After strong growth, world economy at a "turning point"

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The latest reports on the state of the world economy by both the International Monetary Fund (IMF) and the World Bank paint a picture of a global boom, the like of which has not been seen in almost four decades.

The IMF's *World Economic Outlook* (*WEO*), published earlier this month, predicts that the average world growth rate of 4.9 percent in the period 2003-2006 will continue at least for the next two years. According to IMF statistics, the only stronger spurt was the period 1970-1973, when world growth averaged 5.4 percent. If the current rate is sustained it will represent the most powerful six-year expansion of the world economy in the period since 1970.

The conclusions of the *Global Economic Prospects* report, published by the World Bank in December 2006, are not essentially different. While its figures are slightly below those of the IMF, due to different measurement techniques, the World Bank points to a "strong global performance" reflecting a "very rapid expansion in developing countries, which grew more than twice as fast as the advanced economies." This was not just a result of the impact of the Chinese economy, which grew by 10.4 percent, but extended across the range of developing countries. Altogether 38 percent of the increase in global output originated in these regions, well above their 22 percent of world gross domestic product (GDP).

The World Bank noted that if the past 25 years were divided in two periods—1980-2000 and 2000-2005—average growth in developing countries had accelerated from 3.2 percent in the first period to 5 percent in the second. While this acceleration was not shared by all countries, neither was it merely the result of increased growth in China and India.

The IMF's *WEO* was filled with similar reports of economic success. Economic activity in Western Europe had "gathered momentum" in 2006 with GDP growth in the euro area reaching 2.6 percent, almost double the rate for 2005 and the highest figure since 2000. "Germany was the principal locomotive, fuelled by robust export growth and strong investment generated by the major improvement in competitiveness and corporate health in recent years," it stated. Overall the unemployment rate had fallen to 7.6 percent in the euro area, its lowest level for 15 years.

There was even good news from Japan, where the economy was virtually stagnant for more than a decade following the collapse of the share market and real estate bubble in the early 1990s. Despite an unexpected decline in consumption in the middle of 2006, the "economy's underlying momentum remains robust with private investment expanding—supported by strong profits, improved corporate balance sheets, and the resumption of bank lending—and rising export growth." Real economic growth in Japan was expected to remain at above 2 percent.

While the growth rate in Latin America was expected to ease to 4.9 percent this year, from 5.5 percent in 2006, the years 2004-2006 were "the strongest three-year period of growth in Latin America since the late 1970s."

In so-called "emerging Asia" economic activity "continues to expand at a brisk pace", supported by "very strong growth in both China and India." In China, real GDP expanded by 10.7 percent in 2006, while in India the growth rate was 9.2 percent, the result of increased consumption, investment and exports.

Growth in Eastern Europe accelerated to 6 percent in 2006, while in Russia the growth rate of 7.7 percent in 2006 was expected to ease only slightly to 7.0 percent in 2007 and 6.4 percent in 2008.

The report described the economic outlook for Africa as "very positive" against a backdrop of strong global growth, increased capital inflows, rising oil production in a number of countries and increased demand for non-fuel commodities. "Real GDP growth is expected to accelerate to 6.2 percent this year, from 5.5 percent in 2006, before slowing to 5.8 percent in 2008."

One area of immediate concern was whether this expansion in the rest of the world would be pulled back by the slowing of the US economy due to the significant decline in the housing market. Latest figures showed that housing starts and permits were still headed downwards, with stocks of unsold new homes at their highest levels in 15 years. It has been estimated that over the last three quarters of 2006 the sharp contraction in residential construction took an average of 1 percentage point off real GDP growth in the US.

With the US economy having "slowed noticeably over the past year", the central issue concerning the IMF was "whether this weakness in growth is a temporary slowdown ... or the early stages of a more protracted downturn." It concluded that a "growth pause still seems more likely at this stage than a recession". While the growth forecast for the US has been lowered to 2.2 percent (compared to a prediction of 2.9 percent last September), the economic expansion was "expected to gradually regain momentum, with quarterly growth rates rising during the course of 2007 and returning to around potential by mid-2008."

While setting out what one well-known economist called "the single most optimistic official forecast I have ever seen for the global economy," the IMF report did voice some concerns, especially with regard to financial markets.

The continued drive for increased yield had resulted in greater risk-taking in less well understood markets and financial instruments. "While this strategy has been successful when markets remain buoyant, price setbacks, rising volatility and emerging loan losses could lead to a reappraisal of investment strategies and a pull-back from positions that have become overextended. Such an unwinding may have serious macroeconomic consequences," it stated.

The report also sounded a warning about the recent upsurge in leveraged buyouts often led by private equity firms, but in the end concluded that the risks to global growth "now seem more balanced than six months ago."

Without providing a great deal of analysis, both the IMF and the World Bank pointed to the integration of the global markets, the opening up of the economies of China and India, the expansion of the world labour supply and the impact of information and communications technology as the main factors behind the upturn in world economic growth.

According to the World Bank, over the last quarter century, a time of unprecedented integration for the global economy, sharp falls in transport and communications costs, together with reductions in barriers to trade, have paved the way for productivity increases associated with the integration of emerging markets into global markets.

"World trade has exploded since the early 1960s. World exports have grown from just under $1 trillion a year (in 2000 dollars) to nearly $10 trillion a year, annualised growth of some 5.5 percent per year. They are clearly outpacing global output, which increased at some 3.1 percent over the same period. Between 1970 and 2004, the share of exports relative to global output has more than doubled and is now over 25 percent. Throughout the early part of this period the export elasticity (the rate of growth of exports relative to output) was running at about 1.5, but around 1986, the elasticity picked up substantially, peaking at more than 2.5 a decade later. The acceleration came on the heels of the collapse of the Iron Curtain and moves by China and India to open their economies and pursue an export-led strategy. Other countries also abandoned inward-looking strategies and saw their exports jump."

In the special section devoted to the globalisation of labour, the IMF report estimates that the effective global labour force has risen fourfold over the past two decades—a "growing pool of global labour [which] is being accessed by advanced economies through various channels, including imports of final goods, offshoring of the production of intermediates [partially completed goods], and immigration."

Most of this increase in labour supply took place after 1990 with East Asia contributing about half and South Asia and the former Eastern bloc countries accounting for smaller proportions. While most of this cheaper labour comprised less-educated workers, the report noted that the relative supply of workers with higher education increased by about 50 percent over the last 25 years, mainly from the advanced countries, but also from China.

Neither the World Bank nor the IMF draw any historical parallels, but the vast structural changes associated with the latest phase of capitalist globalisation recall the opening of the 20th century when profit rates and economic growth in the major capitalist countries received a significant impetus from the cheap raw materials, minerals and other resources that came from the colonies.

Together with the introduction of new technologies, the vast expansion in the global labour force over the past two decades has resulted in a significant boost to profits. Since the beginning of the 1980s, it is estimated that in the advanced capitalist countries the share of GDP going to labour has declined by about 8 percentage points.

Both organisations regard the latest upswing in growth as a sign of the health and stability of world capitalism ... but there are some nagging doubts. In the words of the World Bank: "While the soft landing is the most likely scenario, the global economy is at a turning point following several years of very strong growth—and such periods are fraught with risk. Indeed ... the last century began under similar auspicious circumstances characterised by an extended period of strong growth buoyed by technological change and ample liquidity. Rather than continuing forward as anticipated by leading economists at the time, the world plunged into the Great Depression. Thus, while much in the current environment is reassuring, a note of caution is merited."

And before the Great Depression, there was the First World War, the Russian Revolution of 1917 and the revolutionary upheavals across Europe in the early 1920s. The stormy growth of the world economy at the end of the 19th and the beginning of the 20th century and the rise of new powers—Germany, Japan and the United States—disrupted the old international equilibrium of the 19th century leading to war. And the growth of the international working class occasioned by this expansion of the world capitalist economy signified the involvement of the popular masses in political struggles.

History, of course, does not repeat itself. But an examination of the historical record does indicate that vast changes in the very structure of world capitalism, such as those now taking place and which are reflected in the upturn in the economic growth figures, will have a far-reaching impact in the sphere of politics.