

Market turbulence fuels warnings on health of global economy

Nick Beams
30 March 2017

Both the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) have pointed to a modest uptick in the global economy over the coming year. But they have warned that growth remains below that attained in previous recoveries and could be rapidly disrupted.

They have two major concerns: the impact of the Trump agenda, based on economic nationalism, on the global trading system and the potential for financial volatility because of over-valuations of the stock market and divergent interest rate policies by the world's major central banks.

In its Interim Economic Outlook report, issued earlier this month, the OECD said global growth could pick up modestly in 2018 to around 3.6 percent from a projected level of 3.3 percent this year.

But the OECD acknowledged that this slight upturn will make little difference to the living conditions of broad sections of the population.

Commenting on the report, OECD Secretary-General Angel Gurría said: "Growth is still too weak and its benefits too narrowly focused to make any real difference to those who have been hard hit by the crisis and who are left behind."

The report noted that the "strength of financial market valuations appears disconnected to the outlook for the real economy, where the growth of consumption and investment remains subdued."

The US stock market has surged since the election of Trump, largely on the back of hopes for major cuts in corporate and personal tax rates and the prospect of a boost to companies, through generous tax and write-off concessions, engaged in infrastructure projects.

The US stock market shuddered early this week, experiencing significant falls following the failure of the Trump administration to get its repeal of Obama's

health care legislation passed by Congress. This was taken as a signal that the administration may have difficulties with the passage of major tax cuts. While it has recovered somewhat in the past few days, the underlying issue of what many regard as over-valuation remains.

The OECD also pointed to the risk of global financial market tensions as interest rates diverge across major markets. In the US the Federal Reserve is engaged in rate tightening, with a minimum of two further increases in its base rate this year, following an increase of 0.25 percentage points earlier this month. Across the Atlantic, the European Central Bank (ECB) is maintaining its program of quantitative easing keeping interest rates at ultra-low and in some cases even at negative levels.

The prospect of a growing divergence has increased. Yesterday, San Francisco Federal Reserve chief John Williams, an alternate member of the policy setting Federal Open Market Committee, warned that investors should not "rule out" the prospect of more than a total of three rises this year. His remarks reflect the view that the Fed should move rapidly if there are any signs that tightening in the labour market provokes a push for higher wages.

At the same time, the ECB has sought to dampen speculation that a slight shift in the wording of its most recent statement, when it removed a phrase saying it was prepared to act "with available instruments," might be the start of financial tightening. It said the decision had been over-interpreted amid calls that, with an increase in European growth, the ECB should revert to a more normal policy.

In addition to possible financial market turbulence the IMF and the OECD are fearful of the consequences of the Trump agenda of "America First" economic

nationalism.

In a blog post issued on the eve of the meeting of G20 finance ministers held earlier this month, IMF managing director Christine Lagarde said that while the global economy was moving to a “better position” it would be a mistake to assume it would automatically return to “rude health.”

“In fact, there has rarely been a period when policy choices have mattered more for what comes next, especially since there are considerable risks to the outlook,” she wrote.

While not directly naming Trump, Lagarde emphasised that “we should avoid self-inflicted injuries” and this required “steering clear of policies that would seriously undermine trade, migration, capital flows and the sharing of technologies across borders.”

But the G20 meeting, at the insistence of US Treasury Secretary Steven Mnuchin, removed a clause from its communiqué committing to “resist” protection.

The OECD is also concerned about the impact of the Trump agenda on the global economy, noting that “uncertainties in many countries about future policy actions and the direction of politics are high.”

It warned that a “roll-back of existing trade openness would be costly with a significant share of jobs in many countries linked to participation in global value chains.”

Such concerns were underscored by remarks delivered on Tuesday by Australian Foreign Minister Julie Bishop to a meeting of Australian ambassadors considering a “reset” of Australian foreign policy.

In a major speech delivered in Singapore this month Bishop had noted that the output of goods was increasing faster than the capacity of markets to absorb them. Addressing the country’s ambassadors, she said that the US president was “driving an economic nationalist agenda” which was reversing a trend that had contributed to economic growth.

In the post-war period, economic integration had been “historically supported by the United States” and deepened by the opening up of China but “in the last year a counter trend has gathered steam.”

The consequences of this “counter trend” were the subject of remarks this week by IMF deputy managing director David Lipton to government representatives and parliamentarians in Germany.

According to a report by *Der Spiegel*, Lipton said that the greatest risk to the global economy was not rising prices for commodities or financial and currency crises but what he called a “geopolitical recession.” This was a reference to Brexit, withdrawal of Britain from the European Union, which formally began this week, and the increasingly protectionist policies emerging from the US.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact