

# Japan contracts as world economy lurches toward depression

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The Japanese government announced Monday that the country's economic output declined by 0.4 percent in the second quarter, or 1.6 percent on an annualized basis. Private consumption, business investment and net exports all fell, primarily as a result of the rapid deceleration of the Chinese economy and continued stagnation in Europe and the United States.

The contraction in the world's third largest economy not only dealt a blow to the anti-deflationary program of Prime Minister Shinzo Abe, dubbed "Abenomics," it exposed the failure of the major capitalist governments to engineer a genuine recovery from the financial collapse and recession of 2008 and added to mounting signs of a deeper slump.

Private consumption, which accounts for about 60 percent of Japan's gross domestic product, fell 0.8 percent over the three-month period and exports plunged by 4.4 percent.

The dismal data showed that the Japanese economy remains stagnant, at best, despite a massive asset-buying program carried out by the Bank of Japan for the past two years that is pumping trillions of yen into the financial markets. Last October, the central bank accelerated the pace of asset-buying—in effect, money-printing—to 80 trillion yen per year.

As in the US and Europe, where the central banks have carried out similar monetary stimulus programs, Abe's infusion of cash into the financial system has pushed up stock prices, subsidized financial speculation and increased the wealth of the corporate elite, but has done virtually nothing to revive the real economy.

The growth of financial parasitism was reflected in the response of the Japanese stock market to the negative economic news. In what has become a global pattern, where big investors respond to signs of continued slump in the real economy by driving share values higher in anticipation of more cash from central bankers, the Nikkei

stock index rose 0.5 percent on Monday.

The Japanese report followed a wave of negative data pointing to sharply slower growth in China and last week's surprise devaluation of the renminbi (also known as the yuan). China, the world's second largest economy and the main "engine of growth" for the global economy after the 2008 crash, is Japan's biggest trading partner.

The global implications of a further decline in China are indicated by the fact that over the past decade, China has accounted for a third of the expansion in the global economy, almost double that provided by the US.

The devaluation has increased fears in governments and markets around the world that China may be on the verge of a major crisis. It followed official reports that Chinese exports fell 8.3 percent in July and the country's producer prices fell for the 40th consecutive month, with the decline accelerating in July.

Chinese exports to Japan are down 10 percent from levels a year ago. (They are down 12 percent to Europe).

Following the initial devaluation, Beijing reported that factory output in July was barely above a four-year low reached last March. Business investment grew at its slowest pace since 2000 in the first seven months of 2015, led by a collapse in real estate investment.

Chinese imports fell 8.1 percent in July from a year earlier after a decline of 6.1 percent in June, reflecting a slowdown in demand from Chinese industries for raw materials.

Tao Wang, chief China economist at UBS, said: "Clearly, the overwhelming problem for China remains one of rising deflationary pressures."

The slowdown in China has had a particularly brutal impact on the Japanese economy. But Japanese exports have also been battered by slumping demand from Europe and the US.

Last Friday, European officials reported that GDP in the 19-nation eurozone grew by a mere 0.3 percent in the

second quarter. France did not grow at all. Germany expanded by only 0.4 percent. Italy grew 0.2 percent compared to 0.3 percent in the first quarter, and the Dutch economy managed only 0.1 percent growth. The region's economy remains smaller than it was in the second quarter of 2008.

And in the US, the Federal Reserve Bank of New York on Monday released its monthly manufacturing survey, showing a sharp drop in activity thus far in August. The business conditions index plunged from plus 3.9 in July to minus 14.9, its lowest point since the height of the crisis in April 2009.

The continuing decline in the prices of basic commodities is a direct expression of global deflationary pressures. The decline in oil prices that began last year deepened on Monday, with West Texas intermediate crude oil falling another 1.1 percent, after declining 3 percent last week, to close at \$42.05 a barrel, a six-year low. Copper prices fell another 1 percent in London. A Bloomberg index of commodities dropped to its lowest level since early 2002.

The general slowdown is having a particularly severe impact on the so-called "emerging market" economies of Eastern Europe, Latin America, Asia and Africa. Stocks, bonds and currencies of these countries have generally plunged since China announced its devaluation.

The Turkish lira, Mexican peso and South African rand all hit new record lows versus the dollar on Monday, while the currencies of Malaysia and Indonesia slumped to their lowest levels since the Asian crisis of 1997-98. Other currencies that have fallen sharply include the Malaysian ringgit, the Thai baht and the Indonesian rupiah. JPMorgan's Emerging Market Currency Index has declined 2.4 percent this month to its lowest reading since it was first calculated in 2000.

Any one of these countries or others dependent on capital inflows from the major economies and expanding export markets could tip over into insolvency and trigger another world financial crisis.

In a column published Monday by the *Financial Times*, Jay Pelosky, head of J2Z Advisory, wrote: "Since 2010, the emerging economies have been the world's growth engine, suggesting the current woes of the Bric [Brazil, Russia, India, China] economies are worth noting: yes, India is growing, but Brazil and Russia are in deep recession while China is slowing rapidly... Unlike 2010, China will not rescue the global economy. Odds of a global recession would seem to be in the 35-40 percent range and climbing."

The global economy is more closely interconnected and complex than ever before in history. But its division into rival nation states, the basic political framework of capitalist private ownership of the means of production, makes any rational and progressive resolution of the crisis within the framework of capitalism impossible.

Instead, what predominates is an uninterrupted growth of parasitism and criminality. At the heart of the slump is a sharp decline in productive investment. Last April, the International Monetary Fund admitted that there was no prospect for a return to "normal" growth rates such as those that predated the 2008 financial collapse. It attributed this above all to a marked decline in productive investment in the advanced economies of Europe and North America.

American corporations are sitting on a cash hoard of \$1.4 trillion. But infrastructure investment in the first quarter in the US fell by 2.8 percent. The corporate-financial elite is starving the economy of productive investment, and instead engaging in financial manipulations and swindles that increase its own personal wealth at the expense of society. The result is mass unemployment, wage cutting and growing poverty and social misery for the working class.

Mergers and acquisitions, which generate billions for the banks and big investors while destroying jobs, are at record levels, not only in the US, but internationally. So are stock buybacks, in which corporate profits are used not to expand production or carry out research and development, but to buy the company's own shares, pushing up the stock price and increasing executive bonuses and investor windfalls.

Since 2004, US companies have spent nearly \$7 trillion purchasing their own stock. According to University of Massachusetts Professor William Lazonick, that amounts to about 54 percent of all the profits made by Standard & Poor's 500 companies between 2003 and 2012.



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