GlobalResearch
Center for Research on Globalization

Grim Economic Realities: GDP Report Confirms Worst Economic Crisis since the Great Depression

US slashes estimate of second-quarter economic growth

By Barry Grey
Global Research, August 28, 2010
28 August 2010

Region: USA
Theme: Global Economy

The Commerce Department on Friday sharply cut its estimate of US economic growth in the second quarter of 2010. The department revised downward its initial estimate, issued July 30, of a 2.4 percent increase in the gross domestic product (GDP) to the even more anemic figure of 1.6 percent.

A 2.4 percent growth rate would already represent a sharp slowdown from previous quarters. US GDP rose 5 percent in the fourth quarter of 2009 and 3.7 percent in the first quarter of this year. A growth rate of 1.6 percent is below the minimum pace of 2.0-2.5 percent which economists consider necessary to prevent a further rise in unemployment.

The reduced figure was widely anticipated following a battery of economic indicators reflecting a sharp contraction in economic growth. Many economists are now predicting that the US economy will grow by less than 2 percent for the remainder of 2010, and some are warning of a "double-dip" fall into negative growth. Economists at Goldman Sachs this week placed the chances of a double-dip recession at 25-30 percent.

Despite these grim economic realities, and the resulting social disaster for tens of millions of Americans, the Obama administration and the Federal Reserve Board continue to talk about an economic "recovery," while conceding that its pace is less than anticipated. This terminology is used to justify a calculated policy of keeping unemployment high in order to pressure workers into accepting wage cuts and speedup, and to carry through a permanent increase in the exploitation of American workers toward the levels of workers in China and other so-called "emerging economies."

In a column published Friday, economist and *New York Times* columnist Paul Krugman referred to a speech to be delivered that day by Federal Reserve Board Chairman Ben Bernanke and remarked, "But we can safely predict what he and other officials will say about where we are now: that the economy is continuing to recover, albeit more slowly than they would like. Unfortunately, that's not true: this isn't a recovery, in any sense that matters."

He continued: "The important question is whether growth is fast enough to bring down sky-high unemployment. We need about 2.5 percent growth just to keep unemployment from rising, and much faster growth to bring it significantly down. Yet growth is currently running somewhere between 1 and 2 percent, with a good chance that it will slow even further in the months ahead."

Krugman, a liberal Democrat and Obama supporter, points to the real state of the economy while obscuring the class interests that are served by high unemployment and the roots of the jobs crisis in the systemic crisis of the capitalist system.

In its report, the Commerce Department attributed the slowdown in growth mainly to a "sharp acceleration in imports and sharp deceleration in private inventory investment." Commerce focused particularly on the trade deficit, which soared by 16 percent in June to nearly $50 billion, the highest level in 19 months. The report said the trade gap subtracted nearly 3.4 percentage points from second quarter growth, the biggest hit from a trade imbalance since 1947.

The GDP report culminated a week of economic data confirming that the worst economic crisis since the Great Depression is continuing and, if anything, deepening. Reports issued Tuesday and Wednesday on existing home sales and new home sales in July reflected a housing market that is in free-fall. Existing home sales plummeted a record 27.2 percent from June to hit their lowest levels since 1995. New home sales fell 12 percent from the prior month and were down 32.4 percent from July of 2009 to their lowest levels since records began in 1963.

On Wednesday, the Commerce Department reported that orders for durable goods rose from June to July by a mere 0.3 percent. Economists had forecast a 3.0 percent rise. Core orders, excluding transportation items, fell 3.8 percent, the biggest decline since January 2009. Orders for machinery fell 15 percent and those for computers and electronics also fell by 2.4 percent.

On Thursday, the Federal Reserve Bank of Kansas City released its manufacturing index, showing a fall from 14 in July to zero in August. The report's employment index fell into negative territory and the bank said expectations for the next six months had weakened. This followed a report last week by the Philadelphia Fed showing a similar decline in manufacturing in the Mid-Atlantic region.

Until the past few months, manufacturing had been a relative bright spot in the US economy. But as Michelle Girard, an economist at RBS Economics Research, told the *Financial Times*, "These figures will no doubt fuel concern that the manufacturing sector is losing momentum quickly."

On Thursday, the Labor Department released its weekly survey on claims for unemployment benefits. While the report showed the first decline in initial jobless claims in a month, the total, 473,000, remained far above the 400,000 level indicative of an economy that is generating jobs at a sufficient rate to keep pace with the growth in the labor force. The four-week average of claims, moreover, rose to the highest level since last November. And the number of people who have used up their traditional benefits and are now collecting emergency or extended benefits jumped by 302,000 to 5.84 million—a measure of a long-term jobless rate that is breaking all records since the 1930s.

This was the context in which Federal Reserve Chairman Bernanke delivered his much anticipated speech Friday at the Kansas City Fed's annual economic symposium in Jackson Hole, Wyoming. Attending the event are central bankers and finance ministers from around the world, top officials from the International Monetary Fund and the World Bank, Wall Street economists, academics, and most members of the Federal Reserve's policy-making

Federal Open Market Committee.

There was much speculation that in light of the worsening economic situation, Bernanke would announce new stimulative measures beyond the modest steps announced by the Fed at its last policy meeting on August 10. At that meeting, the Federal Open Market Committee said the US central bank would use cash from maturing mortgage-backed securities that it holds to purchase long-term Treasury notes, instead of paying down the bank's much expanded balance sheet.

That largely symbolic move was designed to reassure the markets that the Fed would continue to pump cheap credit into the system while doing nothing substantial to promote serious job-creation.

In his Friday speech, Bernanke largely repeated the policy adopted and the rhetoric employed previously. He insisted that the economic "recovery" was continuing, while admitting that it was proceeding more slowly than the Fed had forecast. He reiterated that the central bank stood ready to take new measures, including a more expansive purchase of Treasuries, should it conclude that the economy was slipping back into negative growth, but he made clear that there were no immediate plans to change course.

"I expect the economy to continue to expand in the second half of this year, albeit at a relatively modest pace," he declared, and added that despite the weak second quarter "the preconditions for a pickup in growth in 2011 appear to remain in place."

These reassurances were well received on Wall Street. All of the major US stock indexes closed sharply higher, with the Dow Jones Industrial Average gaining 164 points. The US corporate and financial elite generally favors the approach of both the Fed and the Obama administration, which is to seek to avert a return to negative growth, while utilizing the jobs crisis to permanently restructure class relations in the US, to the detriment of the working class.

As one commentator pointed out Friday on the CNBC business cable channel, US corporations made higher profits in the second quarter than in any previous quarter in history.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Barry Grey