US economy contracted in fourth quarter of 2012

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The Commerce Department on Wednesday reported that the US economy contracted in the fourth quarter of 2012, the first decline in the country's gross domestic product (GDP) since the second quarter of 2009, the final three months before the official end of the recession.

The report, showing a decline at an annual rate of 0.1 percent between October and December, stunned Wall Street and government economists, who were expecting a growth rate lower than the 3.1 percent recorded in the third quarter of last year, but still well above zero. The consensus projection was for an increase of 1.1 percent.

The dismal report on the US economy follows downwardly revised estimates for world economic growth issued this month by both the World Bank and the International Monetary Fund (IMF). The Commerce Department statement reflects the impact on the US of stagnation and decline in major centers of the world economy as well as the lack of any genuine recovery in the real economy of the United States.

The major factors in the plunge from slowdown to outright contraction were a sharp decline in government spending, centered in a 22 percent drop in defense spending, a pronounced drawdown in business inventories, and a 5.7 percent fall in US exports. While the scale of the declines in government spending and inventories may not be repeated in coming months, the drop in exports reflects a marked slowdown in global economic growth that shows no signs of ending.

The 17-nation euro zone is in recession and is expected to contract further in 2013, Britain is also in recession, Japan's economy is barely growing, and growth in the so-called "emerging economies" of China, India and Brazil is decelerating. The result is a decline in markets for US exports, which fell for the first time since the beginning of 2009, the low point of the world recession.

For all of 2012, the US economy grew by 2.2 percent, according to Wednesday's report. While a slight improvement over the 1.8 percent growth rate for 2011, this pace of economic expansion is far too slow to significantly lower the unemployment rate, currently at 7.8 percent. For that to occur, the US would have to enjoy growth of more than 3.0 percent over a sustained period.

In its biannual Global Economic Prospects report, issued January 15, the World Bank cut its projection for US growth in 2013 to only 1.9 percent.

The Obama administration sought to downplay the Commerce Department report. Alan Krueger, the chairman of the White House Council of Economic Advisers, blamed the contraction on temporary factors such as the sharp drop in military spending, uncertainty in the run-up to the January 1 "fiscal cliff," and the impact of Hurricane Sandy, which struck the East Coast in late October. "Both international trade flows and inventory accumulation could have been affected by disruptions caused by Hurricane Sandy," he said in a statement.

In fact, the report demonstrates that more than four years after the September 2008 financial meltdown on Wall Street, there is no end in sight to the economic crisis. Moreover, it highlights the vast disconnect between the bleak economic and social conditions facing working people and the staggering rise in corporate profits, stock and bond prices, and the wealth of the corporate-financial elite in the US and around the world.

Even as national and international bodies have issued one dismal report on economic growth after another, the bankers and CEOs have celebrated ever-rising stock values. The broadest major US stock index, the

Standard & Poor's 500, rose to a five-year high in January, breaching the 1,500 mark for the first time since pre-recession 2007. The MSCI All-Country World Index has jumped by 17 percent since the end of 2011.

The latest US corporate earnings reports are once again exceeding analysts' projections. Of the 193 S&P 500 companies that have thus far released results in the current reporting season, 75 percent have surpassed the average prediction of stock analysts.

These facts point to the ever growing separation of the process of wealth accumulation by the corporate and banking elite from the creation of real value through the expansion of the productive forces. This vast edifice of financial speculation is being fostered by governments and central banks around the world. The US Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan are all pumping virtually free cash into the financial markets, essentially by printing money, in order to prop up the banks, guaranteeing them huge profits, while inflating asset values such as stocks and bonds.

This immense exercise in financial parasitism does virtually nothing to revive the real economy. On the contrary, the counterpart to ever bigger bank and corporate bailouts is a brutal policy of austerity aimed at destroying the past social gains of the working class and reducing workers to poverty. This attack on jobs, wages and social benefits undermines any sustainable economic growth and creates the conditions for deeper slump.

Just this month, as stock markets were soaring around the world, the International Labour Organization reported that the ranks of the unemployed would hit a new record high in 2013, increasing by 5.1 million to 202 million people. A US study reported a dramatic growth in the number of "working poor," with the total number of people in low-income working families reaching 47.5 million—accounting for nearly one-third of all working families and 15 percent of the US population.

On Wednesday, the same day as the release of the Commerce Department report, the Federal Reserve's policy-making Federal Open Market Committee (FOMC) completed a two-day meeting and announced a continuation of its aggressive program of monetary stimulus. In its statement, the spoke of a "pause" in economic growth as a result of "transitory factors," and affirmed that it would continue to keep interest rates near zero and continue to purchase $85 billion a month in mortgage-backed securities and Treasury bonds.

This virtually unlimited flow of cheap credit to the banks is tantamount to life support for an otherwise moribund economy. However, it only exacerbates social and class tensions—making ever more obvious the chasm between rich and poor—and intensifies global economic conflicts.

Soaring profits and financial assets bestriding a stagnant or contracting real economy is unsustainable and sets the stage for financial, social and political convulsions even greater than those of 2008. What is already occurring is the collapse of any globally integrated and stable monetary system and the outbreak of currency wars, as nations seek to gain a trade advantage over their rivals by competitively devaluing their currencies.

The recent turn by Japan to money-printing and a cheap-yen policy has led to angry threats and recriminations from the US and Europe, and counter-threats from Japan.

Within this context, the report on US economic growth issued Wednesday points to a new and more explosive stage in the world crisis of capitalism.