IMF reports on global economy: Political conclusions

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One of the most significant issues to emerge from the reports prepared by the International Monetary Fund for its semi-annual meeting conducted from Washington this week is the total dependence of the global capitalist economy and its financial system on the state.

It was not the intention of their authors, but these reports, revealing the extent of state intervention by governments and central banks, blow apart for all time the nostrums of the so-called "free market," which lie at the centre of the various forms of bourgeois ideology and mystification.

When the pandemic initially struck, the air was filed with talk of "snap backs," "rebounds" and "V-shaped" recoveries as the proponents of the "free market" sought to promote the resilience of this system.

But facts, as the saying goes, are stubborn things and they speak to the far-reaching and deep-going nature of the crisis.

The headline figure to emerge from the IMF reports was a 4.4 contraction in the world economy this year followed by a 5.2 percent rebound next year and a return to growth of 3.5 percent thereafter.

But even on this best-case scenario, based on the assumption that the virus can be brought under control, either via a vaccine or other measures, the cumulative loss of global output compared to the pre-pandemic path is forecast to grow from $11 trillion in 2020–21 to $28 trillion in the period 2020–2025. At least 90 million people, and most likely many more, are expected to fall into "extreme deprivation" this year alone.

The total intervention by governments around the world amounts to what the IMF "Fiscal Monitor Report" describes as a "staggering" $12 trillion, close to 12 percent of global GDP. Total government debt is expected to rise to a record high of 100 percent of global GDP.

On top of this there is the $7.5 trillion which has been pumped into the financial system by the world's central banks, with the US Federal Reserve leading the way.

In his foreword to the "Global Financial Stability" report, its chief author Tobias Adrian notes that as a result of these actions, "the adverse macro-financial feedback loops that were so prevalent and pernicious in the 2008 crisis have largely been contained."

That is, at least for now. Because, as the report makes clear, the emergence of a "feed-back loop" in which a crisis in the financial system leads to a collapse in a real economy that in turn feeds into the financial system, has only been pushed down the road and remains an ever-present threat.

According to Adrian "financial vulnerabilities are rising, putting medium-term financial stability and growth at risk."

Commenting in a blog post on the divorce between the elevation of stock markets in the US to near record highs, in the face of the deepest economic recessions since the Great Depression, he noted: "As long as investors believe that markets will continue to benefit from policy support, valuations may stay elevated for some time."

In other words, all the calculations used in the past, such as price-earnings ratios and the relationship between the stock market and the underlying economy, are out the window. The rise of the stock market, which has seen the funnelling of trillions of dollars into the coffers of the financial oligarchy, is totally dependent on the provision of money by central banks.

But such a situation cannot continue indefinitely and the very measures taken today to avert a collapse only prepare the way for an even bigger crisis in the future.

According to Adrian, while additional borrowing helped avoid a wave of bankruptcies in the early stages, it has led to a further rise in corporate debt. "But many of these firms already had very high levels of debt before the crisis, and now indebtedness in some sectors is reaching new highs. This means that solvency risks may have shifted into the future and renewed liquidity pressures could easily morph into insolvencies."

The threat of a crisis goes across the board. Having already run up large deficits, the fiscal capacity of governments "to provide further support may become more limited." Non-bank financial institution such as insurance companies and asset managers now play "an important role in credit markets, including in its riskier segments."

So far they have managed to cope with market turbulence because of "policy support" but at "some point, fragilities could spread through the entire financial system." As well, "some low-income countries are so heavily indebted that they face imminent debt distress, because of borrowing costs at prohibitive levels."

The facts and figures presented by the IMF on the global economy and the extent of massive state intervention raise fundamental issues of political perspective before the international working class.

For long decades, the ideologists of the ruling class have maintained that the market system, based on the private ownership of the means of production and finance, is the only viable, the only possible, form of socio-economic organisation.

They have, of course, at times added that there needs to be state intervention to iron out problems that emerge in its functioning. But a qualitative transformation has taken place in the past period.

The 2008 crisis saw the institution of a series of measures described as temporary, to be withdrawn once "normal" conditions had returned. But that never happened and the process of quantitative easing, in which central banks bought trillions of dollars of financial assets, became permanent and has been extended in the COVID crisis such that banking and financial systems could not continue a day without it.

The COVID-19 pandemic did not create this tendency but accelerated it, revealing its essential content as the capitalist state steps forward to now play the central and directing role in every area of the economy and the financial system.

The *World Socialist Web Site* has previously pointed to the prescient analysis made by Leon Trotsky in the aftermath of World War I as capitalist governments in Europe created massive amounts of paper money to cover the debts they had incurred as a result of wartime spending.

Drawing out the historical implication of these actions, Trotsky wrote:

> The state-isation of economic life, against which capitalist liberalism used to protest so much, has become an economic fact of life. There is no turning back from this fact—it is impossible to return not only to free competition but even to the domination of trusts and other economic octopuses. Today the one and only issue is: Who shall henceforth be the bearer of state-ised production—the imperialist state or the state of the victorious proletariat?

Trotsky drew out that the urgent task confronting the working class was to seize state power, the establishment of a workers' government, as the first necessary step to take control of "the disrupted and ruined" economy and regenerate it on socialist principles. This task now rises before the working class even more directly today.

The issue is not state intervention *per se*—the economic necessity of which has been established by capitalist agencies such as the IMF—but which class directs the social, economic and political power of the state.

If state power is left in the hands of the capitalist class and the financial oligarchs at its pinnacle, then the only outcome of state intervention will be growing poverty and misery for the mass of the population.

This is not a matter of conjecture but a fact of economic life. It has been demonstrated by the experience of the past six months in which state intervention has seen the transfer of trillions of dollars into the hands of the ruling elites as the mass of the population confronts the worst conditions since the Great Depression and a pandemic that continues to rage out of control.

This situation is not simply the product of the policy decisions taken by a Trump, a Johnson, a Macron or any of the other government leaders around the world. Of course, their policies—to carry out a murderous return-to-work policy so that profit flows may continue or to hand over billions of dollars to the banks and major corporations while cutting assistance for workers—have played a decisive role.

But in the final analysis the decisions they make are the translation into politics of objective economic impulses emanating from the very structure of the capitalist system over which they preside.

These impulses arise from the very nature of the capitalist economy based on the production of commodities, not for their use value in increasing the material well-being of the population or ensuring their health, but to ensure the extraction of surplus value through the exploitation of the working class.

It is this entire system of production that must now be overturned through the seizure of the political power by the working class as the first step in establishing a new economic order.

While they certainly did not intend it, the necessity of this perspective leaps out from the pages of the reports by the IMF on the state of the world economy after just more than six months of the pandemic experience.