

IMF cuts projection for US economic growth

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17 June 2014

The International Monetary Fund (IMF) released a report Monday downgrading its projection for US economic growth in 2014 from 2.8 percent to 2.0 percent.

The report shows that the United States remains mired in stagnation and slump. While the financial elite has recovered, attaining historically unprecedented levels of wealth due to the government's policy of massive bailouts and unlimited, virtually free credit for the banks, the vast majority of the population faces increasing economic insecurity.

The report indicates that the US has entered into an indefinite period of slow growth, predicting that the country's gross domestic product (GDP) will rise an average of about 2.0 percent over the next several years. This means that unemployment, low wages and falling living standards will be a permanent feature of life for tens of millions of Americans.

The report comes on the heels of a similar downward revision last week by the World Bank, which revised its estimate of economic growth in the US this year from 2.8 percent to 2.1 percent. At the same time, the World Bank revised downward its projection for global economic growth from 3.2 percent to 2.8 percent, reflecting stagnation in the US and most of Europe and declining growth rates in China, India and other so-called emerging economies.

These reports follow the US Commerce Department report at the end of May showing that the US economy actually shrank by 1.0 percent in the first quarter of this year—the first contraction in three years.

The IMF report makes clear that while the first quarter of 2014 may have been particularly bad, low growth is the “new normal.” The organization's projection for US economic growth going forward is well below the pre-2008 average of 3 percent rate per year.

The IMF states that unemployment “is expected to decline only slowly... the economy is expected to reach full employment by end-2017.” (In the language of economists, “full employment” means an unemployment rate of about 5.0 percent). Even if this unduly optimistic

projection were to come true, it would mean that joblessness in the US remained at post-war highs for nearly a full decade.

The report states that “labor markets are weaker than is implied by the headline unemployment number.” It notes that “long-term unemployment is high, labor force participation is well below that which can be explained by demographic factors, and wages are stagnant.”

The growing impoverishment of the working class can be seen in consumption data. Retailers expected a 13 percent increase in earnings in the first quarter; instead, earnings fell by 4.1 percent. US retail sales figures reported last week fell below expectations.

Roughly one in six Americans lives below the wretchedly inadequate federal poverty line. One in five children is a member of a family that is below the same line.

The IMF report recommends keeping the Federal Reserve interest rate at near-zero longer than presently contemplated by the US central bank. This is a recipe for further inflating asset values, such as stocks and real estate, thereby further channeling wealth from the bottom to the very top of the economic ladder.

Because of the “substantial economic slack in the economy” including “the degree of slack remaining in US labor markets” the IMF writes, the Federal Reserve should extend its policy of virtually free credit for the financial markets “for longer than the mid-2015 date currently foreseen by markets.”

A recent report by the Boston Consulting Group shows that ultra-high-net-worth individuals (those with assets exceeding \$100 million) saw their wealth, which excludes stock in their own company, increase at an average of 19.7 percent in 2013. Meanwhile, global GDP growth was a mere 2.9 percent, one of its lowest levels in years.

The interest rates of the world's central banks are at historically low levels. Earlier this month, the European Central bank slashed its main rate to a record low 0.15 percent, and even brought one of its rates to negative 0.10 percent.

Far from solving the underlying breakdown of the economic system, the policy of virtually free and unlimited credit has created the conditions for a new financial crisis. Because there is no profitable place to invest in the real, productive side of the economy, the fast and loose money floating around Wall Street is heading to the most risky and speculative assets.

The IMF takes note of this in its report, warning that “the prolonged period of very low interest rates continues to raise financial stability concerns.” It cautions that “some broad combination of these pockets of evolving vulnerabilities—set against a backdrop of a rise in short-term interest rates... could prove disruptive... could trigger an abrupt and self-reinforcing re-pricing of a range of financial assets.”

Last week, the IMF warned of a potential implosion of real estate prices, pointing in particular to the United Kingdom.

The IMF is encouraging the central banks to continue lending at near-zero interest rates in order to stave off a new financial crisis. But the credit bubble is itself laying the basis for a financial crash.

There has been no recovery in the real economy from the breakdown announced by the Wall Street crash of 2008. Instead, economic growth is slowing. But on a foundation of a global slump, a vast boom in stock prices, corporate profits and CEO pay has been erected on the basis of massive infusions of cash by the central banks. This is unsustainable.

Christine Lagarde, the managing director of the IMF, also warned of the crisis in Iraq and its effect on oil prices. She told FOX Business in an interview on the IMF report: “We believe the oil shock that could result from the current tension in Iraq in particular might affect the economy.”



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