The rot at the heart of the American economy

Nick Beams
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Amid continued economic stagnation in Europe, with euro zone output still below the level of 2007, and decelerating growth in China and the so-called emerging markets, the United States is sometimes held up as a “bright spot” in the global capitalist economy.

But more than six years since the official trough of the Great Recession in the second quarter of 2009, the US economy is anything but on the road to a recovery, as the latest data from the Commerce Department make clear.

The department found that the economy had grown at an annual rate of 2.3 percent in the second quarter of 2015 and revised its figures for the first quarter from a contraction of 0.2 percent to an expansion of 0.6 percent. But the seemingly better result for the first quarter was overshadowed by further data revisions showing that the shock waves from the financial crisis of 2008 had had an even more significant impact than previously thought.

As the *Wall Street Journal* noted, “data revisions going back more than three years show the expansion—already the weakest since World War II—was even worse than previously thought, with GDP increasing at an average annual rate of 2 percent between 2012 and 2014, down 0.3 percentage points from prior estimates.” The newspaper went on to point out that while growth in the first half of the year was better than expected, thanks to the first quarter revision, “economic growth so far this year has been even slower than during last year’s tepid first half and well below the pace of overall recovery.”

In what were regarded as the “normal” business cycles of the past, economic growth at this point would have been accelerating, as firms undertook investment in anticipation of expanding markets and greater profit opportunities. That mechanism no longer operates. Business investment, once the driver of growth, is becoming a drag upon it.

The GDP data showed that lower business investment actually subtracted from growth in the second quarter—the first time that had happened since 2012. Non-residential fixed investment, which includes spending on software, research and development as well as new equipment and factory buildings, declined by 0.6 percent compared to growth of 1.6 percent in the first quarter.

One of the immediate causes appears to have been declining investment in energy due to the sharp fall in the price of oil over the past year. But sluggish US investment has a broader significance. It is part of one of the most pronounced trends in the world economy as a whole—the failure of investment in the real economy to return to anything like the levels it had attained prior to 2008.

As the International Monetary Fund put it in its *World Economic Outlook* issued last April: “Private fixed investment in advanced economies contracted sharply during the global financial crisis and there has been little recovery since.” In the years after 2008, investment has been down by about 25 percent compared to pre-crisis forecasts. Nothing like this has been seen in any of the previous post-war recessions, pointing to the fact that what began in 2008 was not a turn in the economic cycle, but a breakdown of the most basic processes of the capitalist economy.

The same tendency can be seen in wages data. Wage rates in the United States, along with other major economies, are virtually stagnant. The latest figures from the US Department of Labor show that employment costs rose by only 0.2 percent for the second quarter, the smallest rise since 1982. Then, the US was in the midst of what was, to that point, the deepest recession since the Depression of the 1930s. The present figure, however, has been recorded in what is the sixth year of a supposed economic recovery. Nothing like this has been seen in previous economic history.

The data makes clear that low wages are not a conjunctural feature of the US economy, but a permanent fixture. Underlying economic tendencies have, moreover, been reinforced by the program of the Obama administration, which, through its "restructuring" of the auto industry in 2009, set out to make the US a low-wage economy.

The cuts in investment and wages—two key drivers of the real economy—stand in marked contrast to the world of finance. Since reaching their low points in 2009, US stock market indexes have boomed, increasing almost three-fold. This is a result of financial speculation fuelled by the provision of ultra-cheap money by the US Federal Reserve, which has kept its benchmark interest rate at or near zero for almost seven years.

The official theory behind the low interest rate regime was that it would boost investment, leading to an economic expansion and recovery. In fact, the policy has led to the growth of parasitism on an unprecedented scale. Rather than being utilised for productive activity, cheap money has been used to finance various speculative activities, including share buy-backs and mergers and acquisitions.

It is not simply that the money provided by the Fed and other central banks around the world has not been used for productive activities, giving rise to slow growth and economic stagnation. It has had an even more destructive effect.

Companies that make new investments, but are considered by the market to have too high levels of capital expenditure, are penalised via their share price, marking them as potential targets for takeover and restructuring operations aimed at increasing the short-term return to investors. While this phenomenon is centred in the United States, it is international in scope. As Bank of England chief economist Andy Haldane recently commented, businesses are "almost eating themselves."

This phenomenon has a profound historical significance. Capitalism has, in the past, destroyed vast sections of the productive forces, either through depression or war. But nothing like the present-day scale of speculative plunder has previously taken place—a fact that, in and of itself, points to the growing rot at the heart of the present economic order.

Furthermore, the colossal growth of financial speculation on the basis of a near-stagnant real economy has created the conditions for another financial crisis, the only question being what particular event or combination of events might set it off.