After IMF cuts growth forecasts for US, world economy

Fed moves to increase cheap credit for business

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The US Federal Reserve Board on Wednesday concluded a two-day meeting of its policy-making Federal Open Market Committee (FOMC) by announcing relatively modest measures to lower long-term interest rates. The aim is to increase the supply of cheap credit to banks and corporations in an effort to avert a slide into full-scale depression.

The steps announced by the US central bank will have little impact on the jobs situation, which, more than two years after the recession that officially began in December 2007 was declared over, remains the worst since the Great Depression of the 1930s. Contrary to the line of the Obama administration and the media, the jobless crisis is not the result of a lack of money or “uncertainty” about investment prospects.

The Fed and the administration proceed from the standpoint of offering virtually free credit, tax windfalls and other inducements to lure business into hiring workers. But corporate America is already sitting on more than $2 trillion in cash, obtained through downsizing, wage-cutting and speedup. It is carrying out an investment strike, blackmailing the country to extract further concessions in the form of even lower wages and benefits, the gutting of social programs, and the removal of what remains of business regulations.

The main step announced by the Fed on Wednesday was a decision to sell $400 billion in short-term Treasury securities and use the proceeds to purchase longer-term Treasuries. The move, known in financial circles as a “twist,” is designed to put downward pressure on longer-term interest rates, including home mortgage rates.

The Fed also said it would reinvest principal payments from its holdings of mortgage-backed securities supported by the quasi-government mortgage finance firms Fannie Mae and Freddie Mac to purchase more agency mortgage-backed securities. It added that it would roll over the Treasuries already on its books when they mature. These measures are intended to give a further boost to corporate lending and the housing market.

Unlike two rounds of so-called “quantitative easing” carried out by the Federal Reserve over the past two years, in which the central bank essentially printed dollars to buy tens of billions in Treasury securities, the “twist” maneuver does not add to the Fed’s net holdings of Treasuries or increase the total value of the assets on its balance sheet.

The central bank also reiterated the commitment it made at its last FOMC meeting in August to keep its benchmark short-term interest rate at zero-to-0.25 percent at least until the middle of 2013.

When the Fed made that announcement less than two months ago, Wall Street responded with a celebratory rally on the stock market. This time, however, US stocks slumped after the FOMC statement was released at 2:15 PM and then plunged further in the final 30 minutes of trading. All of the major indices closed sharply lower, with the Dow Jones Industrial Average losing 283.8 points, a decline of 2.49 percent.

This reflected the sharp deterioration of the economic and financial situation in the US and internationally and the general sense that the Fed’s actions are wholly inadequate to prevent a plunge into negative growth, with the potential for another financial meltdown, this time involving the bankruptcy of entire nations as well as major banks.

The Fed’s announcement came a day after the International Monetary Fund issued its twice-yearly *World Economic Outlook* report in advance of this weekend’s annual conference of the IMF and World Bank in Washington. That event will be accompanied by

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a meeting of the central bankers and finance ministers of the Group of 20 largest advanced and emerging economies.

The IMF sharply downgraded its growth forecasts for the global economy as well as for virtually every region and major economy in the world. Warning of the danger of a "double-dip" recession in the US and Europe, the international financial organization began the executive summary of its *World Economic Outlook* with the following dire assessment:

"The global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing."

The IMF now forecasts an increase in global gross domestic product (GDP) of 4.0 percent this year and next. This is sharply down from the 5.1 percent rate for 2010. The organization reduced its projection for 2011 by 0.3 percentage points from its previous forecast, published in June. Its new projection for 2012 is 0.5 percentage points lower than its June forecast.

The chance of a drastic slowdown in the world economy, with growth falling below 2 percent, has doubled from earlier in the year, the IMF now estimates.

The fund dramatically downgraded its projection for the US from its June forecast for both 2011 and 2012. It now says the US economy will expand 1.5 percent this year, down from the 2.5 percent prediction three months ago. Next year, according to the *World Economic Outlook*, the US economy will grow by a mere 1.8 percent, compared with the 2.7 percent predicted in June.

These rates of growth are far below the minimum required to reduce the jobless rate, now officially at 9.1 percent, but actually far higher. The IMF predicts that unemployment in the US will average 9 percent or higher through next year. Declaring that, "The United States could be facing a very sluggish recovery of employment," the report said the US would have high unemployment and low wages "for some time."

Reflecting the policy of the international banking and corporate elite, the IMF stressed the necessity for medium-term "fiscal consolidation" in the US, with particular emphasis on "entitlement reform." This means that any minimal measures taken to stimulate the economy in the short term must be based on sweeping austerity measures to be carried out shortly thereafter, including major cuts in health care and pension programs such as Medicare, Medicaid and Social Security.

In the advanced economies as a whole, "real GDP… is projected to expand at an anemic pace of about 1.5 percent in 2011 and 2 percent in 2012," the *World Economic Outlook* report states. It adds the qualifier that even this minimal growth is contingent on Europe resolving its sovereign debt crisis and shoring up its tottering banking system.

The IMF cut its growth forecast for 2011 for the 17-nation euro zone by nearly half a percentage point to 1.6 percent. For 2012, it foresees even weaker growth of 1.1 percent. Currently, the euro region is essentially stalled, growing at a 0.25 percent annual rate.

Japan's economy was forecast to shrink 0.5 percent this year, and grow only 2.3 percent in 2012. In June, the IMF forecast that Japan would grow by 2.9 percent next year.

Emerging economies are projected to expand by about 6.4 percent his year, slowing to 6.1 percent in 2012. The IMF reduced its forecasts for China and other emerging Asian economies such as India.

The organization cut its forecasts for Britain, Canada and Italy. It said it expects Greece's economy to contract by 5 percent this year (as compared to its June projection of a 3.8 percent contraction) and 2 percent next year. In June it had predicted that Greece would return to positive growth in 2012.

The fund also projected a slowdown in growth for Sub-Saharan Africa.

The IMF released its report the same day that the credit rating firm Standard & Poor's downgraded its rating for Italian sovereign debt. On Wednesday, Moody's Investor Service downgraded the debt of three of the biggest banks in the US—Bank of America, Citigroup and Wells Fargo. And emergency talks between Greece and the "troika" overseeing the European bailout fund—the IMF, the European Union and the European Central Bank—ended without any agreement on disbursing 8 billion euros which Greece needs to avert a default on its debts next month.

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