IMF report: No end to economic breakdown

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Almost six years after the eruption of the global financial crisis, the International Monetary Fund has effectively ruled out any return to the economic growth rates that preceded September 2008.

Two major chapters of the IMF's *World Economic Outlook*, published for the spring meetings to be held in Washington at the end of this week, provide a gloomy assessment of the state of the world economy. In the advanced economies, investment is falling as a proportion of gross domestic product (GDP), while in the "emerging markets," there is no prospect for growth rates to return to pre-2007 levels.

The IMF notes that real interest rates have been declining since the 1980s and are "now in slightly negative territory." But this has failed to boost productive investment. On the contrary, what it calls "scars" from the global financial crisis "have resulted in a sharp and persistent decline in investment in advanced economies." Between 2008 and 2013, there was a two-and-a-half percentage point decline in the investment to GDP ratio in these countries. The report adds that ratios "in many advanced economies are unlikely to recover to pre-crisis levels in the next five years."

This conclusion is of immense significance given the critical role of investment in the functioning of the capitalist economy. In what are deemed "normal" conditions, investment—the expansion of productive capacity—is the key driving force of capitalist economic growth. Undertaken in anticipation of future profits, investment creates new demand in labour markets and the markets for machinery, raw materials and the means of production in general. This, in turn, creates further demand and expanded profit opportunities, stimulating additional investment, thereby setting in motion a virtuous economic circle.

But if investment stagnates or declines, the circle turns vicious. This is what is now taking place.

As the IMF puts it: "An important concern is the possibility of a prolonged period of very low growth ('secular stagnation') in advanced economies, especially if new shocks were to hit these economies or if policies do not address crisis legacies as expected."

The IMF writes gloomily that "the evidence … suggests that a full reversal of the downward investment shift in advanced economies is unlikely." In other words, there is no prospect for a genuine economic recovery at any time in the foreseeable future.

The situation is no better in the "emerging markets," once touted as the new basis for global capitalist expansion. According to the IMF: "The recent slowdown in emerging market and developing economies has caused much angst in policy circles."

While these economies rebounded much more strongly in 2009–2010 than the advanced economies, growth decelerated thereafter and "is now significantly below levels recorded before the global financial crisis."

During the period of rebound, talk of "decoupling" was all the vogue. But emerging market[s] and developing economies have proved to be highly sensitive to economic trends in the rest of the world.

The IMF found that of the two percentage point decline in emerging market growth rates since 2012, China accounted for half a percentage point, other external factors accounted for one-and-a-quarter percentage points, and other, mainly internal, factors accounted for only a quarter of a percentage point.

These economies are "likely to face a more complex and challenging growth environment than in the period before the global financial crisis, when most external factors were supportive of such growth," the report states.

If interest rates in the US rise, even by only small amounts, then, as the financial turbulence in the summer of 2013 and at the beginning of this year showed, "emerging markets will suffer." They will also be adversely affected by a slower growth rate in China.

This week's IMF meetings have been preceded by warnings from the organisation's managing director, Christine Lagarde, that the world faces "years of low and sub-par growth" unless countries come together to undertake the "right kind of policy measures." But six years into the global breakdown, there is no clear indication of what those "right policies" might be—beyond deeper attacks on the conditions and social rights of the working class.

In the United States, Lagarde noted, job-creation is "not at potential." With the latest figures indicating that US payrolls rose by only 192,000 in March, the numbers "could be and they should be higher," Lagarde said. That they were not was due to uncertainty, a lack of confidence and "the fact that a lot of companies are investing into themselves more than actually investing into capacity and job-creation."

Lagarde was referring to the fact that major US corporations are using their profits not to finance increased productive capacity, but to buy back shares and inflate stock prices to boost the fortunes of the financial elites.

Figures from the Commerce Department show that US corporate profits are at their highest levels in at least 85 years, while employee wages are sliding. The Commerce Department said that in 2013, wages accounted for 42.5 percent of the economy, down from 42.6 percent in 2012 and lower than in any year previously recorded.

Comparing the situation in 2013 with that in 2006, an article in the *New York Times* noted that after adjustment for inflation, corporate profits had increased by 28 percent, before taxes. But with taxes down by 21 percent, corporate after-tax profits increased by 36 percent over the past seven years. However, as the IMF figures show, this money is being used not to finance economic expansion, but to increase the incomes of the ultra-wealthy.

Together with the quantitative easing program of the Federal Reserve, which has made available trillions of dollars to the financial elites, the increasingly parasitic character of the US economy has boosted American and global stock markets.

Last week, the American S&P 500 index reached an all-time high, while the All World Index of equity markets compiled by the *Financial Times* reached its highest level since the end of 2007.

The IMF chief, who generally reflects the views of US finance capital, wants the program of quantitative easing (the printing of money by central banks to purchase securities from banks) extended into Europe. Last week, on the eve of a policy meeting of the European Central Bank (ECB), she called for the ECB to do more to stave off the threat of deflation.

Lagarde's call came in the wake of figures showing that European prices rose at an annual rate of just 0.5 percent in March, with prices actually falling by 0.2 percent in Spain. This is well below the ECB's target rate of 2 percent inflation. The concern over what Lagarde has called the "ogre of deflation" arises from the possibility of a deflationary spiral, such as that experienced in Japan, increasing the real debt burden of banks and other financial institutions.

Following the ECB meeting, the central bank's president, Mario Draghi, said the bank's governing council was "unanimous" in its commitment to looking at new policy initiatives, including purchases of financial assets. "There was a discussion about QE [quantitative easing], it wasn't neglected," he told reporters.

But in a sarcastic aside, he thanked the IMF for being "extremely generous in its suggestions" to him about monetary policy, far more than it is with the Fed. Lagarde shot back that the IMF also made recommendations to the Fed. "We do say what we have to say when we think it's appropriate to say it," she said, adding that the IMF had "for a long time taken the view that the ECB should be addressing the issue of inflation."

The verbal shots fired across the Atlantic point to the growth of tensions between the major economic blocs as the capitalist breakdown continues. Unable to advance any solution to a series of mounting economic problems, the ruling elites do, however, agree on fundamental issues: that the interests of the banks and financial oligarchs must be defended, whatever the cost, and the working class must be made to pay for the crisis that their actions have triggered.