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Warnings of slump in US economy

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Despite an upward revision in the Commerce Department’s estimate for first-quarter economic growth, the US economy continues to show signs of a far-reaching stagnation. The Commerce Department said Thursday that US gross domestic product grew at an annualized rate of .8 percent, up from its earlier estimate of .5 percent.

Even though the upward revision was lower than expected, and pointed to a growth rate almost indistinguishable from stagnation, the result prompted media comments that the American economy appears to be “picking up speed” and the economic situation was “better than had been thought.”

Regardless of such proclamations, key indicators point to deepening trends toward economic stagnation in both the short and long term.

On Wednesday, technology company Microsoft announced 1,850 job cuts in its smartphone division, then on Thursday retailer Sears reported a loss of $471 million, after revenue fell by over 8 percent.

Next month will mark the seventh anniversary of the period of economic expansion that began with the official end of the recession in 2009—the fourth-longest recovery since the end of World War 2. But it is the slowest post-recession expansion in the post-war period.

The main factor is the fall in business investment, the key driver of economic growth in the capitalist economy.

"Spending on some of the building blocks of business—such as machines, computers and steel—is slipping," an article in the *Wall Street Journal* noted. "Such expenditures are an important ingredient in improving employee productivity, workers' wages and corporate profits. A lack of investment risks trapping the economy in a low-growth mode."

The Commerce Department reported that orders for non-defence capital goods, excluding aircraft, an indicator of business investment, fell by 0.8 percent in April, bringing the total decline since April 2014 to almost 12 percent.

Well-known economic forecaster Diane Swonk told the *Wall Street Journal* it was "disturbing that businesses' cash flow has improved dramatically and they have access to cheap debt, but they've deployed that on dividends and buybacks instead of investing in the future."

Earlier this week, a report by Moody's pointed out that US non-financial corporations were sitting on a cash stockpile of $1.7 trillion, almost one-third of it held by five major hi-tech US companies, a significant statistic given that these firms are regarded as a major driving force of the US economy.

The lack of business investment in the real economy, as opposed to financial speculation, finds expression in productivity data.

In a speech on Thursday, reviewing trends in the US economy, Jerome Powell, a Federal Reserve Board governor, noted that labour productivity in the US had increased by only 0.5 percent a year since 2010, the slowest five-year growth rate since World War 2 and about one quarter of the average post-war rate. He noted that this was a trend that extended across the world economy.

The productivity slowdown is expected to continue, with the Conference Board, a major US economic think tank, warning that it could go negative this year for the first time in more than three decades.

According to Powell, estimates of the long-run potential growth of the US economy have dropped from 3 percent prior to the financial crisis to 2 percent "with much of the decline a function of slower productivity growth."

A key factor in holding back productivity in recent years, he said, was the meagre growth in the business sector's capital stock, consistent with "the weak recovery in demand." But other longer-term factors may also be at work. Powell pointed that the so-called total factor productivity (TFP) growth, regarded as a measure of the impact of technological innovation, was also falling.

“A broad decline in the dynamism in our economy may also be contributing to lower TFP. There is strong evidence that the slowdown in TFP growth in the United States preceded the financial crisis, particularly in sectors that produce or use information technologies,” he said.

In other words, there is a basic dysfunction in the workings of the American economy in which the cycle of business investment in the expectation of higher profits leads to higher productivity, economic expansion, resulting in further investment, has broken down.

Other economists, most notably former Clinton treasury secretary Larry Summers, have pointed to the development of secular stagnation—a situation which characterised the decade of the 1930s—in which the supply of savings continually outstrips the demand for investment, because of diminished profit expectations, leading to low growth, falling productivity and even outright contraction.

While not directly referring to this phenomenon, Powell alluded to it, posing the question: “What if the pessimists are right and productivity growth remains low for another decade, or indefinitely? The consequences would include lower potential growth and relatively lower living standards. Our longer-term fiscal challenges would be significantly greater.”

The long-term slowdown in the US economy is both contributing to the ongoing stagnation in the global economy and is in turn impacted by it. But there is no relief in sight from this quarter and no prospect at all of coordinated action by the major economic powers to stimulate global demand. In fact, the G7 summit meeting, which concluded on Friday, revealed that the divisions among them are widening.

The summit communiqué noted that since the last meeting of the group in April 2015 “downside risks to the global economic outlook have increased” and that “weak demand and unaddressed structural problems are key factors weighing on actual and potential growth.” There were also “potential shocks” of a noneconomic origin—a reference to the increasingly tense geopolitical situation.

But while it noted that risks had increased, the G7 moved further away from trying to combat them.

The G7 communiqué stated that global growth “is our urgent priority” but then laid out a meaningless set of words to cover over the differences between the participants.

“Taking into account country-specific circumstances,” the communiqué stated, “we commit to strengthening our economic policy responses…and to employ a more forceful and more balanced policy mix, in order to achieve a strong, sustainable and balanced growth pattern.”

The communiqué allows Japanese Prime Minister Shinzo Abe to claim that he secured some movement on his demand for global stimulus measures while enabling Germany and the UK, the main opponents, to point to the reference to “country-specific circumstances” in order to continue their austerity agendas.

It was, as the *Financial Times* noted, another example of the work of G7 resolution drafters who are “masters at the art of creating apparent agreement where none exists.”

As the summit was taking place, new data from Japan pointed to the global deflationary trends that have increasingly gripped its economy. The consumer price index for April fell by 0.3 percent in the year to April, following a decline of 0.1 percent in March with indications from preliminary forecasts that it will show an even larger decline next month.

Falling prices will put increased pressure on the Bank of Japan to further ease monetary policy and may even lead to direct intervention by government authorities in currency markets to lower the value of the yen in an effort to boost the economy, despite warnings from the US against such action and a declaration in the G7 communiqué that countries should not engage in competitive currency devaluations.