IMF points to danger of a "protracted global downturn"

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While official growth figures in the major economies are still positive, although barely so in the case of the US and Japan, the outlook for the world economy is becoming increasingly gloomy.

When the International Monetary Fund presents its *World Economic Outlook* report to its annual meeting in Washington at the end of this month it is expected to contain forecasts of significantly slower growth and warnings of the possibility of a global recession.

According to a draft copy of the report leaked last week, the IMF has revised its forecast of world growth down from an estimate of 3.2 percent made last April to 2.8 percent. But the report warns that there could be a “much deeper and more protracted global downturn.”

While the forecast for the US is left unchanged at 1.5 percent, the growth prediction for the 12 nations of the eurozone has been reduced from 2.4 percent to 2 percent. The growth rate for the German economy, which accounts for more than 30 percent of the eurozone, has been revised down from the earlier forecast of 1.9 percent this year to 1.2 percent.

Japan is forecast to enter recession this year with a contraction of 0.2 percent compared to an earlier prediction of 0.6 percent growth. Growth prospects for 2002 have also been downgraded from 1.5 percent to just 0.5 percent.

An editorial comment on the report, published in the *Financial Times* under the title “Synchronised sinking,” reflected the concern being felt in financial and government circles over the extent of the global slowdown.

“Manufacturing industry in the developed world is now in deep recession,” the editorial noted. “Economic growth in the seven largest economies is almost at a standstill. Unemployment in France, Germany and Japan is rising. And in the US, consumers are beginning to lose confidence.”

The downward pressures on the world economy are coming from two sides. In the first place, increased economic integration means that business cycles are much more closely co-ordinated. Whereas in the past, a downswing in one part of the world may have been counteracted by an upswing in another region, this is no longer the case. Consequently, the sharp fall in US investment and the high-tech sector has been felt almost immediately around the globe.

On top of this there are specific problems in each region, which are impacting in turn on the global economy as a whole.

In Japan, the major problem is the worsening bad loans crisis. Last week, financial reform minister Hakuo Yanagisawa admitted that it could take until 2007 to halve the bad loans within the banking system—some three years later than the initial target date set by the Koizumi government and almost two decades after the crisis first emerged.

The *Financial Times* has described the present situation as “the riskiest moment since Japanese asset prices started to slide at the end of the 1980s. Japan’s troubles had only a modest international impact in the 1990s because they accumulated slowly and because the US and Europe were growing strongly. Now the world’s main economies are in synchronised recession and Japan’s slide is accelerating.”

The European economy, for its part, cannot provide a boost to the global economy. Manufacturing industry is at, or near, recession, domestic demand is falling and growth prospects are being revised down.

Announcing an interest rate cut of 0.25 percentage points last week, the president of the European Central Bank, Wim Duisenberg, who earlier this year shrugged off claims that the eurozone would be affected by the downturn in the US, said the bank now believed growth for the region would be less than 2 percent.

Besides the ever-present danger of an implosion in the Japanese banking system, the other major threat to the global financial system comes from the United States.

According to the *Financial Times*: "For the US, the immediate danger is that the cyclical downturn will gather momentum, especially if further falls in asset prices and fears of unemployment should cause consumers to retrench. There would then be the possibility of a catastrophic global collapse exacerbated by a plunging dollar and serious disarray in financial markets.

"The IMF," it continued, "which thinks the dollar is overvalued, is plainly worried by this possibility. It says much depends on whether a faster rate of US productivity growth can soon be resumed. If such hopes were disappointed, equity markets and investment could fall further. And if foreign investors took fright, the US's huge current account deficit could push the dollar over the precipice."

One of the key factors in sustaining the capital inflow into the US—more than $1 billion per day is needed to finance the balance of payments deficit—has been the belief that higher productivity rates in the American economy make investments there more profitable than in the rest of the world.

But the productivity figures on which this assumption has been based have been called into question in the recent period. The estimate of a 2.6 percent productivity growth in 1999 has now been revised down to 2.3 percent and the earlier estimate of a 4.3 percent increase in 2000 has been reduced to 3 percent. Overall the productivity boom of the late 1990s is increasingly coming to be seen as a product of the US investment bubble, rather than a real and permanent increase in productivity levels, much less the harbinger of a "new economy."

In fact, the underlying tendencies in the global economy as a whole can be seen most clearly in the two industries—computer technology and telecommunications—that were supposedly going to lead global capitalism into a new era of economic growth.

The semiconductor industry, which makes the chips used in PCs, servers, mobile phones and telecommunications equipment, is now facing a collapse in revenues of between 25 and 75 percent, after experiencing growth rates of more than 15 percent.

The case of the Japanese firm, Fujitsu, which last month announced 16,000 layoffs, is symptomatic of the situation in the industry as a whole. Fujitsu initially projected profits this year of around 50 billion yen ($420 million). Now it says its losses will be more than four times that amount, coming in at 220 billion yen, the worst in the company's history. Toshiba will make a loss of 115 billion yen and Mitsubishi Electric has abandoned the practice of making profit forecasts.

Serious as the situation in chip production is, it is being overshadowed by the crisis in the telecommunications industry, where the financial bubble of the past four years has far exceeded that of the dotcom companies.

Estimates are that between 1997 and 2001 spending on telecommunications equipment and services in the US and Europe was more than $4,000 billion. The result of this has been the creation of what must amount to the greatest example of overcapacity in history. Only two percent of the fibre optic cable laid in Europe and the US, for example, is reported being used.

The extent of the collapse was documented in a *Financial Times* report published on September 5. It noted that in the past six months more than 300,000 jobs at telecom equipment manufacturers have gone, along with a further 200,000 in components suppliers and associated industries.

The figures on the financial side are equally staggering. "The stock market value of all telecom operators and manufacturers has fallen by $3,800 billion since its peak of $6,300 billion in March 2000. To put this in context, the combined loss in value of all of Asia's stock exchanges during the Asian financial crisis of the late 1990s was only $813 billion."

On top of the fall in stock market value, the report estimated that a further $1,000 billion had been lost in cash.

These figures have not only an economic but a political dimension as well. One of the key components of the argument that the 1990s marked the "death of socialism" was the claim that the development of information technology marked the onset of a "new economy" free of the crises of the past.

What now becomes clear is that far from overcoming the contradictions of the profit system, the economic developments within the capitalist economy over the past decade have, in fact, laid the foundations for a global slump that may well prove to be the most serious and far-reaching of the entire post-war period.