Economic stagnation, financial parasitism dominate IMF-World Bank meeting

Nick Beams, Barry Grey
18 April 2015

The spring meeting of the International Monetary Fund and World Bank being held in Washington this weekend takes place under conditions of continuing stagnation in the real economy, combined with unprecedented levels of financial parasitism and social inequality.

Stock prices in the US, Europe and Asia have hit record highs and global corporations have amassed a cash hoard of some $1.3 trillion, fuelled by cheap credit from central banks and government-corporate attacks on workers' wages and living standards. Yet the IMF warns in its updated *World Economic Outlook* published this week that the world economy will remain locked in a pattern of slow growth, high unemployment and high debt for a prolonged period.

In a marked shift from previous economic projections, the IMF acknowledges that there is little prospect of a return to the growth levels that prevailed prior to the 2008 financial crash, despite trillions of dollars in public subsidies to the financial markets. This amounts to a tacit admission that the crisis ushered in by the Wall Street meltdown nearly seven years ago is of a fundamental and historical character, and that the underlying problems in the global capitalist system have not been resolved.

A sample of headlines from articles published in the past week by the *Financial Times* gives an indication of the deepening malaise. They include: "An economic future that may never brighten," "IMF warns of long period of lower growth," "Europe's debtor paradise will end in tears," "QE raises fears of euro zone liquidity squeeze," and "Global property bubble fears mount as prices and yields spike."

The IMF report focuses on a sharp and persistent decline in private business investment, particularly in the advanced economies of North America, Europe and Asia. It 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."

It goes on to note, "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."

This is a stunning confirmation of the analysis of the 2008 crash made by the *World Socialist Web Site* and the International Committee of the Fourth International. On January 11, 2008, nine months before the Lehman Brothers bankruptcy, the WSWS published a statement that began:

> 2008 will be characterized by a significant intensification of the economic and political crisis of the world capitalist system. The turbulence in world financial markets is the expression of not merely a conjunctural downturn, but rather a profound systemic disorder which is already destabilizing international politics.

The IMF 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." The meaning of this euphemistic language is that there is no end in sight to the global assault on the living standards and democratic rights of the working class.

The policies of austerity that have already thrown countless millions into poverty are not temporary. They will continue as long as capitalism continues.

The IMF's updated *Global Financial Stability Report*, also released this week, acknowledges that central bank policies of holding interest rates close to zero and pumping trillions of dollars into the banking system by means of “quantitative easing,” i.e., money-printing, are having little impact on the real economy. Rather, they are increasing financial risk. According to the report, financial risks have risen in the six months since the last assessment in October 2014.

The IMF’s *World Economic Outlook* devotes an entire chapter to the slump in private investment. It notes that private investment in the major capitalist economies—the fundamental driving force of global growth—remains at historic lows. As a percentage of gross domestic product, it is below the level experienced in the aftermath of any recession in the post-war period.

But the report, setting the tone for the discussions this weekend among world finance ministers, central bankers and their myriad economic advisers, skirts the colossal role of financial speculation and parasitism in the investment slump and the crisis as a whole. All over the world, banks and corporations are using their massive profits and cash holdings to increase stock dividends and jack up their share prices by buying back their own stock, rather than investing in production. The speculative frenzy is compounded by near-record levels of corporate buybacks and mergers.

All of these activities are entirely parasitic. They add nothing to man’s productive forces. On the contrary, they divert economic resources from productive activity to further enrich a tiny global aristocracy of bankers, CEOs and speculators.

The IMF-World Bank meeting takes place amidst an exponential growth of financial parasitism, the likes of which has never been seen in the history of the capitalist system. In the past year alone, according to an article published this week in the *Financial Times*, some $1 trillion has been handed back to shareholders—many of them multi-billion dollar hedge funds and investment houses—in the form of buybacks and increased dividends.

Over the past decade, S&P 500 companies have repurchased some $4 trillion worth of shares. Major companies, including Apple, Intel, IBM and General Electric, play a central role in the ongoing buyback frenzy.

Last week alone, three corporate takeovers totalling over $105 billion were announced, including Royal Dutch Shell’s purchase of Britain’s BG Group. The value of all takeovers announced this year to date is more than $1 trillion, setting the pace for 2015 to be the second biggest year for mergers and acquisitions in history.

The result is massively inflated stock prices, the proceeds from which go overwhelmingly to the rich. Over the past year, the German DAX index has risen by 24 percent, the French CAC has increased 16 percent and Japan’s Nikkei has soared 36 percent.

Bank profits are also up. This week, JPMorgan Chase, Citigroup and Goldman Sachs all beat market expectations, announcing near-record profits for the first quarter of 2015, mainly on the basis of speculative trading activities.

As the real economy is starved of resources, leading to lower wages, declining job opportunities, rising unemployment and the substitution of casual and part-time employment for full-time jobs, fabulous fortunes are being accumulated on the financial heights of society.

The unprecedented degree to which the world economy is wedded to financial parasitism is an expression of the moribund state of the capitalist system.

There is another significant aspect to this weekend’s gathering that points to future developments. For seven decades, the IMF and the World Bank have formed two pillars of the economic hegemony of the United States. But the post-war regime is now cracking.

This week, Chinese authorities announced that some 57 countries—37 from Asia and 20 from the rest of the world—had signed up to the Beijing-backed Asia Infrastructure Investment Bank. The Obama administration bitterly opposed its strategic allies joining the bank, but the floodgates opened after Britain decided to join despite objections from Washington that the bank would undermine US-backed global financial institutions.

The fracturing of the global post-war economic order under conditions of deepening crisis is a sure sign that the major capitalist powers are determined to assert their own economic interests, if necessary against the US. Not only are the economic conditions of the 1930s returning, so are the political and economic divisions that led to world war.