

# IMF warns of slow growth, high unemployment

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The International Monetary Fund warned Wednesday that the world economy would remain locked in a pattern of slow growth, high unemployment and high debt for a prolonged period. The forecast, contained in the organization's updated World Economic Outlook (WEO), marks a shift from previous economic projections in acknowledging that there is little prospect of a return to the growth levels that prevailed prior to the 2008 Wall Street crash.

Parts of the semi-annual WEO were released ahead of the report's formal issuance this coming Tuesday. The publication of the economic update is timed to coincide with next weekend's spring meetings of the IMF and World Bank in Washington.

The document's grim analysis amounts to a tacit acknowledgement that the crisis ushered in nearly seven years ago by the financial meltdown is of a historical and fundamental character, and that the underlying problems in the global capitalist system have not been resolved.

The report focuses on a sharp and persistent decline in productive business investment, particularly in the advanced economies of North America, Europe and Asia, and concludes that "potential growth in advanced economies is likely to remain below pre-crisis rates, while it is expected to decrease further in emerging market economies in the medium term."

The report adds, "These findings imply that living standards may expand more slowly in the future. In addition, fiscal sustainability will be more difficult to maintain as the tax base will grow more slowly."

While pointing to a number of factors behind the global slowdown, including an aging population in the advanced economies and declining productivity rates, the IMF overlooks the colossal role of financial parasitism in diverting resources from the productive forces—including, above all, the international working class.

This omission is all the more glaring in light of this week's developments. European stock markets hit record highs, Asian markets soared, and three mega-merger deals were announced, including two totaling \$100 billion in a

single day.

These examples of wealth-creation for the corporate-financial elite, entirely divorced from and at the expense of productive investment, illustrate the manner in which the world's capitalist governments and central banks are financing a bonanza for the rich and super-rich, while the real economy remains mired in slump and the living standards of the vast majority of the planet's people are driven down.

Speaking Thursday before the Atlantic Council, a Washington DC international affairs think tank, IMF Managing Director Christine Lagarde said, "Six months ago, I warned about the risk of a 'new mediocre'—low growth for a long time. Today, we must prevent that new mediocre from becoming the 'new reality.'"

She pointed to "what I have called the 'low-low, high-high' scenario: the risk of low growth-low inflation, and high debt-high unemployment persisting for a number of advanced economies."

Lagarde warned that subnormal growth increased the risks of a new financial breakdown. "This means that liquidity can evaporate quickly if everyone rushes for the exit at the same time—which could, for example, make for a bumpy ride when the Federal Reserve begins to raise short-term rates."

She also noted that 2015 would likely mark the fourth consecutive year of below-average trade growth.

Her prescriptions for accelerating growth by increasing demand and productive investment were tailored to the interests of big business and hostile to those of the working class. She stressed the need for "structural reforms" in labor markets—a euphemism for stripping workers of whatever job protections remain in place—and removing energy subsidies in oil-importing emerging economies.

The IMF report and Lagarde's statements echo the warning issued last week in a *Financial Times* column by Lawrence Summers, Harvard economics professor and former US treasury secretary. Alluding to the concurrence of ultra-low interest rates, soaring stock markets and underlying deflation in the real economy, Summers wrote:

“We may be headed into a world where capital is abundant and deflationary pressures are substantial. Demand could be in short supply for some time. In no big industrialized country do markets expect real interest rates to be much above zero in 2020 or inflation targets to be achieved.”

In the World Economic Outlook, the IMF predicts that, in the advanced economies, growth in “potential output,” i.e., output consistent with stable inflation, will average 1.6 percent a year between 2015 and 2020, much lower than the average growth rates before the 2008 crash, when potential output expanded at 2.25 percent.

The IMF forecasts an even sharper decline in growth in emerging markets such as China, India, Brazil and Russia, with potential output overall set to fall from 6.5 percent a year between 2008 and 2014, to 5.2 percent over the next five years.

Alluding to the depth and scope of the current crisis, the document states: “Unlike previous financial crises, the global financial crisis is associated not only with a reduction in the level of potential output, but also with a reduction in its growth rate... Shortly after the crisis hit in September 2008, economic activity collapsed, and more than six years after the crisis, growth is still weaker than was expected before the crisis.”

In a chapter entitled “Private Investment: What’s the Holdup?,” the document explains that business investment in the advanced economies declined, on average, by 20 percent during the six years after the onset of the financial crisis, twice the average decline of 10 percent during the six years following historical recessions.

It really is no mystery why productive investment has fallen so sharply in the current crisis. Reflecting the immense decay of capitalism as a whole, and, in particular, American capitalism, the corporations have hoarded the trillions they accumulated by slashing jobs and cutting wages and benefits on the one hand, and speculating with the virtually free cash from the central banks and profiting from the inflation of stock prices on the other.

Instead of investing this money in production, they have used it for parasitic purposes such as stock buybacks and mergers and acquisitions. These activities create no real value, but they add to the fortunes of the financial elite. Corporate buyouts, in fact, shrink the productive forces by consolidating facilities and slashing jobs.

This explosion of parasitism was in full swing this week as European stocks climbed to new records, and Japan’s Nikkei index topped 20,000 for the first time in 15 years on Friday, before falling back to 19,907.

The Stoxx Europe 600 index rose 4.49 points Thursday to close at 409.15, surpassing the previous peak of 405.50 reached at the height of the dot-com boom in March 2000.

The benchmark index is up more than 19 percent so far this year.

Germany’s DAX index, which hit a record earlier this year, is up 24 percent so far in 2015. Major indexes in France and Italy have recorded gains of more than 20 percent.

In Asia, Japan’s Nikkei has risen 14 percent and Hong Kong’s Hang Seng has climbed 14 percent.

On Wednesday, meanwhile, Royal Dutch Shell confirmed it had agreed to buy Britain’s BG Group for some \$70 billion in the biggest deal in the energy sector in more than a decade. This takeover is expected to usher in further mergers and consolidations in the oil and gas industry, resulting in thousands of job cuts.

The same day, Mylan, one of the biggest generic drug groups, announced a bid to buy Perrigo, a maker of cough medicine and allergy remedies, for \$28.9 billion. Already, in the first three months of 2015, the total value of health industry deals surpassed \$95 billion, a 70 percent increase from the same period a year ago. The day before, the Dutch package delivery company TNT Express agreed to be bought by FedEx for \$4.8 billion.

The value of all takeovers announced thus far in 2015 is more than \$1 trillion. At the current pace, the volume of mergers and acquisitions for the full year will exceed \$3.7 trillion, making it the second biggest year in history after 2007—the year before the financial crash.

Wall Street bankers are raking in millions from these deals. On Wednesday alone, Goldman Sachs helped organize the Shell-BG and Mylan-Perrigo deals, totaling \$100 billion. The bank could pocket over \$50 million from the Shell takeover alone.



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