IMF Outlook for Global Economy Gloomy

There is little growth on the horizon for the global economy, and a significant likelihood of further trouble, believes the International Monetary Fund.

Fiscal consolidation is likely to be a short-term bust, according to the IMF. The wonks at the International Monetary Fund believe that the current round of “austerity measures” being implemented across the European Union — tax hikes and spending cuts — are unlikely to propel Europe far from the fiscal brink. “Fiscal consolidation,” runs the IMF’s arid prose in Chapter Three of the new *World Economic Outlook*, “typically has a contractionary effect on output. A fiscal consolidation equal to 1 percent of GDP typically reduces GDP by about 0.5 percent within two years and raises the unemployment rate by about 0.3 percentage point. Domestic demand — consumption and investment — falls by about 1 percent.” In other words, don’t expect the ballyhooed belt-tightening in Ireland, Spain, Greece, Portugal, and elsewhere to reverse the global economic contraction anytime soon. Or, as British journalist Ambrose Evans-Pritchard put it, “It is clear that Southern Europe will not recover for a long time.… Who believes that the EMU Alpinistas roped together on the North Face of the Eiger are strong enough to hold the rope if one after another loses its freezing grip on the ice?”

The IMF’s conclusions are hardly surprising, given that that organization is completely wedded to the twin modern conceit s of social welfarism and inflationism — the very practices responsible for the ongoing global economic crisis. Governments across the world have borrowed and printed money to pay for extravagant welfare programs for decades, and now the piper has to be paid. The notion that a few cosmetic changes — like the IMF’s “1 percent of the GDP” — are going to make a significant difference is ludicrous.

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In point of fact, the IMF’s study fails to paint the whole picture, because its economists are steeped in the statistics of recent economic activity carried out against a backdrop of modern statism, the immense governments erected across the West from the 1960s onward. The United States has not been immune to this loathsome epidemic, of course; the 1960s saw the beginnings of medical welfarism in the United States with the creation of Medicare, and ensuing decades have conveyed us into the early 21st century age of near-total government at home and abroad, in which few human activities are not subject to the scrutiny, regulation, and taxation of government at some level.

But much of the world, including the very same Western nations now floundering amid the waves of economic crisis, once experienced an extraordinary explosion of economic growth in a very short time, and withal amid the most adverse circumstances imaginable. Within five years after the economic and human holocaust that was the Second World War, most of the Western world, including war-ravaged Germany and Japan, were booming. During a single decade — the 1950s — Germany, in what incredulous historians refer to as the Wirtschaftswunder — the "economic miracle" — transformed itself, under the enlightened leadership of Chancellor Konrad Adenauer and his able finance minister, Ludwig Erhard, from a bombed-out rubble field into the leading economic power in Europe. Other European powers, notably Austria, followed Germany back to prosperity, while Japan accomplished the same on the Pacific Rim. The United States, meanwhile, exhausted from the Great Depression and war, similarly exploded into unexampled economic growth. Conditions then — a recent Depression and world war, and an incipient Cold War and nuclear arms race — were inauspicious, to say the least. Why, then, was economic recovery so quick and so total?

The answer is that many people, and even a few heads of state, genuinely believed in the free markets and the power of capitalism, allowing governments to be scaled down drastically after the end of the war. The United States, for example, reduced government spending by up to a third in 1946 — over the objections of many in Washington, naturally, who even then regarded government interventionism as preferable to the free market with all its hazards. Wartime expenditures were done away with, but so were a number of social programs and other forms of regimentation and controls (price controls, e.g.) associated with the war. While the federal government remained outsized, it was significantly humbler than the behemoth that presided over the New Deal and four years of total war. The result in America: a new Golden Age — this despite the new nuclear menace.

In Konrad Adenauer's post-WWII Germany, the miracle was even more pronounced. Adenauer, a devout Christian and fervent acolyte both of limited government and capitalism, along with Ludwig Erhard, a disciple of free-market "Austrian economics" and member of the free market-oriented Mount Pelerin Society, completely dismantled the stifling bureaucracies put in place by the Nazis (who were, after all, socialists) and also abolished the economic controls imposed on Germany by the victorious Allies. Postwar Germany adopted a program of extremely limited, thrifty government, in stark contrast not only to the Nazis but to the German welfare state as far back as Bismarck. Again, these were no mere fiscal tweaks but wholesale, drastic reforms. From 1950 onwards, the German economy barreled forward. Investment flooded in from abroad, cities, roads, and factories were rebuilt, and confidence at home and abroad in the soundness of the Germany economy was maintained.

Similar stories were acted out in other war-torn nations. The role of government handouts, such as the Marshall Plan, in the postwar boom have been greatly overstated, as evidenced by the fact that Great Britain received far more postwar monetary aid from the U.S. than did Germany, yet its economy did not grow nearly as robustly. But then, Great Britain greatly enlarged the size and diversified the functions of its government after the war, while Germany did precisely the opposite.

By the early sixties, however, the fervor for laissez-faire had subsided and the welfarist instincts of both Europeans and Americans began to reassert themselves. Germany started to put in place more social “safety nets” (another misnomer), and the Germany miracle subsided.

The lesson to be learned from the great postwar economic boom — the last time the whole of the Western world managed to bootstrap itself out of an international economic crisis — is that minor changes such as Europe’s current round of misnamed “austerity measures” will do little to revive an economy being bled dry by Big Government. Only truly drastic, systemic reductions in the size and scope of the state can trigger a lasting economic recovery.

Unfortunately, Europeans themselves do not seem to want such changes this time around, if the recent rioting and unrest in protest of even the measly measures now being undertaken is any evidence. Our own government is even less willing to face the music, having ramped up spending and regulation enormously since the beginning of the crisis.

The last time the Western world was in the thrall of unsustainable welfarism was during the Great Depression. Then as now, governments on both sides of the Atlantic tried for years to spend and regulate their way out of the crisis. It took the shock of World War II for citizens and politicians to tire of Big Government and its false remedies enough to finally demand real change.

Here’s hoping the current unpleasantness will not require a similar catastrophe to change hearts and minds.