Stagnant Dreams of a Solution

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A recent exchange in *Counterpunch* focused on the prevailing stagnation of the world capitalist economy. One party based its argument on the Social Structure of Accumulation theory. SSA theory argues that, while capitalism has a powerful accumulation drive, that drive will not operate effectively unless a structure of economic and political institutions is in place that promotes it. While the pursuit of profit is a strong lure, capitalism throws up obstacles to plowing profit back into accumulation. Neo-liberal policies, such as tax cuts rather than increased social expenditure have diminished consumer demand resulting in a slackening in the production of goods. A solution would be to open up on debt expenditure, perhaps in promoting a green environmental policies, and thereby increase effective demand.

Another view presents a different explanation: That the profit rate is really quite low, that investment, not consumer spending, drives a capitalist economy, and that the solution to stagnation is a severe depression that destroys much of the capital stock thus forcing capitalists to increase investment in order to rebuild their capital coffers.

It first must be noted that the capitalists themselves are doing very well regardless of the tribulations of their system, it's the people that must try to survive under their dictatorial rule that have the problem. Certainly, if the capitalist states hadn't showered their distressed capitalists with the equivalent of free money that could safely be used to make more money without the risks of making and marketing commodity goods, and let them get their just desserts by permitting their system to crash, dissolve, and then reform into sound, stable enterprises in the standard profit making mode, the economy would experience genuinely strong growth. But that would also mean accepting the risk that the system will still be in existence following a prolonged depression.

What will eventually drive it to its doom is that it is an irrational outmoded system of production in its current overblown state of development. It's nominal reason for existence is to sell people what they need from which capitalists will accumulate a profit. The problem is that its high degree of productive capacity can easily fulfill demand within the limitations of an ability to buy. The real market is saturated while the needs the inhabitants of the Earth, and the planet itself, are cast aside as unprofitable ventures. Neither the people or the planet can afford to purchase what they require for a full life and healthy environment. They can no longer afford a capitalist system.

<u>**Economic Info**</u>

-- The markets had another good week with both the DJIA and S&P 500 hitting new record highs which should mean the economy is doing very well -- which it isn't. That's what bond investors indicated with their flight to safety driving the yield below 2% on Thursday.

-- Meanwhile the worldwide real economy continues to slump. Several countries have already made central bank interest cuts while the Fed is expected to do so next month. ----- In South Korea, IHS Markit manufacturing index for June 2019 fell to 47.5 (contracting if below 50.0). ---- In China both the official government report and Caixin PMI came in at 49.4 --- Locally the NY Fed Empire State Manufacturing Index, which is measured from zero rather than 50, was as high as 21.4 in November 2018, it fell 26.4 points in June 2019 and now reads -8.6.

-- In Europe the German and even the Brexit-plagued FTSE markets continue to do well. Germany reported a 9% decline in new factory orders from May 2018 to this May; the largest decline since Sept 2009. When Germany had its mini recession 2011-2012 factory orders slid for 16 months for a 9.5% total decline. From the beginning of 2018 factory orders have slid for 17 months for a total decline of 11%.

-- The Friday jobs report was higher than expected which depressed the markets slightly because of concern that the Fed might not cut rates next month. But they shouldn't worry because if one averages out the good with the bad total jobs growth from the beginning of they year, including June, it is on track to be the worst jobs growth since 2010. The unemployment rate grew from 3.6% to 3.7% because of an increase the labor force participation, which at 62.8 is still close to its low, and for the first quarter it’s still 250,000 fewer than the first quarter of 2018.

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