The Mother of All Economic Crises

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***Nouriel Roubini**, a former advisor to the International Monetary Fund and member of President Clinton's Council of Economic Advisors, was one of the few "mainstream" economists to predict the collapse of the housing bubble. Now Roubini is warning that the staggering amounts of debt held by individuals, businesses, and the government will soon lead to the "mother of all economic crises."*

Roubini properly blames the creation of a debt-based economy on the near-or-at-zero interest rate and quantitative easing policies pursued by the Federal Reserve and other central banks. The inevitable result of the zero-interest and quantitative easing policies is price inflation wreaking havoc on the American people.

The Fed has been trying to eliminate price inflation with a series of interest rate increases. So far, these rate increases have not significantly reduced price inflation. This is because rates remain at historic lows. Yet the rate increases have had negative economic effects, including a decline in the demand for new homes. Increasing interest rates make it impossible for many middle- and working-class Americans to afford a monthly mortgage payment for even a relatively inexpensive home.

The main reason the Fed cannot raise rates to anywhere near what they would be in a free market is the effect it would have on the federal government's ability to manage its debt. According to the Congressional Budget Office (CBO), interest on the national debt is already on track to consume 40 percent of the federal budget by 2052 and will surpass defense spending by 2029! A small interest rate increase can raise yearly federal debt interest rate payments by many billions of dollars, increasing the amount of the federal budget devoted solely to servicing the debt.

The federal government's fiscal picture is made worse by the fact that the Social Security "Trust Fund" will begin to run deficits by 2035 while the Medicare Trust Fund will run deficits by 2028. The looming bankruptcy of the two major entitlement programs, combined with the unwillingness of most in Congress to reduce either welfare or warfare spending, puts the Fed in a bind. If it raises rates to the levels needed to really combat price inflation, the increase in interest payments will impose hardships on individuals and businesses, as well as raise federal interest payments to unsustainable levels. This will cause a major economic crisis including a government default on its debt causing a rejection of the dollar's world reserve currency status. Also, if the Fed continues to facilitate federal deficits by monetizing the debt, the result will be an economic crisis caused by a collapse in the dollar's value and rejection of the dollar's world reserve status.

The crisis will lead to social unrest and violence, as well as increased popularity of authoritarian movements on both the left and the right. This will lead to government crackdowns on civil liberties and increased government control of our economy. The only bright spot is this crisis will also fuel interest in the ideas of liberty and could even help bring about a return to limited, constitutional government, free markets, individual liberty, and a foreign policy of peaceful trade with all. Those of us who know the truth have two responsibilities. The first is to make the necessary plans to ensure our families can survive the forthcoming turmoil. The second is to do all we can to introduce as many people as possible to the ideas of liberty.

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