IMF forecasts low growth and calls for unending government spending cuts

Nick Beams
23 October 2024

The reports prepared by the International Monetary Fund (IMF) for its meeting in Washington this week point to a global economy marked by low growth for the foreseeable future, heightened risks of financial turbulence, the rise of tariffs and other restrictions on international trade and mounting problems caused by the rise of government debt.

The opening paragraph of the *World Economic Outlook* (WEO) report said the global economy had shown "resilience overall" in the face of a once-in-a-century pandemic, the eruption of conflict, food and energy crises and increased expenditures by governments. The supposed resilience is a reference to the fact that, despite the highest inflation in four decades, it has been reduced by increasing interest rates without causing a global recession.

But probing the content of the report reveals a different picture.

It noted that the "level of uncertainty surrounding the outlook is high" and the "return of financial volatility over the summer has stirred old fears about hidden vulnerabilities."

One of the key areas of concern is the rise of trade restrictions. According to the report, while global trade as a share of world GDP had not declined amidst "ongoing geopolitical tensions," there were "signs of geo-economic fragmentation" as increasing amounts of trade took place within geopolitical blocs rather than between them.

These concerns were highlighted by a modelling exercise in which it sought to calculate the effects on growth if tariff increases—such as those that have been foreshadowed by Donald Trump in the US—were to hit a "sizable swath" of world trade by the middle of next year. Such measures would reduce global growth by 0.8 percentage points next year and 1.3 percentage points in 2026.

The IMF forecast 3.2 percent growth in the world economy both for this year and next. It warned that in the major economies there was an uptick in 2022 but growth "markedly slowed in 2023 and is expected to remain steady, oscillating between 1.7 and 1.8 percent until 2029." In other words, in the best-case scenario, the major economies will be just ticking over.

On the financial front, the *Global Financial Stability Report*, said immediate risks had been contained. But it warned that accommodative financial conditions that had kept near-term risks at bay also facilitated "the buildup of vulnerabilities—such as lofty asset valuations, the global rise in private and government debt and the increased use of leverage [debt] by financial institutions." This raised the risk of future financial instability.

While institutions like the IMF have a vast array of data and information, they have no real idea when and how such instability could arise.

As the report acknowledged, the market turmoil in early August "when stock market volatility spiked in both Japan and the United States and global asset prices declined significantly" provided a "glimpse of the violent reactions that can ensue when spikes in volatility interact with the use of leverage by financial institutions to create nonlinear market reactions and hasten selloffs."

In other words, because the financial system is so highly dependent on debt and so much of it is involved in the refinancing of debt on a daily basis, relatively small movements in financial and economic conditions can produce a disproportionate, nonlinear reaction.

In the case of the August turmoil, it was a combination of a slightly lower-than-expected increase in US jobs numbers and a move by the Bank of Japan

© World Socialist Web Site

to lift interest rates marginally into positive territory, which impacted so-called carry trades in which money borrowed in Japan is used to finance deals in the US.

The August events were another example, it said, of how nonbank financial institutions [NBFIs] can transmit stress through the financial system as "the rapid unwinding of leveraged positions [that is, financial market bets and trades financed by debt] can generate liquidity imbalances that increase volatility."

The problem facing would-be regulators is that they have no real idea about what is going on in this area of the system as NBFIs, dependent on debt, play an ever increasing role.

In the words of the report: "Data gaps, which hinder authorities' ability to assess the vulnerabilities associated with nonbank leverage and to identify large and concentrated positions, present a key challenge in addressing these issues."

Underscoring these growing concerns, the report said that, due to the increasingly significant role of private credit in financial markets, enhanced reporting requirements to improve the assessment of risks were "imperative."

The *Fiscal Monitor Report* detailed the rise in government debt which it said would reach $100 trillion this year and was set to rise in the future.

Outlining the policy measures that had to be undertaken, the IMF's economic counsellor Pierre-Olivier Gourinchas said that "fiscal space" was the key to financial stability and that after years of loose fiscal policy it was now time to "stabilise debt dynamics and rebuild much-needed fiscal buffers."

Translated into ordinary English, this means that government spending—above all, that directed at social services—must be cut, as military spending is on the rise everywhere.

"The path is narrow," he warned, and "unduly delaying adjustment increases the risk of disorderly market-imposed adjustments, while an excessively sharp turn would be self-defeating and hurt economic activity."

His "solution" to this dilemma was "credible multiyear adjustments without delay." That is, the implementation of years of austerity to enact "disciplined" fiscal adjustment.

The class struggle barely rates a mention in official IMF reports but is always on the mind of its policy framers.

In his policy stipulations, Gourinchas emphasised the need for "structural reforms"—the hardest of all to implement, he said—as "the only way we can address the many challenges we face" arising from lower growth.

But "structural reforms" in a capitalist economy are never about lifting productivity and production per se, such as through the rational use of new technologies. Productivity increases in the system of private ownership of the means of production is always about lifting profit rates at the expense of the working class whose labour is the source of all profit.

Consequently, as Gourinchas acknowledged, "while structural reforms are as urgent as ever, they often face significant social resistance." The IMF devoted a whole chapter of its WEO report to factors that shape the social acceptability of reforms. However, a clear message from that analysis was "better communications can only go so far." It was necessary to build trust between the government and the people through the implementation of "proper compensatory measures."

But this was just another form of window dressing because, as the political economy of the past four decades and more reveals, the near universal hostility to governments and the entire political establishment is a result of the attacks on the social position of the working class and the youth, which have been central to all past "reforms."

Today, under conditions of slowing growth, deepening financial instability and mounting government debts, these attacks are being intensified and will be imposed through the increased use of force of the state.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site