IMF update highlights global economic slide

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As the fifth anniversary of the eruption of the global financial crisis approaches, the world economy is moving still further away from what were once considered “normal” conditions.

This week, the International Monetary Fund (IMF) again downgraded its forecast for world economic growth—the fifth such downward revision since the beginning of last year. Significantly, the statement accompanying the update pointed to processes that indicate the overestimation of growth prospects in the past two years has been the result of a failure to take into account structural changes in the world economy.

The IMF cut its forecast for global growth to 3.1 percent for 2013, after projecting a 3.3 percent expansion in April, and lowered its forecast for 2014 to 3.8 percent, after previously predicting a 4 percent expansion.

It pointed to three major factors as being responsible for the slowdown: disappointing growth in emerging market economies, a deeper than expected recession in the euro area as a result of low demand and depressed confidence, and slower than expected growth in the US economy, due to cuts in government spending.

The update noted that while “old risks” to global growth remain “new risks have emerged, including the possibility of a longer growth slowdown in emerging market economies.” In other words, there is no prospect of growth in these economies compensating for the low growth in the United States and the continued recession in Europe. The euro area is expected to contract by 0.6 percent in 2013 and grow by just 1 percent in 2014.

The contraction in Europe is not only the product of the slump in the so-called periphery countries. IMF chief economist Olivier Blanchard said that even in the core economies of France and Germany “there seems to be a general lack of confidence in the future”—a remark that was borne out the next day when German industrial output fell by 1 percent in May, twice the expected drop.

Blanchard noted that while there were specific reasons for lower growth in China, Brazil and India, there was an underlying slowdown in the overall trend, not just in the cyclical component. “It is clear that these countries are not going to grow as fast as they did before the crisis,” he said.

Immediately following the update, data on China’s trade showed that exports in June fell 3.1 percent compared with a year earlier, after increasing by 10.4 percent on average for the first part of 2013.

The notion that somehow China and other so-called “emerging markets” were going to provide a new foundation for the expansion of the world economy was always a fiction, given their dependence on the US and Europe as their major export markets. But it was able to be maintained for a period due to extraordinary financial and fiscal measures undertaken in the aftermath of the financial crisis, especially by the Chinese government.

Authorities launched a stimulus package of some $500 billion and unleashed an expansion of credit in order to fuel the financing of investment projects, especially by local government authorities. As a result, the ratio of total credit to gross domestic product in the Chinese economy rose from around 115 percent in 2008 to an estimated 173 percent. At the same time, the share of investment rose from 42 percent of GDP in 2007 to 47 percent in 2013.

The stimulus measures were predicated on the assumption that eventually Europe and the US would recover, bringing a renewed expansion of exports. But the stagnation in the US economy and the contraction in Europe have meant that the expansionary credit policies in China can no longer be sustained. They have now been replaced by the imposition of a clampdown.

The overall significance of the IMF update is that it makes clear there is no area of the world economy that

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can provide the basis for a general expansion and no prospect of such a development in the future.

Moreover, there are clear and growing risks of the onset of a new financial crisis as the US Federal Reserve Board moves to cut back on its program of quantitative easing, through which it has been pumping $85 billion per month into financial markets.

The provision of this ultra-cheap cash has played a central role in lifting the US stock market to new highs in the face of stagnation or very low growth rates in the underlying economy. Insofar as higher share prices have been sustained by higher profits, these have resulted from savage cost-cutting rather than the growth of revenue as a consequence of expanding markets.

But according to a recent report in the *Wall Street Journal*, this process may be coming to an end, with companies needing a boost in revenue in order to sustain profits. However, the revenue of companies in the S&P 500 index is expected to rise by just 1 percent in the second quarter compared with a year earlier.

While markets have continued to rise, following a plunge last month when Fed Chairman Ben Bernanke indicated the Fed was looking to cut back on quantitative easing, the actual implementation of the policy could set off renewed turbulence.

Even a limited winding back of the monetary stimulus could have a major impact on the so-called emerging market and developing economies, as cash is withdrawn and returned to the US. Using somewhat guarded language, the IMF warned that "weaker growth prospects" and "potential legacy problems" arising from a "prolonged period of rapid credit growth" could lead to increased "financial stability risks."

If the Fed's tapering down of quantitative easing triggers currency depreciations and rapid capital outflows from emerging markets, this could well blow back into US markets and spark a financial crisis.

Whatever the immediate turns in the economic conjuncture, the IMF's latest report has a far-reaching political significance. It underscores the fact that, under conditions where there is no prospect of economic recovery in any meaningful sense, rising unemployment, wage cuts and cuts in social services have become permanent.

Against this program of social counter-revolution being implemented by the ruling elites, the working class must fight for its own independent interests and a political program aimed at the establishment of a workers' government and the implementation of a socialist program, starting with the establishment of public ownership and democratic control of the banks and major corporations.

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