“Something will have to give”—IMF warns of build-up of US debt

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The opening chapter of the *World Economic Outlook* report of the International Monetary Fund, released at its spring meeting in Washington yesterday, presented a generally upbeat report on the state of the global economy, at least on the surface. But not far below it there are gathering storms.

In his foreword to the report, IMF economic counsellor Pierre-Olivier Gourinchas wrote: “The global economy remains remarkably resilient, with growth holding steady as inflation returns to target.’

Despite “gloomy predictions,” the world had avoided a recession and the banking system proved “largely resilient.” He was also gratified that despite the surge of inflation and the cost-of-living crisis there had been no “wage-price spirals.”

In other words, because of the actions of the trade unions in all the major economies in suppressing wage demands and imposing sub-inflationary agreements, workers had been made to bear the cost of the inflationary spiral set off by the COVID pandemic and the boost to energy prices flowing from the Ukraine war.

In contrast to the generally upbeat outlook on the immediate situation, examination of the IMF’s own data and projections for the medium-term told a different story with growth over the next five years unlikely to return to anywhere near previous historical norms.

And even the immediate projections for the major economies show a significant slowing of economic output. Within the G7, the US economy leads the way with growth for this year expected to be 2.7 percent, an upgrade of 0.6 percentage points on the previous estimate.

But it is all downhill from there. The next best performer is Canada with expected growth of 1.2 percent. The German economy, by some measures now the third largest economy in the world after the US and China, is expected to grow by only 0.2 percent, the lowest in the G7.

Japan, now relegated to the world’s fourth largest economy, will grow by 0.9 percent with the UK coming in at 0.5 percent, after experiencing no growth in 2023.

On the growth of the US economy, which was described as “exceptional,” Gourinchas sounded a warning about the increase in government spending. It had led to a “fiscal stance that is out of line with long-term fiscal sustainability.”

This is a reference to the rise of US public debt, now equivalent in size to US GDP which is expected to accelerate in coming years and is characterised by the Treasury department itself as “unsustainable.”

“This raises short-term risks to the disinflation process, as well as longer-term fiscal and financial stability risks for the global economy since it risks pushing up global funding costs. Something will have to give,” Gourinchas wrote.

While he did not specify it, the key driving force of this expansion is the escalation of military spending as well as large handouts to major corporations under the Inflation Reduction Act, the Chips Act and other measures.

The IMF also expressed concern about the Chinese economy which has been a mainstay of global growth since the global financial crisis of 2008. It continues to be heavily impacted by the property crisis and the IMF has called for strong measures to provide an increase in domestic demand to lift growth.

But there is little sign of that. The Chinese government is seeking to boost manufacturing, especially in high tech areas such as green energy and electric vehicles, which it can turnout at lower cost than in the West, leading to a risk this will "further exacerbate trade tension in an already fraught geopolitical environment."

These conflicts were on display during the IMF gathering. US Treasury secretary Janet Yellen has been organising meetings with her counterparts with the aim, among other things, of developing a unified response against the outflow of high-tech exports from China that cut into the US and other markets.

This was a central topic of her discussions with Chinese officials and government representatives during her visit earlier this month in which virtually no agreement was reached.

In comments at the weekend on the eve of the IMF meeting, she made clear what was at stake.

"This is a complicated issue that involves their entire macroeconomic and industrial strategy. "It's not going to be solved in an afternoon or a month," she said.

These remarks underscore the existential nature of the conflict. The US is demanding the total subordination of China to its demands that it completely scrap its focus on what president Xi Jinping calls the development of "new productive forces" because this is seen as one of the chief threats to its continued domination of the global economy.

From the Chinese side this strategy is seen as the only way to sustain economic growth, even at the much lower target of 5 percent, to maintain "social stability" that is, to try to prevent the eruption of struggles by the Chinese working class which would threaten the regime of the ruling capitalist oligarchy represented by the Communist party.

This conflict can only intensify under conditions where, as the IMF made clear in Chapter 3 of its report published last week, global growth is markedly slowing.

In a blog on the chapter, two of its authors warned that in the coming period growth is "set to fall far below its historical average."

"The world economy," they wrote, "faces a sobering reality. The global growth rate—stripped of its cyclical ups and downs—has slowed steadily since the 2008–09 global financial crisis."

It said economic growth was expected to reach just 2.8 percent by 2030, well below the historical average of 3.8 percent.

The prospect of weaker growth was "exacerbated by strong headwinds from geoeconomic fragmentation, and harmful unilateral trade and industrial policies."

They noted that half of the growth decline was the result of a fall in total factor productivity (TFP), which measures the input of capital and labour and how these resources are used.

In recent years increasingly "insufficient distribution of resources across firms has dragged down TFP and, with it, global growth."

It was not referred to, but one of the key factors in this process is that corporations have used their profits and even run up debts not for productive investments but to finance share buy backs to meet the demands of hedge funds and other parasitic financial institutions for a boost in "shareholder value."

Overall, the IMF gathering was not so a meeting to deal with growing global economic problems but was more akin to a war council in which the immediate target is China on the one hand, and the working class on other.

There was an insistence on the need to continue the fight against inflation, the code phrase for driving down real wages, the need to increase productivity, the intensification of exploitation, and the maintenance of financial buffers—that is, cuts in social spending—to deal with mounting debts.

Insofar as the resolution of economic problems was addressed, the IMF said "multilateral cooperation" would be needed.

But that has gone by the board. Its passing was highlighted in remarks this week by the Australian Labor prime minister Anthony Albanese in which he announced government support for war-related industries.

Starting with the US, he listed a series of nationalist measures introduced by a range of countries to boost their economic and national security.

This "strategic competition," which is directed towards war, he said, was now a "fact of life."