IMF cuts estimates for US economic growth and points to worsening long-term trends

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The International Monetary Fund (IMF) has revised down its estimate of growth in the US economy for 2016 to 2.2 percent from the 2.4 percent it forecast in April and the 2.4 percent growth in 2015. The revision is in response to first quarter figures that showed the US economy grew at an annualised rate of just 0.8 percent in the first three months of the year, compared to 1.4 percent in the last three months of 2015.

The most significant aspect of the report, however, was not the immediate growth forecasts but the focus on long-term trends in the US economy, which point to lower productivity growth, persistently high levels of poverty, increasing social inequality and the rundown of public infrastructure.

It said that despite continued growth, the US faced a “confluence of forces that will weigh on the prospects for continued gains in economic well-being.” A rising share of the US labour force is moving into retirement, basic US infrastructure is “crumbling” and productivity gains were “scanty.”

These growing “headwinds,” it said, were overlaid by “pernicious secular trends in income,” with the labour share of national income 5 percent lower than it was 15 years ago, an increasing polarisation of wealth and income and rising levels of poverty.

These trends coincided with a fall in the potential growth rate of the US economy from above 3 percent in the early 2000s to below 2 percent today, a shift mirrored across a range of advanced and emerging market economies. If left unchecked, they would “continue to drag down both potential and actual growth, diminish gains in living standards, and worsen poverty.”

In her press conference on the report, IMF managing director Christine Lagarde noted that in the 10 years before the global financial crisis of 2008, productivity growth in the US was running at around 1.7 percent per annum, but in the period since then it had declined to 0.4 percent. The trend appears to be moving further down, with one major economic forecaster warning that it could fall to zero this year for the first time in three decades.

While the downward shift has been accelerated by the financial crash, it appears to have begun before then, with the IMF report noting that productivity growth had “slowed significantly” since the “boom” of the late 1990s, in what it said was a global trend.

The report also highlighted deepening social polarisation in the United States. While 0.25 percent of the population had moved from earning close to the median income of $45,000 to 1.5 times that level over the past 16 years, more than 3 percent of the population had moved into the group earning less than half the median income, Lagarde noted. This had resulted in growing economic insecurity with flat real incomes leading to stagnation or a decline in real living standards.

The share of the population that is impoverished was at a “very high level” with the latest data showing almost 15 percent of the US population, or one in seven, were living in poverty. This figure includes one in five children and one in three female headed households. According to other measures, taking into account the effect of government measures, the poverty level could be even higher than 15 percent, Lagarde said.

According to IMF calculations, this shift has reduced consumer demand by around 3.5 percent, the equivalent of one year’s consumption over a period of 15 years.

Its impact can be seen in the estimate that labour’s share of national income has declined by 5 percent. With the US GDP at around $16 trillion, this means that the amount of income going to workers in the form of wages is some $800 billion below where it would have been had the income share remained at its level of 15 years ago.

The IMF report was issued the day after Federal Reserve Board chairwoman Janet Yellen gave a somewhat downbeat assessment of the state of the US economy in remarks to a Senate committee as she delivered the Fed's semi-annual report to Congress on monetary policy.

While expressing optimism about the prospects for improvement in the US labour market and the economy "over the next few years," she said that "considerable uncertainty" remained over the immediate economic outlook.

"The latest readings on the labour market and the weak pace of investment illustrate one downside risk—that domestic demand might falter," she said.

The most recent report from the US Labor Department showed the economy added only 38,000 jobs in May, the lowest monthly growth since September 2010.

Longer-term trends point even more clearly in the same direction. According to a report issued earlier this week by president Obama's Council of Economic Advisers, the labour-force participation rate by men of prime working age, between 25 and 54, dropped in the US over the past quarter-century to the lowest level of any major economy apart from Italy.

The report said the decline, at least in part due to falling employer demand, was "particularly troubling" because workers in this age group were at their most productive level and the long-run decline had "outsized implications for individual wellbeing as well as for broader economic growth."

Yellen also pointed to long-term trends in her remarks to the Senate. While issuing an obligatory statement about confidence in the future of the US economy, she said: "[W]e cannot rule out the possibility expressed by some prominent economists that the low productivity growth we have seen in recent years will continue into the future."

Yellen did not name the "prominent economists" but the *Wall Street Journal* report of her remarks said they were an "acknowledgement, made most prominently by Harvard University professor Lawrence Summers, that the US may be in a state of 'secular stagnation' in which the economy grows slowly and interest rates stay low."

All the tendencies cited in the IMF report and elsewhere—low investment, falling labour market participation rates, declining labour incomes, long-term lower productivity and increasing poverty, to name just some—underscore the fact that the 2008 financial crash was not a cyclical downturn but a breakdown in the functioning of the US economy and the global economy as a whole.