IMF head warns of slow growth and economic "shocks" in 2016

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International Monetary Fund Managing Director Christine Lagarde offered a bleak economic forecast for 2016 and beyond in a guest column published Wednesday in the German financial newspaper *Handelsblatt*.

The IMF head wrote that global economic growth next year would be "disappointing" and the outlook for the medium term had also deteriorated. Lagarde pointed to the continuing slowdown in China and the prospect of rising interest rates in the US as major factors leading to a continued slowdown in world growth rates and the potential for financial shocks.

Lagarde also noted the substantial decline in the growth of world trade, the ongoing fall in oil and other commodity prices, and the worsening economic and financial crisis in so-called "emerging market" and "developing" countries whose economies are heavily dependent on commodity exports and expanding trade.

"All of that means global growth will be disappointing and uneven in 2016," Lagarde said. She warned, in particular, of "spillover effects" resulting from the decision of the US Federal Reserve Board earlier this month to begin raising its benchmark interest rate from near zero, the first Fed rate increase in over nine years.

Lagarde and the IMF had lobbied against the Fed move, warning that it could spark a panic outflow of capital from emerging market countries with high levels of dollar-denominated corporate debt such as Brazil, Turkey and South Africa.

In the *Handelsblatt* article, Lagarde said that she was concerned about the ability of such countries to absorb "shocks," citing in particular an increase in financing costs for corporations that sold large volumes of dollar-denominated bonds during the emerging market and oil boom that followed the financial crisis of 2008. The rise in the dollar means the real cost of debt repayment for these companies, whose revenues are in sinking local currencies, increases.

Lagarde hinted that the crisis could spread more broadly across the financial system, suggesting that emerging market and energy sector companies defaulting on their payments could "infect" banks and state treasuries.

On Wednesday, oil prices resumed their slide to their lowest levels in eleven years after the Saudi oil minister said the kingdom had no intention of scaling back petroleum production in 2016. Since the middle of 2014, oil prices have plummeted by two-thirds. In 2015 alone they have dropped by 35 percent.

But the oil price fall is only part of a broader collapse in industrial commodity prices. Nickel has dropped by more than 40 percent. Zinc, which was widely expected to rise in price this year because of the signaled closure of large mines in Australia and Ireland, has fallen 28 percent. Iron ore has also plummeted.

The new drop in oil prices and Lagarde's pessimistic forecast combined to push down global stock prices Wednesday, with the Dow Jones Industrial Average falling 117 points (0.66 percent), in line with other major indexes in the US and Europe.

The continuing decline in commodity prices is a sharp expression of a deepening crisis in the real economy internationally. The slowdown in China is the most prominent factor in the fall in these prices, as its previously voracious appetite for industrial commodities propped up global demand.

But China's slowdown is itself an expression of more fundamental processes and contradictions in the world capitalist economy. An indication of the systemic nature of the current malaise is the forecast released this week by OPEC that petroleum prices will not return to the $100-per-barrel levels of 2013 and early 2014 until 2040 at the earliest.

In October, the IMF released a report predicting world economic growth of 3.5 percent for 2016, the slowest rate since the immediate aftermath of the September 2008 financial meltdown. Last April, it warned that the global economy would remain locked in a pattern of slow growth, high unemployment and high debt for a prolonged period, acknowledging that there was little prospect of a return to the growth rates that prevailed prior to the 2008 crash.

In the April report, the IMF focused on a sharp decline in business investment during the so-called “recovery” that officially began in June of 2009. It noted that business investment in North America and Europe had declined by 20 percent, twice the fall that followed previous recessions.

While the IMF chose not to make the connection, this figure points to a basic feature of the global capitalist crisis—the enormous growth of speculation and parasitism. The same tendencies that triggered the 2008 crash—the reckless and largely criminal speculative activities of the financial elite that have come to dominate economic life—have only intensified in the aftermath of the financial crisis.

Far from reining in the banks and hedge funds, the IMF, the major central banks and governments in the US, Europe and Japan have bailed them out to the tune of trillions of dollars and subsidized a further orgy of speculation. By means of ultra-low interest rates and central bank money-printing operations, known as “quantitative easing,” finance capital has been encouraged to inflate new financial bubbles—from the stock market to the oil sector, junk bonds and emerging market economies—which have further enriched the wealthy and the super-wealthy while diverting resources from the productive forces and impoverishing the working class.

While the real economy has remained depressed, stock prices have soared. The Standard & Poor’s 500 index in the US has risen by more than 200 percent since 2009.

Corporations and banks have starved the real economy of productive investment, instead seeking higher profits from risky investments that are entirely parasitic. These include speculation in high-yield, high-risk “junk bonds” linked to the oil and commodities industries. After the implosion of the subprime mortgage market in 2007-2008, money has flooded into this area of speculation. High-yield assets at US mutual funds hit $305 billion in June 2014, triple their level in 2009. Outstanding debt in the US junk bond market has soared to more than $1.2 trillion from less than $700 billion in 2007—an increase of 71 percent.

Now, under the impact of the collapse in industrial commodity prices, the ratings agencies are warning that 50 percent of energy junk bonds could default, along with 72 percent of bonds in the metals, mining and steel industries.

The mounting crisis of the emerging market economies is similarly bound up with massive inflows of hot money seeking high rates of return during the oil boom and China’s post-Wall Street crisis rapid economic expansion. Between 2004 and 2014, emerging market corporate debt increased from $4 trillion to $18 trillion, with much of the increase taking place since 2008.

One figure highlights the further growth of economic parasitism since the 2008 crisis: global debt has increased by 40 percent to $200 trillion, almost three times the size of the world economy.

To pay for this exercise in recklessness and greed, the working class all over the world has been hammered with austerity programs, mass layoffs and cuts in wages, pensions and health benefits. This has only deepened the stagnation and decline in the real economy. But these attacks will continue and intensify in 2016 and beyond, in tandem with the deepening of the crisis of the capitalist system.

Perhaps the sharpest expression of the explosive growth of parasitism is the record increase registered in 2015 in mergers and acquisitions and stock buybacks. US corporations that amassed trillions from cost cutting, wage cuts and the benevolence of the Obama administration and the Fed, rather than invest their cash hoards in job-creating, productive areas, have instead plowed it into stock buybacks to increase the payouts to big investors, and in mergers, which result in downsizing and job cutting. This past year, $4.7 trillion worth of mergers and acquisitions were announced in the US, a record.

One day prior to Lagarde’s column in *Handelsblatt*, the initial fruits of one of the biggest mergers of the year, the $130 billion deal involving the chemical giants DuPont and Dow, were announced. DuPont said Tuesday it would cut 1,700 jobs in its home area around Wilmington, Delaware. This is part of a $700 million cost-cutting plan that will reduce the firm’s 61,000-strong work force by 10 percent.