IMF insists austerity drive must be intensified

Nick Beams
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Austerity policies aimed at systematically lowering the living standards and social conditions of the working class must be intensified, even as governments continue to hand out hundreds of billions of dollars to the banks. This is the central message contained in two major reports published by the International Monetary Fund this week in advance of the IMF's spring meeting this weekend.

The continuing austerity program was set out Tuesday in the IMF's *World Economic Outlook*, which made clear there was no prospect of what was once considered a "normal" pattern of economic recovery. The *Global Stability Report* published Wednesday noted that European banks intended to cut their balance sheets by $2.6 trillion, dealing a major blow to business credit and household borrowing, and prompting a call by IMF chief economist Olivier Blanchard for further government-funded bank bailout operations.

Both reports served to underscore that the collapse of Lehman Brothers in 2008 and the ensuing financial crisis represented not a conjunctural downturn, from which there would be a genuine recovery, but rather a breakdown in the capitalist order leading to a fundamental restructuring of social and economic relations. Nearly four years later, that restructuring is being ruthlessly pursued with ever more dire consequences for the working class.

In its *World Economic Outlook*, the IMF warned that world growth will fall from the already low level of 4 percent in 2011 to 3.5 percent in 2012. Growth rates in the major capitalist economies will be even lower.

The report forecast a recession for the euro area "as a result of the sovereign debt crisis and a general lack of confidence, the effects of bank deleveraging on the real economy, and the impact of fiscal consolidation [the austerity programs being implemented by all governments] in response to market pressures."

In the United States, where recovery is supposedly underway, economic growth for 2011 was put at 1.7 percent, with the forecast of a marginal increase to 2.1 percent in 2012, rising to 2.4 percent in 2013. These figures are well below the levels in all previous post-war recoveries.

One of the major causes of the ongoing stagnation is the austerity programs now being imposed by all governments at the dictates of the financial markets. The *World Economic Outlook* predicted that the so-called "fiscal withdrawal" in the euro area would amount to about 1.5 percent of gross domestic product, up from 1 percent in 2011. In the United States, the corresponding figures were 1.25 percent and 0.75 percent.

The claim is that these measures will bring economic stability. But their impact can be seen most clearly in Greece, where the IMF-backed austerity program has produced devastation. The *World Economic Outlook* noted that after contracting by about 7 percent in 2011, the Greek economy could be expected to shrink by a further 4.7 percent in 2012.

The class content of these measures was made clear by the IMF itself. The report noted that "labour market conditions" will remain "difficult" in many advanced economies—that is, there will be no reduction in jobless levels now reaching 20 percent in some parts of Europe. At the same time, it pointed out, "much of the increase in GDP since the trough has flowed to profits." The report declared that it would be a "long time" before there were any real wage increases.

In other words, what is taking place is not "recovery" but a massive redistribution of wealth up the income scale.

In his press conference launching the report, Blanchard made clear that austerity measures themselves generate financial market pressures for even deeper attacks on social conditions. Fiscal policy, he said, was complicated by "the fact that markets appear

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somewhat schizophrenic, asking for fiscal consolidation, but reacting adversely when consolidation leads to lower growth."

This "madness", however, is not a result of some policy failing. It is embedded in the very operations of the financial markets. Rising sovereign debt to GDP ratios, resulting from government bank bailouts, provoke the demand from financial markets for more spending cuts. Such cuts lead in turn to a fall in GDP, raising the sovereign debt to GDP ratio, leading to financial-market pressure for still more cuts.

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Responding to a question on his reference to schizophrenia, Blanchard insisted that financial markets had to be appeased at all costs. "The markets listen and you have to convince them that you are credible, that you know what you are doing," he said. One of the methods for achieving this goal was spelled out in the executive summary of the *World Economic Outlook*, which emphasised the importance of what it called "reforms to aging-related spending" in rebuilding "market confidence."

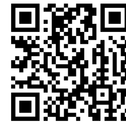
In other words, the health and well-being of pensioners and the aged, as well as other vulnerable sections of society, must be sacrificed in a vain attempt to appease the insatiable demands of finance capital.

The practice carried out in some ancient societies of making human sacrifices to the gods is now considered barbaric. But today, the human sacrifices made to the financial markets and the tiny ultra-wealthy elites, whose interests they serve, represent barbarism on a mass scale.

No section of society is to be spared. The *World Economic Outlook* report referred to the need for "essential" reforms to pensions, health care systems, labour and product markets and housing. There was an obligatory reference to reforms to the finance sector, but that was for appearance's sake only.

While the IMF presented a slightly improved position for the world economy since an outlook update issued in January, the *World Economic Outlook* report was full of references to "weak activity", "risks on the downside", "fragility" and "geopolitical uncertainty."

It also made clear that none of the contradictions of the capitalist economy that exploded in 2008 has even begun to be resolved, let alone overcome. In fact, the measures taken by governments over the past three-and-a-half years make them less able to deal with a new financial crisis. As the report noted: "In the current environment of limited policy room, there is… the possibility that several adverse shocks [a crisis in the euro zone, an oil price spike, for example] could interact to produce a major slump reminiscent of the 1930s."



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