Slowdown in US, global economy

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New data for the United States and the eurozone released late last week reveal that the global economy is sinking deeper into stagnation, driven by cash-rich corporations that refuse to make productive investments even as central banks and governments continue to pump hundreds of billions of dollars into the financial markets. Just last week, the US Federal Reserve reassured the financial elite that it had no plans to raise interest rates from their historic lows any time soon.

Gross domestic product (GDP) both in the US and Europe grew at a snail's pace in the second quarter. In the case of the US, the 1.2 percent growth rate fell well short of economists' predictions of a 2.5 percent rebound from the miserable 0.8 percent recorded for the first three months of the year. In the first six months of 2016, the US economy grew at an annualized rate of only 1.0 percent.

Over the same period, despite extreme volatility at the start of the year and a sell-off in the immediate aftermath of the British vote to exit the European Union, stocks in the US and in much of the rest of the world have soared to new record highs. The Dow Jones Industrial Average stands at more than 18,400 and the broader Standard & Poor's 500 index increased by over 5 percent just in the month of July.

The most significant statistic in the report by the US Commerce Department was the sharp fall—minus 9.7 percent—in business investment, the third straight quarterly decline. The second-quarter fall was the biggest since the depths of the financial crisis in 2009.

These developments underscore the fact that there has been no recovery in the real economy since the financial crash of September 2008. The policies of the Obama administration and the Fed, as well as those of their counterparts in Europe, have facilitated an even greater redistribution of wealth from the bottom to the top and a further impoverishment of the working class.

What has recovered and soared to new heights is the parasitism that increasingly dominates the world capitalist economy, particularly in the United States. The manic expansion of the wealth of the rich and the super-rich is being achieved on the basis of an ongoing deterioration in society's productive infrastructure on the one hand and a further inflation of financial assets and buildup of debt on the other.

The stagnation in the US economy has taken on historic proportions. The so-called "recovery" touted by the Obama administration is, a *Wall Street Journal* analysis notes, "by far the weakest of any since 1949." Since the recession officially ended in June of 2009, the US economy has grown at a rate of just 2.1 percent per year. No other nominal recovery on record has seen annualized growth rates of less than 3 percent, with the notable exception of the last recovery—that which lasted from 2001 to 2007.

In over seven years of tepid economic growth, corresponding to the two terms of the Obama administration, the US economy has expanded by just 15.5 percent. By way of comparison, the recovery from the late 1950s recession, which lasted from 1961 to 1969, the years of the Kennedy and Johnson administrations, saw the economy grow by 52 percent.

The situation is even more sharply expressed in Europe, where the economy grew at a rate of just 0.3 percent in the second quarter, completing the eurozone's worst six-month performance in two years. France, the eurozone's second-largest economy, recorded zero growth in the second quarter. Italy, the third-largest, now anticipates growth of less than 1 percent for the year, while fears mount that the country's banking sector, buried under a mountain of bad debt, could crack and precipitate a new global financial crisis. Second-quarter data for Germany, the largest eurozone economy, has not yet been released.

The British economy, the world's fifth-largest, grew by 0.6 percent in the second quarter lead-up to the Brexit vote. In the wake of the referendum, the International Monetary Fund cut its 2017 growth forecast for the UK from 2.2 to just 1.3 percent. The European Commission has predicted that British growth could contract by 0.3 percent next year.

In Japan, the world's third-largest economy, new concerns over deflation had investors hoping that the Bank of Japan (BOJ) would conclude its Friday policy meeting with an announcement of an even deeper descent into negative interest rates or larger "quantitative easing"

bond purchases. The BOJ's announcement that it would maintain its overnight lending rate at negative 1.0 percent disappointed markets and sent the yen climbing against the dollar, weakening Japan's export industries.

The dollar was simultaneously driven downward by investors who were reassured that the poor second-quarter growth data would prompt the Federal Reserve to keep interest rates at near-zero. In response to the data, trading in federal funds futures lowered yields on two-year Treasury notes. According to Bloomberg, the betting odds on a Federal rate hike fell from 50 percent on Tuesday to 37.3 percent on Friday.

The latest data demonstrate, once again, the incapacity of capitalist governments and institutions to address the economic crisis.

With roughly $2 trillion on hand, US corporations are awash in cash, as are the bank accounts and stock portfolios of the wealthiest Americans. Yet none of this wealth is finding an outlet in productive investment.

Likewise, Japan's negative interest rate policy, which aims to "force companies to invest money rather than hoard it" in the words of the *New York Times*, has failed to generate significant growth. Nor has its policy of "buying government bonds at a rate of 80 trillion yen, or $770 billion, a year to keep banks flush with cash to lend."

The refusal of corporations to invest is not some sort of business mistake. It reflects the capitalists' conclusion that they will not realize adequate profit returns from the production of commodities. It is a manifestation of a deepening crisis lodged in the very heart of the capitalist economy.

In the US and Canada, according to Bank for International Settlements data, business fixed capital investment is still 20 percent lower than the figures recorded in 2007. In Italy, the corresponding figure is down 27 percent; and in Japan, down 22 percent.

"[W]hat US businesses have done to increase profits and decrease the volatility of profits is, among other things, cutting back on investment spending, stock buybacks, and not hiring," notes economist Nick Perna. "They buy back shares in order to keep per-share profits up rather than use the money to invest in plant and equipment."

The continuing economic stagnation shows that the financial meltdown of 2008 was the expression of a systemic crisis and breakdown in the world capitalist system. As in the 1930s, economic crisis fuels the growth of social tensions and geopolitical conflicts, leading to the alternatives of world war or socialist revolution.