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US economy contracted in first quarter

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The US economy shrank at an annual rate of 0.7 percent in the first three months of this year, the Commerce Department said Friday. The new figures mark a sharp downward revision compared with the already anemic 0.2 percent first-quarter growth rate estimated by the Commerce Department in April, and an even bigger slide from the previous quarter, which saw a growth of 2.2 percent.

While the White House was quick to dismiss the dismal figures as the expression of various technical quirks and one-off causes, the fact remains that, seven years since the start of the 2008 financial crisis, the US economy remains mired in stagnation and slump. Friday's figures represent the third quarterly economic contraction since the beginning of the so-called economic recovery in 2009.

The slump is broadly expected to continue through a large section of this year, with the Federal Reserve Bank of Atlanta predicting a growth rate of just 0.8 percent in the second quarter. If that were the case, economic growth in the first half of this year would be effectively zero.

Apologists for the political establishment have pointed to the fall in the official unemployment rate as a sign of economic health, declaring that the US economy is on track to hit "full employment" next year. But the official unemployment rate is a fiction, as it entirely discounts the millions of people who have fallen out of the labor force since the 2008 crash. The labor force participation rate remains near a decades-long low at 62.8 percent, down from 66.4 percent in 2006.

While a number of factors contributed to the contraction in US economic output in the first quarter, the clearest and most immediate cause was the collapse in business investment, which fell by 2.8 percent, compared to an increase of 4.7 percent in the previous quarter.

This is not for lack of money. While US corporations are sitting on a cash hoard of some $1.4 trillion, they are refusing to make any significant investments, and are rather spending their cash on share buybacks and dividend hikes, while carrying out mergers and acquisitions at a record-setting pace.

This week, the *Wall Street Journal* reported that "companies in the S&P 500 sharply increased their spending on dividends and buybacks to a median 36 percent of operating cash flow in 2013, from 18 percent in 2003. Over that same decade, those companies cut spending on plants and equipment to 29 percent of operating cash flow, from 33 percent in 2003."

The same day as the Commerce Department published its updated economic figures, the financial data firm Dealogic reported that mergers and acquisitions are on track to hit a record in May, with an expected $241.6 billion in deals, topping even the previous record set in May 2007, before the 2008 financial crash.

The enormous amounts of money generated for corporate executives, hedge funds and private equality companies through these mergers—which are largely financed with free money from the Federal Reserve—is the result of the ensuing mass layoffs and cost cutting that inevitably follow such consolidations.

Corporate boards of directors have rewarded CEOs who carry out layoffs and other cost-cutting measures with ever-greater pay packages. CEO pay hit a record high last year, according to figures calculated by executive pay research firm Equilar published in *The New York Times* earlier this month. The 200 highest-paid CEOs got an average of $22.6 million apiece last year, up 10 percent from the year before and more than double what they were paid in 2006.

The pervasive collapse in investment amid an orgy of financial parasitism has prompted many analysts to declare that the "new normal" is one of stagnant growth. Last month, the International Monetary Fund reported that "potential growth in advanced economies is likely to remain below pre-crisis rates, while it is expected to decrease further in emerging market economies in the medium term."

Since the official end of the recession in 2009, the US economy has grown at an average annual rate of only 2.2 percent, compared to an average growth rate of 3.2 percent during the 1990s and 4.2 percent in the 1950s.

The fall in investment was particularly sharp in the energy sector, which has been hemorrhaging jobs by the tens of thousands amid falling oil prices. The category of business investment that covers oil exploration fell at an annual rate of 48.6 percent in the first quarter, according to the Commerce Department's report.

The continued appreciation of the dollar has also led to a decline in exports, as US corporations face lower demand from overseas. US transnational corporations have demanded that the Federal Reserve do more in order to lower the value of the dollar and stimulate exports.

The Federal Reserve, for its part, has responded to the persistent weakness in the US and global economy and the appreciation of the dollar by keeping interest rates at a record low. The Fed has pulled back from its plan to raise the federal funds rate next month, and bank officials have indicated that a rate increase may not come until next year. These actions mirror those of the European Central Bank, which this month announced an expansion of its quantitative easing program amid a persistent economic slump on the continent.

As a result of seven years of ultra-low interest rates, bank bailouts and "quantitative easing," the major stock markets have more than tripled in value, taking the wealth of the financial aristocracy along with them. The 400 richest individuals in the United States, whose wealth has doubled since Obama was first elected, now have a combined net worth of $2.29 trillion.

The influx of cheap money from the Federal Reserve and other central banks will only continue to fuel the massive orgy of parasitism gripping the economy, facilitating mergers and buyouts that lead to mass layoffs and wage cuts while further enriching the financial elite at the expense of society as a whole.