

Economic Stagnation Haunts America

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As though the erosion of American democracy, the weakening of civil liberties, inequality, joblessness, indifference to global warming, a penchant for wars and the healthcare mess were not enough, now we have this:

“ What if the [economic] world we’ve been living in for the past five years is the new normal? What if depression-like conditions [in the U.S.] are on track to persist, not for another year or two, but for decades?”

This question was asked by the liberal Keynesian economist Paul Krugman in his New York Times column Nov. 18. He went on:

“You might imagine that speculations along these lines are the province of a radical fringe. And they are indeed radical; but fringe, not so much. A number of economists have been flirting with such thoughts for a while. And now they’ve moved into the mainstream. In fact, the case for ‘secular stagnation’ — a persistent state in which a depressed economy is the norm, with episodes of full employment few and far between — was made forcefully recently at the most ultra respectable of venues, the IMF’s big annual research conference. And the person making that case was none other than Larry Summers. Yes, that Larry Summers [the former Treasury Secretary]....

“Summers began with a point that should be obvious but is often missed: The financial crisis that started the Great Recession is now far behind us. Indeed, by most measures it ended more than four years ago. Yet our economy remains depressed.

“He then made a related point: Before the crisis we had a huge housing and debt bubble. Yet even with this huge bubble boosting spending, the overall economy was only so-so — the job market was O.K. but not great, and the boom was never powerful enough to produce significant inflationary pressure.

“Mr. Summers went on to draw a remarkable moral: We have, he suggested, an economy whose normal condition is one of inadequate demand — of at least mild depression — and which only gets anywhere close to full employment when it is being buoyed by bubbles....

“The evidence suggests that we have become an economy whose normal state is one of mild depression, whose brief episodes of prosperity occur only thanks to bubbles and unsustainable borrowing....Economic reality is what it is. And what that reality appears to be right now is one in which depression rules will apply for a very long time.”

[Editor: A bubble has been described as “trade in high volumes at prices that are

considerably at variance with intrinsic values.” Such values describe the real value of a company not its possibly inflated stock value.]

Some respected economists, mostly Marxists, have been convinced for some time that stagnation has become a more or less permanent feature of capitalist economies in the U.S. and Europe. John Bellamy Foster, the leftist author and editor of Monthly Review, declared recently:

“People commonly see what happened in 2007 and 2008 when the bubble burst as a financial crisis and nothing more. But the real problem is a tendency towards economic stagnation in the mature economies, and the long-term slowdown in the rate of growth.

“Our argument is that financialization, the series of financial bubbles that we’ve had over a period of decades, has been the main thing lifting the economy. I think this is fairly well understood now, but it wasn’t understood so well five or six years ago. And while financial expansion has been lifting the economy, financial bubbles always have their limits.

“As the bubbles burst the government of course tries to act as the lender of last resort, pouring in liquidity and loans, to get the financial system going again. But it’s not able to deal with the underlying problem which is stagnation, and this time we’re stuck; they can’t get the financial system really going again, and we’re faced with a problem of economic stagnation that’s surfaced as a result.

“We call this the ‘stagnation-financialization trap’ because the financialization is the answer to stagnation but it creates bigger, more complex problems, and eventually the two problems together get us into a condition where we really can’t move forward.”

Recognition of capitalist stagnation may have “moved into the mainstream” in the U.S., but Washington certainly does not seem to have a solution other than soldiering on as long as profits are generated for business, Wall Street, and the 1%. Foster argues, “socialism is the only answer.”

Notes

— Foster’s comments are from a recent interview titled “Crisis of Capitalism and Social Democracy,” at <http://mrzine.monthlyreview.org/2013/foster290513.html>.

— A video of Lawrence Summer’s speech at the IMF Economic Forum Nov. 8 is at <http://equitablegrowth.org/2013/11/16/759/this-mornings-must-watch-larry-summers-on-the-danger-of-a-japan-like-generation-of-secular-stagnation-here-in-the-north-atlantic>

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