

# On Global Capitalist Crises. Debt Defaults, Bankruptcies and Real Economy Decline

## Part II

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*Read part I from the link below.*

### [\*\*On Global Capitalist Crises: Systemic Changes and Challenges\*\*](#)

By [Dr. Jack Rasmus](#) and [Mohsen Abdelmoumen](#), June 09, 2019

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**Mohsen Abdelmoumen:** In your very interesting book, *Epic Recession: Prelude to Global Depression*, you make a wise review and provide solutions. Why is the crisis inevitable?

**Dr. Jack Rasmus:** Because the solutions applied to the last crisis will inevitably lead to a more generalized, and potentially deeper and more serious crisis next time. Here's how: the excess liquidity injected by the central banks to stabilize the financial markets after 2008-09 has been generating even more debt and debt leveraged investment. That has created financial asset bubbles today in global stocks, junk bonds, leveraged loans, triple BBB (junk) rated investment grade bonds, bubbles in derivatives and other asset markets, commercial real estate, etc. The debt levels have reached a magnitude such that once asset market prices begin to unwind and contract (some of which are now occurring), servicing of the excess debt will fail.

That unwinding will contract asset prices further, causes defaults and bankruptcies, and generates a credit crash. The contagion then spills over to the real economy. Non-financial sectors of the economy then begin to contract in turn, as credit availability disappears. Production cutbacks, cost cutting, and layoffs follow. Households, already carrying severe debt loads (\$13.5 trillion in US alone) default on their loans. Banks with existing severe non-performing loans (more than \$10 trillion globally, centered in Europe, Japan, and India will have to write them off en masse. Business and household defaults result in the collapse of bank lending.

Business confidence plummets, real investment dries up further, and prices for assets, goods, and inputs deflate, causing a still further deterioration. In other words, the excess liquidity injected into the global economy by central banks after 2008 (more than \$25 trillion) temporarily stabilized the financial system. But in doing so it generated more even cheaper credit and debt that flowed into highly leveraged investment in both financial assets and real assets. The solution—i.e. excess liquidity and more debt and leveraging—thus becomes the basis for renewed bubbles and financial crisis. The now even

greater debt and leveraging intensifies contagion effects, amplifies the scope and magnitude of the next crisis, and accelerates the propagation across markets and economies.

The solution to the last crisis becomes the fundamental cause of the next. That's why it's inevitable. Again, watch the most fragile financial markets associated with junk bonds, leveraged loans, BBB corporate bonds, stock markets, already non-performing loans in Europe and Asia, and government bonds of economies like Argentina, Turkey, and others. I'd throw in exchange traded funds, a form of derivatives, probably as well once stock markets correct more than 20% next time. Another problem is that central banks in Europe and Japan already have negative interest rates. Once the next crisis appears they will be limited as to what they can do. They'll likely double down on even more QE (note: Quantitative Easing), interest free loans to businesses and other banks, and even more draconian measures like bail-ins of depositors money where depositors are forced to convert their cash to near worthless bank stock.

**Mohsen Abdelmoumen:** In your book *Systemic Fragility in the Global Economy*, you explain that traditional economic policies have failed and that the next crisis may be worse than 2008-09. Is not the capitalist system out of breath and unable to regenerate itself?

**Jack Rasmus:** Thus far, it has been able to regenerate—but only temporarily. As the economy is restructured following a major crisis—as it was in 1909-14, 1944-53, and again 1979-88—the restructuring regenerates the leading capitalist economy (e.g. the US) but at the expense of working classes and some capitalist competitors. The recovery thereafter dissipates and the crisis then reappears in more severe form. This has been the case since the early 1970s in particular. Reagan's restructuring succeeded in generating a recovery—at the expense of Europe, Japan, and American working class—but the same restructuring led to financial instability and crises in all three sectors of global capital and culminated in the crash of 2008-09. The US recovery thereafter was rapid for capital incomes, but slow and tepid for wage incomes. And the recovery never really took hold in the weak links of Europe and Japan where subsequent recessions occurred after 2008-09, in a kind of 'stop-go' slow and shallow recovery punctuated by recessions—i.e. what I've called a classic 'epic recession'.

**Mohsen Abdelmoumen:** You also wrote *Central Bankers at the End of Their Rope?: Monetary Policy and the Coming Depression*. Your analyzes and your work constantly warn about a major economic crisis to come. Why, in your opinion, can't the capitalist system learn the lessons of previous crises?

**Jack Rasmus:** After a crisis capitalists do find a way to restore profitability and expand capital. However, the restoration is only temporary, as I've said. But that's acceptable for them. They'll take a temporary recovery for all so long as it's a significant temporary recovery for capital incomes. An alternative, longer term solution to the crisis would not as quickly restore profitability and growth, so they do not undertake it. A broader based, longer term restoration also risks strengthening opposition (to capitalism) forces and they don't want to 'go there', as they say. For example, the US policy makers after 2008-09 embarked on a massive central bank money injection to bail out the banks and large corporations to the tune of more than \$10 trillion, half of which was QE direct subsidy by the Fed buying bad securities. Tens of trillions in tax cuts for corporations and investors followed as well. Profits and capital incomes accelerated, as the bailout by the Fed (monetary) and Congress (fiscal

tax cuts) was redistributed by corporations to shareholders.

More than \$1 trillion a year was thus redistributed in the form of stock buybacks and dividend payouts just from the Fortune 500 alone. In 2018 it was \$1.4 trillion. In 2019 it's running at more than \$1.5 trillion. Meanwhile, wage incomes are stagnating for the bottom 90% of the 162 million labor force in the US due to the restructuring of labor markets to the disadvantage of working class folks. So the 'lesson' capitalists have learned is how to quickly ensure they recover from a crisis by using monetary and fiscal policies to directly subsidize their incomes. Such policies in the 21st century are more about the State subsidizing capital incomes than they are about stabilizing the unstable, crisis prone economy.

**Mohsen Abdelmoumen:** You wrote *The Scourge of Neoliberalism: US Economic Policy from Reagan to Trump*, to appear this September 2019. Why in your opinion can the capitalist system only generate crises?

**Jack Rasmus:** Crisis generation is embedded in the very 'economic DNA' of 21st century capitalism. It constantly over-expands (externally & geographically and internally & technologically). The over-expansion gets away with itself and results in severe global imbalances of various kinds: financial investment over real investment; money capital outflow excesses from the advanced capitalist core economies (US, Europe, Japan) to the emerging market economies; labor inflows from the periphery economies to the advanced core; trade imbalances or goods flow imbalances; technological change imbalances within the advanced economies; imbalances in the price systems as asset bubbles expand faster than goods or factor input prices; employment imbalances as need for skilled labor goes unfulfilled as unskilled labor accumulates on the sidelines as unemployed, underemployed, and contingent-gig service workers. All these, related imbalances generate the crises.

But capitalism feeds off the crises it creates. It feeds off its 'dead and rotten' destruction it creates during the. It creates a kind of 'carrion capital' during the crisis which it then devours in order to jump start a re-expansion process once again. Capital is by nature cannibalistic. It needs periodic destruction in order to resuscitate itself. The problem is the destruction is growing in magnitude and severity and causing increasingly severe consequences for the working classes, while leading to more intense competition among capitalists sectors globally as well. To use a metaphor, Capitalism is like sharks. It is reborn after a crisis like fetal sharks in the belly of the mama shark. The larger devour their smaller brethren while still in the womb. The few then emerge and reborn even stronger, larger, and more voracious than before.

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