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The slump in US productivity: Another symptom of capitalist crisis

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On Tuesday, the US Labor Department reported that labor productivity fell 0.5 percent in the second quarter of this year, the third consecutive quarterly decline. This prompted the *Wall Street Journal* to lead its Wednesday edition with a worried article, entitled "Productivity Slump Threatens Economy's Long-Term Growth," noting that the US is in the midst of the worst productivity growth since the late 1970s.

The fall in productivity adds to other data indicating that the ongoing stagnation in the US economy is part of a global tendency. US economic growth in the second quarter was only at 1.2 percent, far below expectations, while in Europe economic growth in the second quarter was even more dismal, at only 0.3 percent. Growth in China is slowing sharply, while much of Latin America is in depression.

Economists have noted with particular concern that the slump in productivity is driven by the sharp decline in business investment that has characterized the advanced capitalist countries in recent years. Last quarter, business investment in the US fell 9.7 percent, the third straight quarterly decline.

In 2015, the International Monetary Fund noted in its annual report that the decline of business investment is at the heart of the failure of the global economy to recover from the 2008 crisis, despite the flooding of financial markets with cheap credit.

Major corporations are hoarding trillions of dollars in cash, which they are not investing in production or research and development. Instead, they are using it to buy back stocks, increase dividends, and carry out mergers and acquisitions, all of which increase the payouts of Wall Street CEOs and shareholders.

As a result, stock markets around the world are at or near record highs, corporate profits are surging, and the wealth of the top 0.1 percent in the United States and internationally continues to soar at the expense of the working class.

These developments are the expression of the domination of financial parasitism over economic life in the United States and internationally. Vast resources are being diverted into speculative activities that not only do nothing to increase the productive forces, but actively facilitate their destruction.

The decades-long growth of financial parasitism is among the most visible manifestations of the mounting crisis of world capitalism, centered in the decline of American capitalism and the virtual dismantling of its industrial base.

There are deep historical roots to the present crisis. The United States emerged as the dominant capitalist power at the end of World War II, above all through its highly developed and advanced industry, which dominated global steel and auto production. A key milestone in the unraveling of US economic supremacy was the effective end of the Bretton Woods system with the suspension of dollar-gold convertibility by the Nixon administration in 1971.

In the 1970s—a period marked by militant wage struggles of the American working class—the continuing decline in US economic hegemony resulted in what was called stagflation: the combination of economic stagnation and double digit inflation. At the end of that decade, the American bourgeoisie made a sharp turn toward the policies of financialization and deindustrialization with the manufactured recession that began in 1979 and the crushing of the PATCO strike in 1981. The latter initiated a decades-long attack on the social position of the working class.

The policy of the ruling class over the past three decades has been centered on ensuring a perpetual rise in share values, linked to the intensification of the exploitation of the working class and a vast redistribution of wealth. The growth of financial parasitism has produced one financial bubble and collapse after another: the stock market crash of 1987; the savings and loan crisis of 1989; the 1994 derivatives crisis and Mexican Peso collapse; the Asian financial crisis of 1997; the failure of Long-Term Capital Management and the Russian debt default in 1998; the popping of the dot.com bubble and the Enron scandal in 2000-01. The speculative mania culminated in the collapse of the subprime mortgage and housing bubble that burst in 2008, provoking the deepest crisis since the Great Depression, from which the capitalist system has not recovered.

The ruling class has responded to each crisis by flooding the markets with cash through low interest rates and now "quantitative easing." However, this policy has failed to produce a new economic equilibrium. It is becoming clear to the ruling elite itself that there is no way out of this crisis, which is increasingly being referred to as the “new normal,” or in the words of Christine Lagarde, the head of the International Monetary Fund, the “new mediocre.”

This growing recognition is accompanied, however, by increasingly open calls by policymakers to make the ultra-low-interest-rate regime essentially permanent. Ben S. Bernanke, the former Federal Reserve chairman, approvingly noted in a recent blog post for the Brookings Institution that as members of the central bank’s board have substantially revised down their estimates for economic growth, they have simultaneously slashed their estimate for the long-term federal funds rate, meaning they intend to pursue an easy money policy for the indefinite future.

As Bernanke puts it, “Over the past couple of years, FOMC participants have often signaled that they expected repeated increases in the federal funds rate as the economic recovery continued. In fact, the policy rate has been increased only once, in December 2015, and market participants now appear to expect few if any additional rate rises in coming quarters.”

Such measures, however, will only continue to fuel financial parasitism. The growth in the value of financial assets must be paid for with the extraction of wealth from the world’s working class. At the same time, the ruling class of each country—with the American financial oligarchy in the lead—is attempting to force its competitors to pay, fueling national antagonisms, which manifest themselves in protectionism and trade war, that threaten a military conflict between the major powers.