US Growth and Jobs Figures Point to Continuing Economic Breakdown

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US data on economic growth, together with the latest employment figures, show that the economic breakdown, which began nearly five years ago with the collapse of the investment bank Lehman Brothers, is continuing to deepen.

The US economy grew at an annualized rate of just 1.7 percent in the second quarter of 2013, while only 162,000 were added in July, the worst result in four months. The number of jobs created was well below that needed to expand employment, and most of these were low-wage and part-time positions. In the past four months, the growth of part-time positions has outnumbered full-time jobs by a ratio of more than four to one.

While the second quarter gross domestic product (GDP) result was regarded as "lackluster" and was accompanied by a downward revision of first quarter numbers, it was generally regarded as "better than expected," amid predictions that it could have been as low as 1.0 percent. There were signs as well that even the dismal second quarter result will not be sustained. The *Wall Street Journal* noted that "more than 24 percent of the quarter's growth came from an increase in inventories—a build-up that's unlikely to be repeated and could even be erased in subsequent data revisions."

Over the past three quarters the US economy has grown at an annualized rate of only 0.96 percent, exposing the claims of the Obama administration that a "recovery" is underway. The fact that the US economy is able to achieve a growth rate just one sixth of the post-World War II average indicates that deep structural changes have taken place within the American economy and anything approaching previous growth rates will not be seen again.

Some of these changes were highlighted in an analysis published by the*Financial Times* on July 24. Headlined "Corporate Investment: A Mysterious Divergence," the article noted that there was an increasing disconnect between the level of profits and the rate of investment. This is decisive because, in the final analysis, investment—the purchase of new plant and equipment and the hiring of new workers to increase production—is the key driver of the expansion of the capitalist economy.

The article noted that up until the late 1980s, profits and net investment had tracked each other, both recording about 9 percent of GDP. But after that time, the figures began to diverge, with the gap widening significantly after 2009.

While pre-tax corporate profits are at record highs, amounting to 12 percent of GDP, net investment is barely 4 percent of output. This is despite the fact that the cost of equity capital is low, as are interest rates. Increased profits are not being used to expand production, as took place in the past, but are increasingly being used to finance stock buybacks, so as to increase the rate of return on shareholders' capital.

Under what were once "normal" conditions, increased profits would lead to greater investment, higher production and an increase in wages, leading to an expanding market. Today, however, wages are falling as a share of GDP.

This result indicates that rising profits are no longer being produced by an expansion of the market, as they were in the past, but are increasingly the result of cost-cutting, as firms raise their bottom line by grabbing an increased share of a stagnant or contracting market from their rivals. In other words, the once "normal" process of capitalist accumulation—increasing investment leading to an expanding market, higher profits and further investment—has completely broken down.

Another major factor is the continuing impact of the financial crisis and the so-called "great recession," which has delivered the greatest shock to the US economy since the Great Depression of the 1930s.

A recent study by staff at the Dallas Federal Reserve estimated that the financial crisis has cost the US as much as $14 trillion, equivalent to one year's output by the entire economy. The results were consistent with other studies that have found the impact on the US economy of the financial implosion to range anywhere from $13 trillion to as much as $22 trillion.

The authors of the Dallas report concluded that if output grows at the "tepid rate" of 2 to 3 percent over the next decade—optimistic assumptions given the latest figures—the cost to the US economy could amount to as much as 165 percent of annual output. "Further," they continued, "the spillover to the global economy is likely to be on the same scale as or even greater than the lost US output."

The impact of the contraction of the US economy is already showing up in global growth figures. In 2007, China's economy expanded by 14.2 percent, India's 10.1 percent, Russia's by 8.5 percent and Brazil's by 6.1 percent. This year, according to somewhat optimistic International Monetary Fund predictions, the Chinese economy will expand by 7.8 percent—other forecasts say it may be closer to 7 percent—India's by 5.6 percent and Russia's and Brazil's by just 2.5 percent.

Claims made in the wake of the financial crisis that the so-called BRIC (Brazil, Russia, India and China) economies would be able to "decouple" from the major capitalist economies and provide a new base of expansion for the global economy as a whole have been shattered.

The data for the US and the so-called "emerging markets" bring into sharper focus the real significance of the stock market boom. Markets hit new record highs last week on the basis that slow growth would likely mean a continuation of the policy of the US Federal Reserve of pumping cheap money into the financial system through its "quantitative easing" program—enabling massive financial speculation.

The US stock market boom in the midst of a gathering global downturn is not a sign of economic health. Rather, it is a fever chart of the increasing instability of the global financial system.

The US is not the only potential source of the next crisis. The credit tightening in China, as government and financial authorities attempt to deflate the credit bubble that developed in response to stimulatory measures initiated after the 2008-2009 financial crash, could also have a global impact.

Last week, the Australian Treasury warned that it was “still unclear” as to whether Chinese authorities had done enough to protect the country’s financial system. It pointed out that in taking steps to address the risks, “there is a danger that a policy misstep could lead to more extensive, unintended market disruptions.”

In 1997, the collapse of the Thai currency set in motion the so-called Asian financial crisis, which led to an economic contraction in that region equivalent to the impact of the Great Depression of the 1930s in the major capitalist economies.

Far from signaling a “recovery,” the US output and jobs figures, coupled with growing financial instability, indicate that the global capitalist breakdown has entered a new phase, which will be accompanied by deepening attacks on jobs, wages and social conditions, for which the international working class must now prepare through the development of an independent socialist program.