IMF report points to global economic fragility

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Two years into a supposed recovery, not only have none of the underlying contradictions that sparked the deepest economic and financial crisis since the Great Depression been resolved, but new problems are emerging.

The headline on the latest *World Economic Outlook* (WEO) report from the International Monetary Fund (IMF) reads: "Despite New Risks Global Recovery Seen Gaining Strength." Notwithstanding its forecast of world growth reaching 4.5 percent for both 2011 and 2012, a reading of the report reveals that the headline was aimed at putting the best face on a bad, and in some cases, worsening situation.

The report begins with an upbeat tone. The economic recovery has "become more self-sustaining" with the risk of a "double dip recession" in the advanced economies receding. But it immediately goes on to note that "the pace of activity remains uneven, with unemployment lagging." Growth is "insufficiently strong to make a major dent in high unemployment rates," with the number of jobless having increased by 30 million since 2007.

While financial markets have been stabilised over the past two years due to the massive inflows of government funds—some estimates put the total global bailout as high as $14 trillion—the threat of another meltdown is ever-present, possibly beginning in Europe, either because of a sovereign debt default or a bank failure.

According to the report: "In the near term, continued strains in more vulnerable euro area sovereigns and banks pose a significant threat to financial stability ... This is mainly due to continuing weakness among financial institutions in many of the region's advanced economies and a lack of transparency about their exposures." In other words, no one really knows the state of the European banks and how much they could lose out of the hundreds of billions of dollars they have lent. Their "asset quality" is "uncertain" while they "face a wall of maturing debt" as well as "significant capital shortfalls."

Summarising conditions in the United States, for which it cut forecast growth for 2011 from 3 percent to 2.8 percent, the IMF report points to a "pick-up" in the economy. It notes that, as a result of "unconventional monetary easing" [the supply of ultra-cheap credit to the banks by the US Federal Reserve] equity markets have recovered about two-thirds of their losses in the financial crisis. However, it acknowledges there is little recovery in the labour market. "After shedding more than 8.5 million jobs in 2008 and 2009, the labor market has added just under 1.5 million jobs since the trough, barely sufficient to keep up with the growth of the working-age population," the report states.

According to conventional economic wisdom, an economic recovery should bring an improvement in employment. Now, however, the causal relationship that used to operate works in the opposite direction. The recovery in profits and equity prices has resulted from record high levels of unemployment and the consequent increased pressure on workers. The profits recovery is, in other words, the result of a human recession.

And those pressures are now going to be intensified. The IMF has added its voice to the clamour in ruling financial and political circles for an assault on what remains of the social welfare system in the US. The WEO report calls for "fundamental reform of entitlement programs over the next decade." This is followed by a demand in the IMF's *Fiscal Monitor* for a "down payment" in the form of deficit reduction this year. According to the IMF, the US lacks a "credible strategy" to stabilise its debt. In order to meet its commitment to halve the deficit by 2013, it needs to implement austerity measures harsher than those in any two-year period since 1960, when records began.

This criticism of the US, the IMF's largest shareholder, underscores the epochal shift in the structure of the world economy, exemplified by the relative economic decline of the US and of the other major capitalist economies.

One of the most striking features of the WEO report is the mapping of projected growth rates for individual countries and regions. This shows that not a single advanced industrial economy in the 30-member Organization for Economic Co-operation and Development has a projected growth rate equal to or above the projected global growth rate of 4.5 percent. All of them have projected growth rates of 2-4 percent or less.

The major areas of growth are Asia and Latin America. However, far from these regions providing the basis for an uplift of the world economy, their expansion is still highly dependent on the US and European economies. As the report notes: "Despite a substantial increase in interregional trade, two-thirds of the final demand for Asian exports still comes from outside the region, and renewed turbulence in the euro area would affect Asia primarily through trade linkages."

Moreover, the growth in Asian and Latin American economies is creating new sources of instability. The IMF notes that in both China and Hong Kong, monetary authorities have taken action to rein in credit expansion and are ready to do more. "Nonetheless, in both economies credit growth remains high compared with the run-ups to previous credit booms and busts, and there are mounting concerns about the potential for steep corrections in property prices and their implications."

Notwithstanding the efforts of monetary authorities, the IMF continues, "there is rising concern that management of credit aggregrates, used to exercise macroeconomic control, is being undermined by banks' financial innovation and off-balance-sheet activities." In other words, the kind of activities that led to the sub-prime crisis in the US are being repeated, albeit in a different form, in China.

The Latin American economies grew about 6 percent last year—after contracting 1.75 percent in 2009—as a result of strong demand from China and rising commodity prices. But the IMF has warned that both these "favourable conditions" could be triggers for credit booms in a number of countries that "could lead to an eventual bust." And growth could be rapidly reversed if there were a downturn in Brazil, on which much of the region is dependent, or a "hard landing" in China, which would see a drop in commodity exports.

The fragility of the world economy, which not even the customary upbeat gloss of the IMF can obscure, points to the fact that the global financial crisis that erupted in 2008 was not a passing storm, but the opening of a new period in the history of world capitalism, marked by ongoing economic upheaval, growing international tensions and deepening class conflict.

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