Ending the Myth of The U.S. 'Recovery'

by Paul Gallagher

March 14—The approach of the 2016 Presidential election has galvanized some among leading Democratic representatives to reject, publicly, the idea that Americans have experienced any "recovery" from the 2007-08 collapse; and among them is prospective Presidential candidate Martin O'Malley of Maryland, who is campaigning for restoration of the Glass-Steagall Act.

This development is important because the U.S. economy is headed not into "strengthening recovery," as the Obama Administration claims, but back toward collapse. And Glass-Steagall reorganization of the banks—letting much of Wall Street investment banking go under and preserving commercial bank lending capacity—is the indispensable first step to reversing the collapse of the real, physical economy.

International institutions such as the OECD and IMF agree that the average of economic growth around the world is falling, likely to be below 2% in 2015; measures such as international agricultural equipment production and sales, and global non-oil shipping cargoes are falling, commodity prices are plunging. Considering that China is growing at a 7-7.5% annual pace and India at 6%, this accentuates the bankruptcy of Europe compared to the nations allied with the BRICS (Brazil, Russia, India, China, South Africa).

And the United States? In recent weeks, the Atlanta Federal Reserve has dismayed the Wall Street press with the published tracking of its new, real-time "GDPNow" measure: It showed U.S. first-quarter growth at 1.9% in early February; at 1.2% at the start of March; and at just 0.6% and falling on March 13. On the latter date, the government announced a fourth straight monthly drop in prices for producer goods, and even bigger drops in prices for producer exports, services, and construction. The price of oil simultaneously resumed its fall.

It is widely acknowledged that Americans' average real wages and salaries (hourly and weekly) are continuing to fall despite employment growth; and if average real wages are falling, *median* real wages—those of the "guy in the middle" of the wage scale—are falling faster. The hallmarks of household poverty—use of food stamps, use of charity food kitchens, homelessness—continue to increase. New York City's Coalition for the Homeless, for example, reported on March 10 that the number of people sleeping in homeless shelters in New York City had risen by 50% in the past three years, reaching 60,000 now, with many more homeless in public parks, airports, etc.

Real weekly wages and salaries of American workers are *20% below the level of 1972*, if a consistent measure of inflation is used throughout that span, and the income of households is 11% lower; and this fall in real incomes is concentrated in two periods: the 1980s, and the years of the Obama Presidency since the 2007-08 crash.

Even what economists like to call "productivity"—the output-per-hour measure which does not measure real, technological productivity at all—has been flatlining around zero growth since 2011, and fell outright during 2014. With such crude productivity falling, real wages will not recover.

No Investment, No Productivity, No Wages

Underlying both the decline in productivity and wages, is the lack of capital investment throughout the economy in the period since the effective elimination of the Glass-Steagall bank-regulation regime in the middle 1990s.

In the 13 years 2001-14 of the George W. Bush and Obama Presidencies, the debt of U.S. corporations—both financial and non-financial—rose spectacularly, from a total of $5 trillion in 2001, to $7 trillion in 2006, $11 trillion in 2009, and $15 trillion at the end of 2014. This growth was overwhelmingly in the bond issuance of larger non-financial and financial corporations, not in lending to smaller ones. Corporate after-tax profits did the same, rising from $500 billion in 2001 to $1.4 trillion in 2009, and then, after an 18-month drop, rising rapidly again to $1.75 trillion in 2014.

Thus both corporate debt and profits tripled in that decade and a half, an average increase of roughly 9% a year; and from 2009 on, the two combined have been totaling $2.5-3.0 trillion a year.

But during the same period, corporations' capital expenditures—the purchases of new business equipment, structures, and software—grew only from $925 billion in 2001 to $1.14 trillion in 2014, an increase of just 22%, or just over 1% a year. This is only one-fifth—by some measures, one-tenth—of the rate of capital investment in the 1990s.

Since the depreciation of U.S. corporations' capital equipment and structures is estimated at about $1.1 trillion annually, their *net* capital investment has been zero for a decade and a half.

Where, then, has all the borrowing gone? Particularly during the period since the crash, when American households have had to "deleverage," or reduce their indebtedness, either by paying debt, having it forgiven, or defaulting on it?

Some 90% of the corporations' borrowing, and much of their profit, have gone purely into the stock market bubble: the constant buying back of their own shares to drive up their prices; buying *other* corporations' shares in mergers and acquisitions; and paying out dividends to shareholders. Share buybacks alone averaged over $600 billion/year from 2007-14, reaching $748 billion in 2007, then $620 billion again in 2013, and $740 billion in 2014. Merger and acquisition activity was $1.6 trillion in 2014; thus, $2.35 trillion out of perhaps $2.8 trillion in combined after-tax profits and borrowing in 2014 went straight into the stock markets—without counting dividend payments.

David Stockman, the former Reagan Administration director of the Office of Management and Budget (OMB), in his "Stockman's Corner" blog March 9, quantified 2015 thus far (through March 4): $214 billion in corporate borrowing; $128 billion into stock buybacks (and GM began a new $5 billion buyback the day after Stockman wrote); a $21 billion merger in the IT sector, and many, many smaller ones.

Stockman reported that his figures for the period since the crash, 2009-14, show that net capital investment has been *negative* for all of U.S. business.

As to those corporations that are major banks, Reuters reported March 11: "Much of the money for buybacks and higher dividends is coming from the banks issuing securities known as preferred shares. These shares are a type of equity that pays regular, relatively high dividends. To investors they look a lot like bonds that pay interest. But for regulators, preferred shares serve as a cushion against any future losses, *in part because they never have to be repaid*" (emphasis added).

These, in other words, are "bail-in bonds," made for default. The news service quoted one "veteran" financial analyst from a risk advisory firm: "Issuing preferred shares to pay for common share dividends and buybacks is a symptom of a zombie banking system."

And of oil, London *Telegraph* financial columnist Ambrose Evans-Pritchard wrote last September, when the oil price was in the $90s per barrel (it's now in the $40s), "The world's leading oil and gas companies are taking on debt and selling assets on an unprecedented scale to cover a shortfall in cash, calling into question the long-term viability of large parts of the industry.... Companies appear to have been borrowing heavily both to keep dividends steady and to buy back their own shares, spending an average of $49 billion on repurchases since 2011."

Oil and 'Subprime' Crash

This 2001-14 corporate debt-stock buyback cycle, most glaring since 2009, is one which has not characterized the U.S. economy since the 1920s, before the bank and market crash of 1929-31 and the Great Depression. It rules out any real productivity advances in the economy, and rules out anything but continuously declining real wages.

It is the net economic result, of the Federal Reserve's printing of $4.5 trillion for "quantitative easing" to bail out Wall Street.

The Wall Street megabanks that have emerged since the takedown of Glass-Steagall have used this tremendous Fed bailout very little for lending to productive activity, but rather to create new bubbles of securitized debt loaded down with derivatives bets in the hundreds of trillions of dollars.

The post-crash bubbles—$850 billion in corporate "leveraged loans," $1.6 trillion in junk bonds, $800 billion in subprime auto loans—are not yet as large as the pre-crash $6-7 trillion mortgage-backed securities bubble; but they are growing faster. More importantly, they are being piled on an economy which is less productive, with less productive employment and less real demand, than even that of the first decade of this century. Another financial collapse is built in—unless a Glass-Steagall bank reorganization and national credit for productive projects are implemented now.