IMF report records global economic breakdown

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The *World Economic Outlook* (WEO) issued by the International Monetary Fund this week is confirmation, in its own way, that the financial crisis of 2008 was not simply a violent fluctuation but signified a fundamental breakdown in the functioning of the global capitalist economy.

Many aspects of the report show this, but perhaps none so clearly as the attempt by International Monetary Fund (IMF) economists in a five-page note to explain why all their reports over the past four years have consistently over-estimated the rate of world economic growth.

Following an initial upswing once the immediate effects of the financial crisis passed, global growth declined every year between 2010 and 2013—from 5.4 percent to 3.3 percent. Even though successive WEO reports pared back forecasts, actual growth was still below IMF predictions in every year from 2011.

The IMF economists handed the unenviable job of explaining how their organisation got it so wrong list a number of reasons. These include overestimating the contribution of emerging markets and developing economies, in particular the so-called BRICs (Brazil, Russia, India and China), not anticipating the crisis in the euro area and failing to take account of the impact of stressed economies in the Middle East. However this listing of errors explains nothing.

The fundamental reason for the failure of IMF forecasting is rooted in the methodology employed. In formulating its projections, the IMF used models and forecasting techniques, based on past experiences, which treated the financial crisis as if it were simply a fluctuation, albeit a large one, in the business cycle. However, the global financial crisis signified much more: a breakdown in the very process of capitalist accumulation.

The IMF analysis does point to one of the most striking manifestations. After noting the geographical areas in which overestimation occurred, it turns to the question of which component of gross domestic product was most significant: “The overprediction of global growth 2011–2013 primarily reflects an overprediction of investment,” the note states.

However it stops here, simply observing that “these results do not identity the ultimate shortfalls in investment growth.” Any analysis, however, has to begin at this point, because of the crucial role of investment in the growth of the capitalist economy.

The capitalist mode of production is not based on the accumulation of material wealth as such, or production for the sake of meeting the needs of society. Its driving force is the accumulation of surplus value, which appears in the form of profit. This is not a one-off event but a continuous circuit. Profit made at one point becomes the basis for investment at another with the aim of further accumulation, followed by more investment and so on. Economic growth is a by-product of this circuit of accumulation.

The crisis of 2008 signified that this “normal” capitalist expansion had broken down. It was the culmination of a process reaching back to the late 1980s, centred in the United States. The recessions of the early 1980s, unlike their predecessors in earlier periods, did not see a return to the previous path of development but were the start of a transformation of the American economy.

Industrial expansion, which formed the basis of the upswings in the business cycles of the 1950s and 1960s following recessions, was replaced by de-industrialisation. Whole sections of the US industry were closed down. The accumulation of profit through manufacturing industry, which had been at the centre of the American economy’s dynamism over the previous century, was increasingly replaced by the accumulation of wealth by parasitic financial means, accompanied by deepening crises in the US and internationally.

The Reagan stock market boom of the 1980s culminated in the October 1987 crash, the most severe to that point since the 1930s, and the savings and loans crisis. Responding to the new situation, the Federal Reserve, under freshly appointed chairman Alan Greenspan, stepped in to promise the finance houses unlimited access to liquidity. The financial spigots were opened.

The world economy became ever more dependent on a

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series of credit booms. Each led to a crash, to be followed by another boom created by the intervention of central banks as they sought to prop up the financial system. During the late 1980s, Japan experienced a massive rise in stock market and land prices, which collapsed in the 1990s. This was followed by the boom in the Asian economies during the first half of the 1990s. They were dubbed “miracle economies” by the World Bank, on the very eve of the Asian financial crisis of 1997–98.

Then came the Internet stock market boom of the late 1990s, followed by the “tech wreck” of the early 2000s. The subsequent lowering of interest rates by the Fed set off another boom, based in housing, sub-prime mortgages and their associated financial products, which led to the collapse of 2008.

Today, the financial system is being kept afloat by the major central banks providing trillions of dollars in ultra-cheap money to the banks and finance houses. In China, the government and financial authorities responded to the 2008–09 crisis by unleashing a credit bubble that financed real estate and infrastructure investment. Both these responses have created the conditions for another financial disaster amid a continuing malaise in the real economy marked by the failure of investment to return to anything resembling its previous growth path.

The manifestations of this breakdown appear on almost every page of the IMF’s WEO report. The introduction to the first chapter states that “the pace of global recovery has disappointed in recent years.” Growth for the first half of 2014 was weaker than expected, with increased “downside risks.” As a consequence, “the projected pickup in growth may again fail or materialise or fall short of expectations.”

The report notes “slower growth” in Latin America, especially in Brazil, a member of the BRICs group that, not so long ago, was touted as providing a new base for global economic expansion. Investment remained “weak” in Brazil and the economy actually contracted in the first and second quarters of this year.

For a period, “emerging markets” accounted for 80 percent of world growth. However, as IMF chief economist Olivier Blanchard noted in his press conference, since 2011 their growth rate has been reduced by 1.5 percentage points.

Throughout the advanced economies the report notes that inflation remains low, an indication that these economies have “substantial output gaps” and that “deflation continues to be a concern.”

Across the euro area, there were risks of “outright deflation” or a protracted period of very low inflation. In the medium term, there was a risk in all the advanced economies of “low potential output growth and ‘secular stagnation’.”

“In particular, despite continued very low interest rates and increased risk appetite in financial markets, a pickup in investment has not yet materialised, possibly [one could say certainly NB] reflecting concerns about low medium-term growth potential and subdued private consumption.”

Demand shortfalls in the advanced countries “could lead to sustained global economic weakness over a five-year period.”

There is also the risk of a “hard landing” in China, owing to excess capacity and credit overhang, with the main driver of growth being a credit-financed investment boom.

One of the most significant expressions of the global economic shift is the decline in world trade growth. After increasing rapidly during the 1990s and the first five years of the 2000s, it “slowed markedly in the first half of 2014 compared with global activity.”

On the financial side, “there is a concern that markets are underpricing risk” and have not fully taken into account the macroeconomic outlook and the implications of the withdrawal of monetary stimulus by central banks.

An increase in US interest rates could have global “spillover” effects, with funds leaving emerging markets and seeking safe havens. “Such a shock could cause large losses in global bond portfolios, which could precipitate rapid portfolio adjustments and significant market turmoil, with potentially global implications for financial and macro-economic stability.”

So the list of worsening economic conditions goes on. The only “bright spot” in the whole report is the “robust outlook” for the lowest income countries, especially in Africa, where growth is projected to be 6 percent in 2014 and 2015.

The ongoing breakdown of the global capitalist economy, which is recorded but not explained in the IMF report, has major social and political consequences. It is the driving force of the deepening attacks on the working class in every country, and the rise of militarism.

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