

<p style="text-align: center;">The Global Economic Crisis: Causes and Cures Prepared for “<i>From Global Economic Crisis to Global Economic Alternatives</i>” workshop US Social Forum, June 25, Detroit</p>

History: The current US and global economic crisis is not the first of its kind.

- Previous Depressions
 - o Great Depression – 1929-1939 (US sparked but globally felt)
 - o Long Depression – 1873-96
 - o Panic of 1837—US financial crisis based on a speculative real estate market, triggered 5-year depression.
- Previous recessions – 47 US recessions since 1790 (caused by a combination of regulatory, trade, fiscal, monetary, banking, agricultural, corporate and consumer factors)
 - o Early 2000s – dot.com bubble burst/September 11
 - o Early 1990s – S&L crisis, 1990 oil price increases
 - o 1987 – Stock market bubble burst
 - o Early 1980s – Iranian revolution, 1979 energy crisis, tight monetary policy
 - o 1973-5 – OPEC prices for oil increased 4-fold, stock market crash
- International recessions/depressions
 - o Great Stagnation of 1990s in Japan
 - o Latin America in 1980s (Argentina, Brazil, Chile, and Mexico experienced depressions) and Argentina experienced another depression in 1998–2002
 - o Asian financial crisis 1997-8
 - o Third World (African especially) debt crisis of 1980s

Current Economic Crisis: brand new same old story

- Many similar elements from the past plus new dimensions
- Leaders lose touch with reality. Alan Greenspan – “Irrational exuberance” – growth of debt and speculation could do on indefinitely.
- Bursting of second major bubble in 7 years – “financialization” of capital results in bigger and bigger bubbles bursting more frequently with more devastation
- Blowing another bubble (bubble cycle) is only way to keep system as constructed afloat

What happened? External causes

- Implosion of 2 Bear Stearns hedge funds in July 2007 -- \$10 billion lost
- Panic across all financial markets => severe credit crunch
- Collapse of the housing market
- Bank run, failure and nationalization of British mortgage lender Northern Rock (first bank run in Britain in more than a century)
- Negative impacts on real economy (employment, consumption, investment, production, profits) as well as increases in foreclosures and bankruptcies.
- Has spread globally – Iceland, Europe, Underdeveloped world
- Followed a pattern of 5 phases of a financial bubble
 1. Novel offering - Collateralized Debt Obligations (CDOs) and other financial “products”
 2. Credit expansion - low interest rates, longer mortgages, more favorable loan terms – Adjustable Rate Mortgages (ARMs) - and changes in reserve requirements
 3. Speculative mania - increase in debt, deregulation, more risky bets, real estate speculators, home refinance,
 4. Distress - 2006 rise in interest rates,
 5. Panic/crash - rapid selling off of assets

Why did it happen? Root causes

1. Our economic system is not democratic. People don't have a real voice on economic values, principles and programs.
 2. Owners of capital seek greatest profits possible – maximize profitable production and minimize costs (material and labor) => reduction in wages/benefits
 3. Growth has slowed – supply of stuff exceeds demand – simple law of supply and demand [Growth from 1940's, 50's and 60's (5.9, 4.1 and 4.4 respectively) has slowed (2.6 from 2000-2007). Earlier growth was aberration, not norm due to many factors connected to WWII.]
 - o Technology has permitted an increase of production
 - o Wage cuts has depressed demand
 - o Investments have shifted from “real” to unreal (casino or speculative) economy where greater profits can be made
 - o Debt has skyrocketed – individual to offset wage cuts, corporate/financial to make financial bets, and government to stimulate economy and offset tax losses
 4. Growing rich-poor gap
 - o As demand for stuff decreased, owners worked to cut wages to maintain/increase profits - wages peaked in 1972. By 2006 was at same level as '67. Benefits cut.
 - o Wealth at top increased. From 1950-70, each additional dollar made by bottom 90%, those in top .01% made \$162. From 1990-2002, it was \$18,000. The top 1% owned more than 4 times the bottom 80%. Between 83 and 2001, top 1% received 28% of rise in national income, 33% in gain in net worth, and 52% of overall growth in financial worth.
 5. Increase in size, reach and power of transnational corporations/financial institutions
- Stagnation and “financialization” are results

Corporate/Financial strategies to counter stagnation

With a decline in profitable investments opportunities in the real economy, corporations alone were sitting on \$600 billion in cash in 2007. They and financial institutions have enacted or promoted the following strategies to counter stagnation to increase profits

- Corporate globalization – for new markets, access to resources, cheap labor, lax environmental/safety standards. IMF/World Bank/WTO = main vehicles
- Promote wars and occupations – to gain access to new markets, etc (see above)
- Development of new technologies/innovations – i.e. computers
- Create monopolies and oligopolies – creating even “too bigger to fail” institutions.
- Acquisitions – Buy it. Strip it. Flip it.
- Promote certain types of government spending – military in particular (3 benefits: subsidize corporate R&D, provides market for products, and through use of products – weapons -- open up markets abroad through wars, occupations or threats.
- Debt
 - o Using money not to make products but to make money through financial speculation or to buy other corporations/financial institutions.
 - o A decoupling of profits from net investment.
 - o Financial and corporate debt growing faster than household or government – 1/3rd of all debt owned by financial institutions. Corporations bet \$30 for every \$1 in their treasury. Money invested in array of financial “products” or “instruments” and other sources (stocks, currency, futures, derivatives, options, hedge funds
- Banks/financial institutions create money as debt (out of thin air) as loans invest many times more in speculative ventures than their deposits (called reserve requirement).
- Push more loans to public, government and (if a bank) corporations – under terms most favorable to them. (Financial profits: 15% of total in 1960, 40% by 2005. Meanwhile, manufacturing 50% in 1960, 15% today)
- Push for quasi-private central bank, Federal Reserve, to print and inject money into the system. The Fed is the “lender of last resort” to bail out “too big to fail” institutions.

Yet financialization, no matter how wide, deep and creative, can't negate stagnation – too much stuff not being consumed. The fundamentals of the real economy are not sound. Which is why there are so many defaults,

bankruptcies, crashes, panics and burst bubbles. Financialization merely offsets a structural flaw of the mature undemocratic economy geared predominately to profit maximization instead of justice and sustainability.

Reactions by the state to stagnation/financialization

- \$700 billion bailout – focused on buying toxic trash of financial institutions.
- Buy stock in banks / partial nationalization
- Bailout of Freddie and Fannie, AIG, car companies – but not people facing foreclosures. Socialize pains of financial institutions/corporations while permitting them to privatize gains.
- Expanded deposit insurance
- Reform credit card policies.
- Economic stimulus package - \$789 billion
- All this had added to debts and deficits (national deficit now at \$13 trillion)
- State acts against interests of people due to governing power and influence of business corporations which have political and other constitutional rights and wealthy who can use their money as speech.

The debt addiction – bring on AA

- The oil to grease the economy when supply exceeds demand.
- Total debt as percentage of GDP – 151% in 1959 to 373% in 2007
- Total debt (2007) in trillions – 47.7 (household 13.8, financial 16, non-financial business 10.6, govt 7.3)
- Debt fuels speculation and speculation leads to more debt.
- Consumer debt – increased from 62% of disposable income in 1975 to 127% in 2005. (hitting those in medium income percentile – 40-59.9%-- the hardest) This group also has the highest % of families whose debt payments are above 40% of income --- which leads to defaults and bankruptcies (consumer consumption = 70% off GDP in 2007)
- Debt came from own homes – refinancing as housing prices soared due to increase in speculation by new investors. More risky forms of home lending emerged. Also predatory lending. Home equity/home real estate value dropped from 68% in 80-89 to 57% in 2000-5.
- Credit card debt – average per cardholder \$5000 at the end of 2005

Cures – Mirage

- Plenty of band aid, short term, feel good, smoke and mirror solutions have been promoted -- i.e. banking “reform” bill
- Only solution under current system – more financialization, debt/loans, military spending, unemployment, use of government as lender of last resort. We are told there are no other alternatives

Cures – Real

Power is concentrated in hands of privileged few and corporations/financial institutions. Real cures must change power relations – between people and property

Economic cures

- Massive federal jobs program
- Increase wages
- Universal health care
- Money for housing and education
- Cut military spending
- Increase taxes on wealth

Political cures

- Abolish corporate constitutional rights
- Democratize money creation
- Democratize/localize economy

None of this will happen without creation of social movement for economic/political change