economic slowdown.

"We are in a red zone," said World Trade Organization chief Pascal Lamy, one of many officials attending the meeting. "We are at a risk of repeating what happened in 2008" -- when market upheaval shook the global economy -- "occurring again for different reasons but through the same channel, the financial system."

On Friday, members of the Group of 20 industrialized and developing nations, touted as a kind of board of directors of the global economy, met throughout the day to see what measures they could devise to boost confidence in financial markets. But there was little expectation that they would produce anything concrete.

There are several reasons: Problems vary widely among regions; solutions involve tortuous domestic political wrangling, and the policy ammunition that the G-20 could called on in the past -- interest-rate reductions, tax cuts and government spending -- was largely spent fighting the last recession.

The G-20 "doesn't have a clear, coordinated position," said Russian Finance Minister Alexei Kudrin. "Most importantly, everyone sees the risks in the same way. But there are still some differences."

Mohamed El-Erian, chief executive of Pimco, the world's largest bond investment fund, was blunter about the policy discord during a talk on Thursday at an economists' group: "It's like an orchestra with two sides, each playing different music and looking to the conductor -- and there is no conductor," he said.

On Thursday night, G-20 officials put out a rush communique highlighting their resolve. But the statement was largely a rehash of past pledges and included few specific commitments. The group said it would produce a "collective and bold action plan, with everyone doing their part" to resolve problems, which it said it would have in place in time for a summit of G-20 leaders in Cannes, France, in early November.

After the communique was issued, officials from several countries explained that the group wasn't planning a joint initiative. Rather, each country would put forward what it was doing to solve its problems and look for the endorsement of other countries, as a way to signal to markets they were working together.

G-20 nations would produce "concrete and precise deliverables where each state can do more for the world economy," said French Finance Minister Francois Baroin. "It's a collective answer," he said, but one that requires different approaches from different nations.

At best, such an effort could add to pressure in Europe to come up with a way to handle the euro zone's political problems, which include approving a 440 billion euros (\$592 billion) rescue fund, giving it the power to buy debt from financially distressed European countries and figuring out ways to leverage the rescue funds, so the money can go further. This week, an event as peripheral as the breakdown of Slovenia's government took on new global importance as it spurred new questions about whether the nation could approve the new rescue plan, which must get approved by the currency bloc's 17 member nations.

At worst, though, if markets anticipate a breakthrough at Cannes and the G-20 fails to deliver, it could produce a heavy blow to confidence.

While G-20 leaders are trying to soothe markets, "at this stage mere words are not palliative for the uncertainty, loss of confidence and near sense of panic we are seeing in financial markets," said Eswar Prasad, a Brookings Institution economist and former IMF official.

One potential policy move raised in the Washington meetings is a commitment by members of the so-called Brics countries -- Brazil, Russia, India, China and South Africa -- to make loans to the IMF so it is clear that it has the money to handle an escalating crisis in Europe and elsewhere in the world. But none of the countries would commit to a specific amount of money. "We are ready to act via international institutions," was the most that Russia's Mr. Kudrin would say.

Jon Hilsenrath contributed to this article.

Deadline Looms

Finance ministers step up words of caution

'The crisis can't be tackled by [amplifying] the cause.'

Wolfgang Schauble

German finance minister

'Concerns about Europe's growing fiscal debt problems . . . are largest causes of global financial insecurity.'

Jun Azumi

Japanese finance minister

'The euro zone has six weeks to resolve this political crisis.'

George Osborne

U.K. treasury chief

Credit: By Bob Davis and Sudeep Reddy

(c) 2011 Dow Jones & Company, Inc. Reproduced with permission of copyright owner. Further reproduction or distribution is prohibited without permission.

Indexing (details)

Subjects: Recessions, Economic conditions, Economic summit conferences, Government spending, Annual meetings, International finance, Securities markets, Global economy

Locations: Washington DC

Company/Org: Group of Twenty (NAICS: 926110)
International Monetary Fund--IMF

Classification: 1110: Economic conditions & forecasts, 1120: Economic policy & planning, 9180: International

Title: The Global Dwindraft: Economic Leaders Warn of a 'Red Zone' --- Ammunition to Tackle Crisis Largely Spent, Finance Ministers, Central Bankers Face Lack of 'Clear, Coordinated Position'

Authors: Davis, Bob; Reddy, Sudeep

Publication title: Wall Street Journal

Pages: A.10

Publication year: 2011

Publication Date: Sep 24, 2011

Year: 2011

Publisher: Dow Jones & Company Inc

Place of Publication: New York, N.Y.

Country of publication: United States

Journal Subjects: Business And Economics--Banking And Finance

ISSN: 00999660

Source type: Newspapers

Language of Publication: English

Document type: News

Subfile: Recessions, Economic conditions, Economic summit conferences, Government spending, Annual meetings, International finance, Securities markets, Global economy

ProQuest Document ID: 893867503

Document URL: <http://search.proquest.com/docview/893867503?accountid=26493>

Copyright: (c) 2011 Dow Jones & Company, Inc. Reproduced with permission of copyright owner. Further reproduction or distribution is prohibited without permission.

Last updated: 2011-10-06

Database: The Wall Street Journal