“Existential crisis” dominates IMF meeting on world economy

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The annual meeting of the International Monetary Fund held over the weekend in Washington did not confront an immediate crisis, such as in 2009 in the midst of the meltdown of the global financial system, or in 2012, when the euro was under threat.

But in a profound sense, the meeting faced something even more serious. The gathering of the world’s finance ministers and central bankers was marked by what the *Financial Times* described as an “existential crisis”—fears of growing protectionism and divisions in the world economy and the implications of the mounting hostility of broad masses of people all over the world, most significantly in the advanced countries, to the prevailing economic and political order.

The participants chose to label these fears as “Trump angst,” describing the Republican presidential contender as a sort of “Voldemort for the global economic order,” a reference to the villain in the Harry Potter stories whose “name is only spoken in hushed tones and behind closed doors.”

Trump, however is only a particularly vulgar expression of the decay and disintegration of the post-World War II economic order and the rupture in official politics it is producing.

IMF managing director Christine Lagarde touched on some of the growing concerns, while failing to give any indication as to how they might be addressed. Advanced economies, she said in her speech to open the meeting, remained “stuck in a low-growth, low-investment, low-inflation cycle,” and while growth in emerging markets was picking up, commodity exporters were “struggling with low commodity prices.”

“Putting it simply, growth has been too low for too long and benefiting too few,” she continued, with the social and political consequences arising from high inequality “becoming all too apparent.”

Trade had become a political football and supporters of economic integration and cooperation were “on the defensive.”

Reviewing the principles on which the IMF was founded in 1944, amid the economic carnage caused by the Depression and World War II, she noted that if the “founders were here today, they would surely be concerned. They shared a conviction that trade and openness are beneficial to those who embrace them. They agreed that multilateral dialogue is key to the stability of the global economy … Now, those principles are facing their biggest test in decades.”

Her remarks on the dangers to the IMF’s founding principles were underscored by Suma Chakrabarti, the president of the European Bank for Reconstruction and Development. “In my lifetime I cannot remember anything like the scepticism about these fundamental values that we see today,” he said.

Some of the deep-going problems of the global economic and political order were the subject of a column by former US treasury secretary Lawrence Summers published in the *Financial Times* on Monday. Summing up the atmosphere at the IMF gathering, he pointed to the “spectre of secular stagnation and inadequate economic growth” on the one hand, and the “ascendant populism and global disintegration” on the other. The “pervasive concern” was that “traditional leaders were losing their grip and the global economy was entering into unexplored and dangerous territory.”

Summers has held the view for some years that the financial crisis, while very serious, is not the underlying cause of the present “secular stagnation”—a term first coined in the 1930s to describe a situation of ongoing low investment and low economic growth. Rather, low interest rates reflect an overabundance of savings relative to investment that started to emerge as far back as the mid-1980s, and this is the basic cause of the failure of predictions that growth would be restored in the years following the 2008 crash.

“After seven years of economic over-optimism,” he wrote in his column, “there is growing awareness that challenges are not so much a legacy of the financial crisis as of deep structural changes in the global economy.”

While Summers did not make the point, his remarks bring to mind much of the economic commentary of the 1920s, when it was argued that if only the correct monetary policies were pursued, it would be possible to return to pre-World War I conditions. Those attempts foundered and the economic crisis intensified, leading to the Great Depression and ultimately World War II, because the eruption of the Great War was itself the expression of a breakdown in the functioning of the global capitalist economy, the conditions for which had built up in the preceding period.

On the present situation, Summers noted there was “increasing reason to doubt” that the industrial world was capable of “simultaneously enjoying reasonable interest rates that support savers, financial stability and adequate economic growth at the same time. Saving has become overabundant, and new investment insufficient and stagnation secular rather than transient.”

It was hardly surprising that when economic growth fell short year after year and its beneficiaries were a small subset of the population, electorates turn surly, losing confidence “both in the competence of economic leaders and in their commitment to serving the wider public rather than the global elite.”

Summers is a Keynesian in his present economic outlook and he bases his policy prescriptions on what he perceives to be a deficiency in economic demand. But falling demand in itself explains nothing. It is just another description of ongoing stagnation.

The key question is why has demand, particularly investment demand, which is the dynamic force in the capitalist economy, declined? The answer to this question is to be found not in the relations as they appear on the surface of the market economy, but within the sphere of production.

In the capitalist economy, production is motivated at the most fundamental level not by the need for economic growth or a desire to meet social need, but by the drive for profit and nothing else. If profit rates exhibit a tendency to decline, investment is cut back, leading in turn to lower economic growth, giving rise to a further decline in investment spending, resulting in long-term lower growth or even “secular stagnation.”

These basic considerations are crucial in assessing the prescriptions offered by Summers and other like-minded would-be reformers of the capitalist system.

According to Summers, the task is to find a path forward through which international co-operation is supported and enhanced. This means focusing on the “concerns of a broad middle class rather than of global elites.” Accordingly, “austerity economics” must be rejected in favour of “investment economics,” and the “focus of international economic cooperation more generally needs to shift from opportunities for capital to better outcomes for labour.”

However, these two goals are incompatible within the capitalist economy. The decline in growth is the outcome of a decline in investment, which in turn reflects a fall in profit rates and profit expectations.

While profits can be accumulated for a period through financial speculation and manipulation, in the final analysis they rest on the extraction of surplus value from the working class. Thus, to shift opportunities from capital to labour means a lowering in the rate of profit, a further decline in investment and ongoing secular stagnation, if not worse.

In short, there is an objective contradiction between the political objectives espoused by Summers and underlying objective economic relations. The very measures he advocates to stem what he calls “angry politics” serve to worsen the economic situation, and the measures required to produce a restoration of profits can only bring further eruptions from below.

It is not the first time that such contradictions have made their appearance in global economics and politics. They were clearly laid out by Leon Trotsky in a speech to the Third Congress of the Communist International in June 1921. Analysing the situation confronting the ruling classes following the breakdown of the capitalist order which had erupted with World War I, Trotsky noted that “in order to restore the class equilibrium, they have to ruin the economy; in order to restore the economy, they have to disrupt the class equilibrium. That is the vicious circle that grips the economy and its superstructure.”

Marx drew out long ago that bourgeois economists believed no problem would ever arise in the capitalist economy if only it proceeded according to the text book. However, the text book is written on the assumption that capitalism, based on private profit, is a natural and therefore eternal system of socio-economic organisation, and thus contradictions such as falling profits, arising from its very foundations, are excluded or papered over.

In the real world, however, as opposed to the text book, these contradictions cannot be papered over, much less overcome by appeals from Summers and others and for the global elites to “see reason” and change course.

As in the period of the 1920s and 1930s, they will only intensify, leading to greater global conflicts as the struggle for markets and profits intensifies—a situation that leads ultimately to war—coupled with deeper attacks on the working class and the development of ever more authoritarian forms of rule to suppress the anger from below.

The only solution to the deepening crisis is not a series of impossible reforms. Rather, the task is the transformation of the increasing anger and hostility to the global economic and political order into a conscious political movement based on the program of international socialism to overthrow the outmoded capitalist profit system itself. That political lesson has been underscored by the IMF meeting.