World Bank report warns of extended downturn in global growth

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The global economy faces at least a decade of low growth, wiping out limited gains in poverty reduction and per capita income growth. In addition, the risk is that a rise in COVID-19 infections, continued stagnant investment or a major financial crisis produced by the escalation of debt could result in an even worse outcome.

That is the scenario set out by the World Bank in its semi-annual report on the state of the global economy issued on Tuesday. It said that at best the world faces a "slow and challenging economic recovery."

After a contraction of 4.3 percent in 2020, the bank forecast growth of 4 percent for 2021. However, that is based on a number of assumptions that are already in the process of being shattered.

Its forecast was predicated on "proper pandemic management and effective vaccination limiting the spread of COVID-19 in many countries." But as World Bank president David Malpass acknowledged, the rollout of vaccinations had already run into problems.

"Even in advanced countries there have been difficulties in pushing ahead with vaccination programs, and that is true in poor countries as well," Malpass said.

Stronger language has been used elsewhere, with the situation in the US, the centre of the pandemic, being rightly described as "chaotic" and a "mess."

While he did not use the term, Malpass pointed to what has been characterised as "vaccine nationalism." He noted that "advanced economies" had reserved vaccines beyond their capacity to distribute them, and expressed the hope that some of these supplies would be freed up for poorer countries.

Even on the World Bank's most optimistic scenario, the level of global gross domestic product in 2021 is expected to be 5.3 percent below pre-pandemic projection, equivalent to a loss of output of $4.7 trillion.

Growth could be much lower. The report warned that if infections continued to rise—the present situation—and if vaccine rollouts experienced logistical problems—as is now the case—then global GDP may only expand by 1.6 percent this year. If financial stress, caused by rising debt, which was identified in the report as a significant risk, led to major corporate and government defaults then the world economy could contract again in 2021.

The report noted that even if the pandemic is brought under control, its effect on global growth could be "longer lasting than expected." Debt had surged above already-high levels and although banks were relatively well capitalized "a wave of bankruptcies could erode bank buffers, putting some countries at risk of financial crisis."

The report said that timely and equitable access to vaccines around the world would "necessitate global cooperation" and that only when the pandemic was contained in all countries "will each country be safe from a resurgence."

It also emphasised that global cooperation was "critical" in meeting the challenges posed by the pandemic both in bringing it under control and in developing measures to ensure "sustainable and equitable" global growth.

However, here the pious pronouncements of the World Bank run into the two central contradictions of the global capitalist economy: the subordination of all social and health considerations to the demands of private profit, which has meant that no effective measures have been developed to combat the health emergency; and the division of the world into rival nation-states, which has blocked global cooperation and fuelled the growth of antagonisms.

As for “equitable” economic measures, Malpass acknowledged that the stimulus programs in the major economies, based on the massive financial asset purchasing programs of the world’s major central banks, were aggravating social inequality.

“Stimulus mechanisms are working to concentrate wealth at the top rather than adding wealth from the bottom up. People at the bottom are going down even as people at the top are going up,” he said.

This is the predominant global trend. In the major economies, as the working class faces what the World Bank characterises as the worst economic blow outside the two world wars and the Great Depression, the wealth of the financial oligarchy has been boosted by hundreds of billions of dollars as a result of the gusher of free money flowing from the central banks.

Ruling out any prospect for a return to “business as usual,” the report noted that the pandemic was “tipping millions into extreme poverty, and is expected to inflict lasting scars that push activity and income well below their pre-pandemic trend for a long period.”

In more than 90 percent of emerging market and developing countries, the pandemic has caused per capita incomes to fall. For a quarter of these countries, it is “expected to erase at least 10 years of per capita income gains.” Two decades of poverty reduction has come to a halt and in low-income countries, economic activity shrank by nearly 1 percent in 2020, the first aggregate contraction in a generation.

Throughout its analysis of the pandemic, the *World Socialist Web Site* has emphasised that the pandemic has acted as trigger event, exacerbating the underlying contradictions of the global capitalist economy that had been building up over decades.

This is confirmed by the World Bank report. In his foreword Malpass noted that the collapse in investment in emerging market and developing economies in 2020 followed “a decade of persistent weakness” and that the experience of past crises raised the concern that “investment could remain feeble for years to come.”

“If history is any guide,” the report said, “unless there are substantial and effective reforms, the global economy is heading for a decade of disappointing global growth outcomes.”

However, recent history has already shown that there are no such reforms waiting to be implemented. In fact, the very measures implemented in response to the 2008 crisis—the combination of austerity measures coupled with the injection of trillions of dollars of free money into to financial system—have created the conditions for a debt crisis.

The report noted: “Prior to the COVID-19 pandemic, starting in 2010, a fourth wave of debt accumulation was underway, with the largest, fastest, and most broad-based increase in global debt in five decades.”

The three previous debt waves since the 1970s all ended with widespread financial crises and the major concern in the fourth wave is that it saw a “protracted period of weak investment and slowing growth despite surging debt.”

In other words, the debt has not been used to finance productive activity but incurred to fuel financial speculation.

“The pandemic,” it said, “has made the fourth wave more dangerous by increasing its risky features.” While “unprecedented monetary policy accommodation” has calmed financial markets, “historically low global interest rates may conceal solvency problems that will surface in the next episode of financial stress or capital outflows.”

Taken as a whole, the World Bank report amounts to an indictment of the bankrupt capitalist economic and political order. Refusing, because of their profit interests, to undertake meaningful measures to deal with the pandemic and with their laser-like focus on financial markets, the ruling elites have created a social and economic catastrophe.