IMF says Trump tariff war to bring "significant slowdown" in global economy

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The chaos into which the world economy has been plunged by the economic war against the world launched by US President Trump is reflected in the International Monetary Fund's World Economic Outlook (WEO) report published yesterday.

The opening chapter, where the IMF gives its projections for global growth, had to be completely recast after Trump's "liberation day" announcement on April 2 of sweeping "reciprocal tariffs" against a wide range of countries, the imposition of a 145 percent tariff against China, and a 10 percent tariff hike on all others.

Under conditions where IMF chief Kristalina Georgieva has said "trade policy certainty is literally off the charts," the fund said it had to abandon its practice of giving a "baseline forecast." It could only provide a "reference forecast"—a euphemistic way of saying we have no real idea what is going to emerge from the shattering of the framework of international trade.

Insofar as it did make predictions, they were to warn of the increased risk of a recession in the US—lopping off almost 1 percent point for US growth this year—and warning of a "significant slowdown" for the global economy as a whole.

The outlook for the major G7 economies was revised down along with China, India, Brazil, and South Africa. Growth in Germany, the world's third-largest economy, is expected to be zero this year.

Calling on countries to "urgently resolve" their differences, without directly naming the US, it said that, if sustained, the "abrupt increase in tariffs and attendant uncertainty will significantly slow global growth." The IMF cuts its forecast for global growth for this year to 2.8 percent down from the 3.3 percent growth it forecast as recently as January.

IMF chief economist Pierre-Olivier Gourinchas said the probability of a recession in the US was now 40 percent, as compared to 25 percent in its previous report.

"The major risk in front of us is that there could be a further escalation in tariffs and trade tensions," he noted in an interview. "There is also the risk of financial conditions tightening much further than they have."

In the foreword to the WEO, he said the combination of measures and countermeasures had lifted US and global tariff rates to levels not seen in a century. But he indicated that the situation was potentially even more dangerous than that which prevailed in the disastrous 1930s when global trade all but collapsed.

Noting that the context for the tariff hikes was very different today, he continued: "Unlike in the previous century, the global economy is now characterized by a high degree of economic and financial integration, with supply chains and financial flows crisscrossing the world, whose potential unwinding could constitute a major source of economic upheaval."

The effect of tariff hikes was "magnified in the presence of modern complex supply chains" in which most traded goods are intermediate inputs that traverse countries multiple times before their transformation into final products. Consequently, "sectoral disruptions could propagate up and down the global input-output in ways with potentially large multiplier effects," such as was seen in the pandemic.

Speaking on the report, he said: "We're entering a new era as the global economic system that has operated for the last 80 years is being reset."

This is a considerable understatement as Gourinchas and all officials in the global institutions that supposedly manage the affairs of world capital well know.

It is not being "reset" but has been shattered and cannot be put back together again. The conditions have been created for a dog-eat-dog global struggle among the major capitalist powers, each against all, recalling that of the 1930s and creating the conditions for war, as it did in that decade.

It would be a grave mistake to see this as simply the result of the actions of Trump. He has acted as a kind of catalyst, setting off an explosion, the conditions for which were long in preparation.

In a speech delivered last week, Georgieva issued a plea for the world to "act wisely," claiming that a "better balanced" and more "resilient" world economy was "within reach," only to immediately contradict that assessment.

"Trade tensions are like a pot that was bubbling for a long time and is now boiling over. To a large extent, what we see is the result of an erosion of trust—trust in the international economic system and trust between countries," she said.

Well before Trump returned to power for the second time, the IMF had pointed to what it called "geo-economic fragmentation" that had developed after the financial crisis of 2008 amid a rise in tariffs and trade barriers. This was despite the hand-on-heart commitment of the G20 countries at their gathering in London in April 2009 that they would not use tariffs, recognizing their disastrous consequences as seen in the 1930s.

Some hopes are being expressed that negotiations with countries hit by the reciprocal tariffs during the 90-day pause on their implementation may ease the situation.

But as the *Financial Times* pointed out in its report on the WEO, the IMF had concluded that "even if the duties were delayed indefinitely, it would not 'materially change' the outlook in its reference forecast. This is because of the magnitude of the trade barriers erected between the US and China—the world's two biggest economies."

However, the tariff war is only one expression of what is a deepening breakdown of the entire global capitalist order which, in the final analysis, has rested on the economic and financial power of its hegemon, the US.

Even as the US financial system was increasingly beset by the prospect of a meltdown—notably in 2008 and March 2020—the US Treasury bond market and the dollar provided a safe haven for US and international finance capital. No longer.

The dominant theme in global financial markets is "sell the US." Wall Street is trending down, there is a lowered demand for US Treasury debt—supposedly the safest financial asset in the world—the dollar is sliding in value against other currencies, and the price of gold, increasingly regarded as the only store of real value, is rising, amid fluctuations, to record highs.

The crisis is being compounded by the unbounded lawlessness of the Trump regime, as exemplified in the financial sphere by his threats last week, repeated on Monday, to sack the chair of the US Federal Reserve, Jerome Powell.

Yesterday, after markets had closed, Trump stated that he had "no intention" of sacking Powell after receiving advice that such a move would produce a major crisis of confidence in international markets and lead to a massive selloff.

The issue of confidence was raised in the editorial of the London-based *Economist* magazine entitled "How a dollar crisis would unfold."

"What makes this economic downturn and the loss of fiscal discipline so explosive is the fact that markets are starting to doubt whether Mr. Trump can govern America competently or consistently."

The dollar system was not perfect, but it did provide the "stable ground" on which the global economy is built. "When investors doubt America's creditworthiness, these foundations are in danger of cracking."

Even this serious assessment, however, is an underestimation of the depth of the global crisis in two significant aspects.

First, while Trump's actions certainly exacerbate it, he is not the underlying cause. Rather, his actions flow from the deep-seated crisis of the American state, reflected in the rise of government debt to $36 trillion, which is continuing on what is universally regarded as an "unsustainable" path, and the ever-widening balance of trade deficit.

Second, the foundations of the global economic and financial order are not merely cracking, their breakdown—the consequence of processes that were developing long before Trump arrived on the scene—is well underway.

The gyrations of Trump and the irresolvable contradictions of his policies are the expression of an objective crisis.

For example, on the key question of the US dollar, on the one hand, Trump wants to see it fall, which the cut in interest rates he has been demanding would produce. This is aimed at improving the competitive position of the US in global markets and reducing the trade deficit. On the other, he insists that the dollar must retain its position as the global reserve currency, a status that requires a strong dollar.

Trump is like a player in a game of chess confronted with a Zugzwang situation in which he must make a move, but every move worsens his position. His response is to kick over the chessboard.

What this means in the present situation is that there are no moves or policies in the economic sphere that can resolve the crisis. Consequently, the Trump regime must increasingly resort to "mechanical means"—that is war—which more and more will be seen as the only way out.

And this resort to militarism, accompanied by deepening attacks on the social and democratic rights of the working class at home, will intensify under conditions where, as the IMF report pointed out, the global economy is heading for a contraction.