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IMF, Quietly, Is Not Overly Optimistic on the 'Recovery'

by Lothar Komp

The predominant thinking on the world financial market is like that of children, remarked a London financial expert on March 20, surveying the seizing of the straws of "recovery" in the United States, and even in Europe. After all the shocks over the last two years, investors fixate on any sliver of "good news," regardless of where it comes from. They have been crying out with such passion about the coming "recovery," that they can be emotionally manipulated with the silliest of statistical tricks.

However, they are in no way ready for the oncoming financial and economic shocks, brought on by, for example, the enormous rise in the oil price, which would result from the proposed attack on Iraq. As a result of their irrational "mind-set," they will subsequently go about "losing lots more money."

One example of the statistical confetti by which consumers and investors are being distracted, is the data from the Gross National Product (GNP) of the United States. Although investment into the U.S. private sector has been stripped, the statisticians at the Commerce Department have managed, with the help of "deflation factors," to squeeze out a 0.2% growth for the fourth quarter of 2001. To do this, however, they had to, among other things, state that twice as many computers were sold to businesses and households as there were actual hardware sets purchased.

The logic behind this strange addition is as follows: Computers in 2001 cost about what they cost in 1995; however, they are more capable and efficient. By way of "hedonic" computational methods, this was justification not to report the *actual* expenditures on computers, but instead, a multiple of that number. This was done, even though the producers and sellers of computers will never see the extra money resulting from their more capable computers, and so this is a pure fiction.

The Commerce Department has recently recalculated the GDP, and at the end of February, it reported a 1.4% increase for the fourth quarter of 2001. In the meantime, leading investment banks are overestimating their growth projections for the first quarter of 2002. After some banks had been projecting growth in the area of 4% and 5%, Merrill Lynch went one better than the rest, by reporting a superb 6% growth, based on the total year's estimate.

The Central Banks' Quandary

In light of this breakout of euphoria, central banks find themselves in a quandary. On the one hand, just as before, they are unwilling to admit (although they know better) the systemic character of the global financial and economic crisis, as economist and Presidential candidate Lyndon LaRouche has identified this. On the other hand, they cannot afford to continue to drive this irrational optimism in the finance markets, because they are creating a new bubble, soon to collapse.

The International Monetary Fund on May 14 offered one impressive example of the schizophrenia at the top of world's financial institutions. While IMF chief Horst Köhler spoke of the coming worldwide boom, the IMF, on the same day in Washington, released Köhler's "Report on the Stability of the Global Financial System," which says something completely different. The report points to the unparalled series of financial and economic catastrophes that have taken place in the course of the past few months: the "continuing deflation of the telecom, media and technology bubble across global markets; the onset of a recession in the United States amid a synchronized global slowdown; a financial crisis in Turkey; the terror-

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ist attacks on Sept. 11; the record number of bankruptcies; and the default of Argentina."

The financial system was being "put to the test," the report acknowledged, and contrary to the hopes spread worldwide, there will be a "muted worldwide recovery." For this reason, the "not unforeseeable" possibility exists, that a "chasm between the expectations of the financial markets and the actual economic results" will yawn.

This would then "exacerbate the financial imbalances and some of the underlying weakness in the financial sector," and would "erode the still fragile business and consumer confidence."

The IMF foresees trouble because of the extreme debt in certain sectors. "First, downward asset price adjustment and further deterioration in credit quality could weaken balance sheets of corporations, households, and financial institutions in the major industrial countries. . . . Second, a subdued recovery would put further pressure on banks' profitability. These developments could become worrisome in light of the fact that present levels of indebtedness in the major industrial countries, both in the corporate and the household sectors, are high. Their debt servicing burden is also high relative to current income."

Köhler's report stresses, in particular, the huge amount of loans outstanding to the telecom sector, and to "institutions engaging in credit derivative business."

Even the Bank for International Settlement (BIS) in Basel, Switzerland found it necessary to warn of worldwide financial shocks. In their quarterly report published on March 11, on developments in the international banking and finance sectors, the BIS emphasized that stock market increases contrasted to "the disappointing news of the world economy from the view of traditional indicators;" in plain terms, that profits continue to sink. The average price-profit relationship of a business on the S&P 500 Index in January 2002 is "higher than its position at the height of the market boom in April 2000."

The high stock prices are based on two underlying assumptions, the BIS said. First, "that the business profits would recover faster than in past economic recoveries," and secondly, that investors in the future would not be pushed into another round of massive depreciations. What the BIS doesn't say, but means, is that these "basic assumptions" could soon emerge as nothing more than illusions.

BIS general secretary Andrew Crockett was more to the point. The day the report was released he warned, in the newspaper *The Financial Regulator,* about the danger of further "currency speculation" in the financial markets. The federal banks should take accelerated measures against the global financial bubble, Crockett warned.

The absurdity of the claim that the U.S. recovery is under way, becomes apparent if one looks at the small increase in economic performance, compared to the growth of debt, as reported in the Federal Reserve's "Flow of Funds" report, which gives annual figures. While the business sector put the increase in its debt at $104 billion, the actual net new business debt is closer to $1.3 trillion, as the Fed acknowledges. Three-fourths of this new debt fell on the United States financial sector.

Federal Reserve Chairman Alan Greenspan is certainly nervous about what the latest Fed report shows on the rate of growth of the U.S. domestic and foreign debt bubble. At a March 13 bankers conference in Hawaii, he said, "Countries that have gone down this path invariably have run into trouble, and so would we."

The reported increase in the debt burden of private households, by $95 billion, actually reflects a rise in debt about six times as great, about $610 billion. The increase of the national debt by around $40 billion, disguises an increase in debt of the 50 states, of about $154 billion.

Altogether, according to official data for the fourth quarter of 2001, there was an increase in economic performance equal to about $32 billion, while the total debt of state, business, and private households grew by about $2.1 trillion.

That means that for every additional dollar of net GDP reportedly achieved in the fourth quarter, $65 of new debt was incurred. Even during the so-called "New Economy" boom, debts increased faster than the economy. But now the "debt production" has taken on a life of its own, and is completely out of control.