RADICAL ECONOMIC THEORIES OF THE CURRENT ECONOMIC CRISIS

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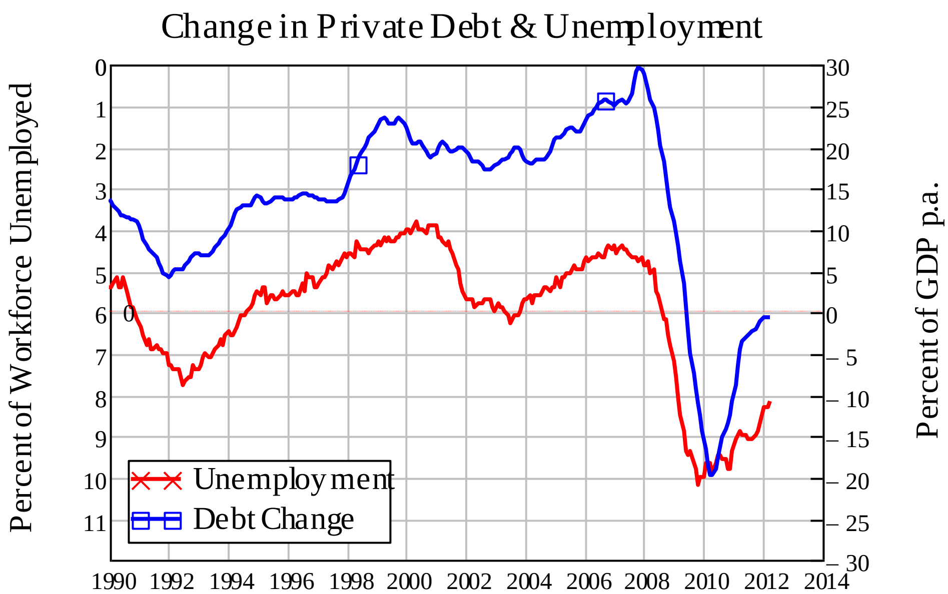
Private Debt and the Current Crisis
Steve Keen

Both the crisis and the apparent boom before it were caused by the change in private debt. Rising aggregate private debt adds to demand, and falling debt subtracts from it. This point is vehemently denied on conventional theoretical grounds by economists like Paul Krugman, but it is obvious in the empirical data. The crisis itself began in 2008, precisely when the growth of private debt plunged from its peak of almost 30% of GDP p.a. down to its depth of minus 20% in 2010. The recovery, such as it was, began when the rate of decline of debt slowed. Across recession, boom and bust between 1990 and 2012, the correlation between the annual change in private debt and the unemployment rate was -0.92.



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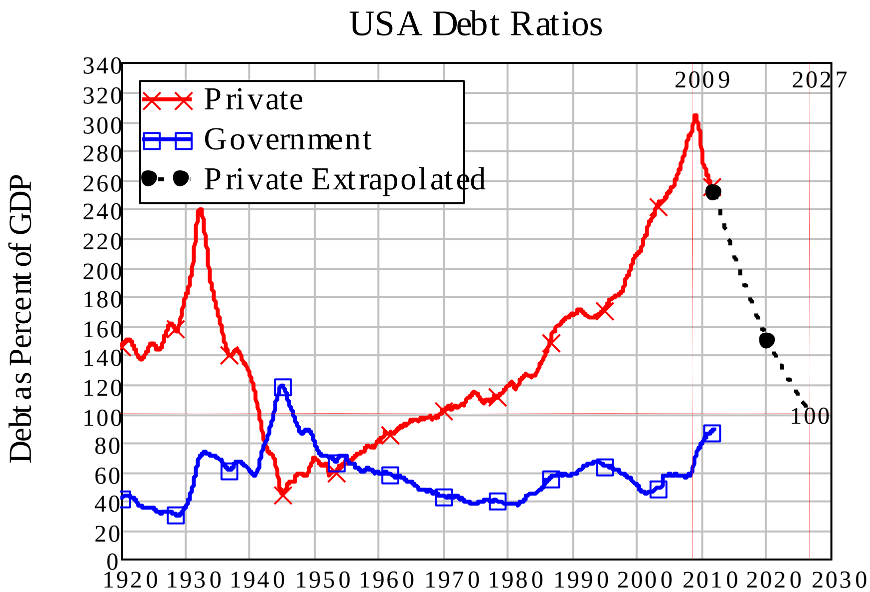
The causation behind this correlation is that money is created "endogenously" when the banking sector creates loans, and this newly created money adds to aggregate demand—as argued by non-orthodox economists from Schumpeter through to Minsky. When this debt finances genuine investment, it is a necessary part of a growing capitalist economy, it grows but shows no trend relative to GDP, and leads to modest profits by the financial sector. But when it finances speculation on asset prices, it grows faster than GDP, leads obscene profits by the financial sector and generates Ponzi Schemes which are to sustainable economic growth as cancer is to biological growth.

When those Ponzi Schemes unravel, the rate of growth of debt collapses and the boost to demand from rising debt becomes a drag on demand as debt falls. In all other post-WWII downturns, growth resumed when debt began to rise relative to GDP once more. However the bubble we have just been through has pushed debt levels past anything in recorded history, triggering a deleveraging process that is the hallmark of a Depression.



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The last Depression saw debt levels fall from 240% to 45% of GDP over a 13 year period, and the ensuing period of low debt led to the longest boom in America's history. We commenced deleveraging from 303% of GDP. After 3 years it is still 10% higher than the peak reached during the Great Depression. On current trends it will take till 2027 to bring the level back to that which applied in the early 1970s, when America had already exited what Minsky described as the "robust financial society" that underpinned the Golden Age that ended in 1966.

While we delever, investment by American corporations will be timid, and economic growth will be faltering at best. The stimulus imparted by government deficits will attenuate the downturn—and the much larger scale of government spending now than in the 1930s explains why this far greater deleveraging process has not led to as severe a Depression—but deficits alone will not be enough. If America is to avoid two "lost decades", the level of private debt has to be reduced by deliberate cancellation, as well as by the slow processes of deleveraging and bankruptcy.

In ancient times, this was done by a Jubilee, but the securitization of debt since the 1980s has complicated this enormously. Whereas only the moneylenders lost under an ancient Jubilee, debt cancellation today would bankrupt many pension funds, municipalities and the like who purchased securitized debt instruments from banks. I have therefore proposed that a "Modern Debt Jubilee" should take the form of "Quantitative Easing for the Public": monetary injections by the Federal Reserve not into the reserve accounts of banks, but into the bank accounts of the public—but on condition that its first function must be to pay debts down. This would reduce debt directly, but not advantage debtors over savers, and would reduce the profitability of the financial sector while not affecting its solvency.

Without a policy of this nature, America is destined to spend up to two decades learning the truth of Michael Hudson's simple aphorism that "Debts that can't be repaid, won't be repaid.

Underlying Causes of the Great Recession
Andrew Kliman

The economy remains seriously weak, 4 ½ years after the Great Recession began, and 3 ½ years after the financial crisis ended. This indicates that the economic slump is not due *only* to the financial crisis. Just as more lay behind the Great Depression of the 1930s than a stock-market crash, more lies behind the Great Recession and the persistent economic malaise than the collapse of a home-price bubble. This idea is the starting point of my book, *The Failure of Capitalist Production: Underlying Causes of the Great Recession* (Pluto Press, 2012).

Actually, the book isn't something I set out to write. At the start of 2009, I was researching a rather narrow topic, and discovered something surprising. So I began to dig deeper. The more I dug, the more I found that was surprising. Eventually, I had material for a whole book.

What I uncovered was surprising because it contradicts key pillars of the conventional left account of the economic history of the last several decades. According to the conventional left account, the turning-point was the early 1980s, the start of a new stage of capitalist expansion brought about by neoliberalism. The neoliberals succeeded in increasing the degree of exploitation. Workers' share of income and real (inflation-adjusted) pay declined, and this caused the rate of profit to rebound. So the economy *could have* grown rapidly, if this extra profit had been invested in production. But that didn't happen, because of financialization: profit was diverted from productive investment toward financial uses. The slowdown in investment led to a slowdown in economic growth, which in turn led to a slowdown in income growth of income. And since the slowdown in income growth made it harder to repay debt, it led to rising debt burdens. This chain of events set the stage for the financial crisis and the Great Recession.

However, I uncovered several facts (from U.S. government and other official data) that contradict the conventional left account. First, the turning-point of recent U.S. economic history was the 1970s – *before* the rise of neoliberalism. Many important trends that continued began in the 1970s or before. And the neoliberal period wasn't really a new expansionary stage, but a period of relative stagnation. The economy never fully recovered from the recession of the mid-1970s. The long-term rise in income inequality and the long-term fall in the growth rate of public infrastructure spending began in 1969. The long-term rise in government and household borrowing/GDP ratios began in 1970. The Bretton Woods gold-exchange system collapsed in 1971, and this led to the 3d World sovereign-debt crisis and a marked increase in financial instability ever since. The serious and long-term fall in the growth rate of GDP, here and globally, began with the recession of the mid-1970s, as did other long-term trends: the fall in the growth of industrial production, the slowdown in the growth of employees' pay, a more-serious labor-force-dropout problem, and the rise in the average duration of unemployment started. Since all these things began during "Keynesianism," they aren't merely effects of neoliberalism.

Second, U.S. corporations' rate of profit (rate of return on the actual amount of money invested in fixed capital, minus depreciation), never recovered in a sustained manner during the neoliberal period. When profit is defined broadly, as all of the output (net value added) of corporations that their employees' don't receive, the rate of profit continued to trend markedly downward, while the narrower before-tax rate of profit stagnated. The former rate of profit continued to trend after we remove the effect of inflation. Moreover, U.S. multinational corporations' rate of return on their foreign direct investment also trended markedly downward.

Third, the cause of the slowdown in productive investment was the fall in the (actual) rate of profit, not financialization or neoliberalism. Between 1970 and 2009, variations in the rate of profit (based on the broad definition) account for 83% of the variations in the rate of accumulation fall in the rate of accumulation, and changes in the rate of profit preceded changes in the rate of accumulation, so it's clear what caused what. Almost all of the fall in the rate of accumulation that took place during the neoliberal period occurred between 1981 (the start of the Reagan presidency) and 2001, and during this period there was certainly no diversion of profit from productive investment to finance. A *greater* share of profit was invested in production during this period than was invested between 1947 and 1980, no matter how one defines profit.

Finally, and to me, most surprisingly, the neoliberals did not succeed in reducing working people's pay or their share of national income. Compensation of employees, as a share of corporate output, has been trendless since 1970. Compensation of managers has increased only modestly faster than average since the mid-1980s, so non-managerial workers' share of corporate output fell by roughly one-half percentage point, not much. The income of the working class—total compensation plus government-provided social benefits (minus workers' and employers' Social Security and Medicare tax contributions)—has been basically constant for 40 years. It was just as great in 2007 as it was in 1970, and it was much greater than in the early 1960s. (So claims that the Great Recession is an underconsumption crisis are wrong).

So why have many on the left reached contrary conclusions? *Actually, they haven't done so. They say things that seem to contradict the above findings, but actually don't, things that are technically correct but extremely misleading* (e.g., "wages" have fallen as a share of GDP). I don't have space here to discuss this further, but it's documented in detail in my book.

Thus, what the facts suggest is that the underlying causes of the Great Recession and the continuing malaise are rooted in capitalist *production. T*he rate of profit fell from the mid-1950s onward and never recovered in a sustained manner. This led to a long-term slowdown in productive investment (when less profit is generated, there's less profit that can be invested), and the slowdown in investment in turn led to a slowdown in economic growth. And the growth slowdown—plus artificially stimulative government policies that were pursued in an effort to manage and maybe reverse the profitability, investment, and growth problems—led to a long-term buildup of debt, and ultimately to the Great Recession and current malaise.

The political implications of this controversy are profound. The conventional left account implies that the only causes of the crisis are neoliberalism policies and financialization; it's supposedly a "crisis of neoliberalism," not capitalism. To prevent such crises from recurring, all just need to end neoliberalism and "financialized capitalism"—perhaps by means of the class collaboration that some Marxist economists call for! A change in the character of the socio-economic system is not necessary. However, if the crisis is a crisis of capitalism, rooted in its system of value production, we need to change the character of the socio-economic system; we need to end value production. Financial reform, activist fiscal and monetary polies, and nationalization will, at best, only delay the next crisis. And as long as the underlying problems plaguing capitalist production that led to this crisis persist, artificial stimulus of the economy through even more debt build-up threatens to make the next crisis worse when it comes.

The Current Crisis: Character, Cause, Resolution
David M. Kotz

I view the crisis that began in 2008 as a structural crisis of capitalism. It is not a business cycle recession that happens to be particularly severe, which could be corrected by expansionary fiscal and monetary policies. It is not essentially a financial crisis, which had secondary effects on the real sector. It is rather a crisis of the structural form that capitalism has taken since around 1980 in much, although not all, of the world.

The best, most comprehensive characterization of this form of capitalism is neoliberal capitalism, not "globalization" or "financialization" which, although both are important features of this form of capitalism, fail to capture the full range of inter-related institutions that constitute neoliberal capitalism. The main features of neoliberal capitalism are the following: 1) a particular form of the capital-labor relation, entailing extreme capitalist domination of labor; 2) a particular state role in the economy based on deregulation of business and markets, privatization, and attacks on social programs; 3) a capital-capital relation of unrestrained competition; and 4) a new relation between financial and productive capital, known as financialization.

At the most abstract level, the cause of the current crisis is the exhaustion of neoliberal capitalism, which means that it can no longer promote high profits and relatively stable accumulation over the long run. As the social structure of accumulation (SSA) theory argues, every institutional form of capitalism, or SSA, has contradictions that eventually render it unfit for the role of promoting high profits and stable accumulation.

At a more concrete level, neoliberal capitalism was able to bring a long period of high profit and stable accumulation only by giving rise to unsustainable trends, which were leading to a financial and real sector collapse at some point. All of the institutions of neoliberal capitalism contributed to high and growing inequality -- a rising gap between profits and wages and between rich households and the rest. This encouraged accumulation but simultaneously produced a problem of realization -- who could buy the growing output of an expanding economy? In neoliberal capitalism this problem was resolved by growing consumer spending financed by household borrowing. Despite stagnating or falling real wages, consumer spending rose from 62% to 70% of GDP from 1979 to 2007.

Such borrowing was made possible by the asset bubbles of increasing size produced by neoliberal capitalism and by a financial sector willing and eager to lend to households, in increasingly "creative" (and profitable) ways, with the growing asset bubble wealth serving as security for the loans. This process occurred in the second half of the 1990s, during the stock market bubble, and on a larger scale in the 2000s during the real estate bubble. From 1980 to 2007 household debt more than doubled relative to disposable income. Once the real estate bubble burst, as all bubbles eventually must, the high level of household debt was rendered unsustainable. This led to a crash of both the real and the financial sectors, made more severe by the collapse of the high-risk derivatives created by financial institutions.

In relation to Marxist crisis theory, this crisis can be understood as an asset-bubble induced over-investment crisis. Neoliberal capitalism promoted three long expansions, one in each decade of the neoliberal era, by driving consumption upward relative to disposable income. Business responded by creating the necessary productive capacity to satisfy the elevated level of consumer demand. In addition, the asset bubbles instilled a sense of euphoria among corporate decision-makers, leading to over-optimistic expectations of future profits, which promoted excessive investment. The latter effect showed up in a long-run downward trend in capacity utilization in industry. Once the last big asset bubble burst, consumer spending fell sharply relative to disposable income while profit expectations reversed, leading to a very rapid fall in business fixed investment that started one quarter after consumer spending began to decline.

The above interpretation of the crisis suggests that policy changes alone, such as fiscal stimulus or tighter regulation of the banks, cannot resolve it. If the crisis is to be resolved within capitalism, a new institutional structure must be created that will again promote long-run profit-making and stable accumulation. Both historical precedent and theoretical considerations suggest that such a new SSA would be of the interventionist variety rather than another liberal SSA. However, any new SSA emerges from complex struggles among various classes and groups, influenced by the character of the crisis during which the new SSA is constructed. It is impossible to predict in advance the details of a new SSA, but one can identify two broad types of capitalist SSA that might emerge.

First, if popular movements remain relatively weak, we may see the emergence of a "corporatist" SSA -- that is, a capitalist-dominated statist form. This would continue a neoliberal labor market but resolve the demand problem through rising state spending for military-national security purposes along with rebuilding of infrastructure (transportation, power). Such a corporatist SSA would be both repressive and militarily aggressive.

Second, if popular movements grow in strength, a social-democratic SSA based on compromise between capital and labor might arise. This would allow wages to rise in step with labor productivity, while state spending for social purposes also rose. However, social democratic capitalism requires a continuing increase in commodity output, since rising profits and wages under capitalism require rising output. This would face severe environmental and natural resource constraints.

If popular movements become strong enough, and radical enough, to force capital to compromise with labor, that suggests the socialist movement would also revive. This holds out the possibility of transcending capitalism entirely by replacing it with socialism. Socialism can bring rapid growth in output, but it has no such internal compulsion, and in developed countries a socialist planned economy could bring a constant or declining level of output, a declining workweek, a shift from private to public goods and services, and technological change directed at making work a more satisfying experience. Thus, human development without economic growth in a sustainable relation to the natural environment would become possible.

Economic Collapse, Economic Decline: Getting to the Roots of the Crisis
Arthur MacEwan and John Miller

The Occupy Movement has thrust the great economic inequalities of our society to the center of public attention. The inequalities are not new, but they have gotten much more extreme over the last several decades. After an era of relatively less income inequality in the middle of the last century, we have returned to conditions of the late 1920s. Now, as then, the highest income 1% of the population is getting more than 20% of all income. For the Occupy Movement and for many of the rest of us, there is something fundamentally unfair about this situation.

More than unfair, great economic inequality in the United States has been a root cause of the economic crisis that emerged in 2007 and 2008, generating high unemployment, continuing economic instability, and severe hardship for many, many people. Inequality has been part of a vicious circle, generating extreme concentration of political power and a perverse leave-it-to-the-market ideology that has been used to justify that concentration of power. In turn, the political power of the very rich and this perverse ideology, as well as reinforcing each other, have been used to reshape government policies that have made the inequality worse. Truly a vicious circle.

Our book, *Economic Collapse, Economic Decline: Getting to the Roots of the Crisis* (M.E. Sharpe, Armonk, NY, 2011) explains, in a step-by-step manner, how this inequality-power-ideology nexus lies at its foundation of the crisis. Following from this analysis, we argue that fundamentally altering this nexus would not only create an equitable U.S. economy but would also create the conditions for a return to sustained economic growth.

Deregulation and the Financial Crisis. One of the center pieces in the reshaping of government policy has been deregulation, deregulation of financial activity in particular. Starting in the 1980s and reaching its apex in the late 1990s, many of the rules that had been introduced to bring stability to banking after the Great Depression of the 1930s were removed. We were told that if things were left to "The Market," the economy would work better for all of us.

But here's what happened: As the economy expanded, almost all the increased income went to the very rich. Trying to keep up, most other people reduced their saving and took on more and more debt, especially debt for housing. The government—that is the Federal Reserve Bank (the Fed)—recognized that with the incomes of most people stagnant or near stagnant, buying power would weaken and threaten economic growth. So the Fed did what it could to keep interest rates low, encourage debt build up, and thus keep people buying. It worked, for a while, especially with housing debt (mortgages). During the 1990s, mortgage debt outstanding on 1 to 4 family houses rose from 61% to 69% of after-tax personal income, then ballooned to 107% by 2007.

This rising level of debt and the rising housing prices were unsustainable. Debt and housing prices can rise faster than income only so long. In 2007, crunch time came and housing prices began to fall. Still the story is not complete without the role of deregulation. Because financial firms—banks and also mortgage companies—were not being sufficiently regulated, they were both charging excessive prices (high interest rates) for loans and making loans that they knew could not be repaid. The makers of the loans didn't worry about the fact that they couldn't be repaid because they sold these loans to others, pocketing hefty fees in the process. Without proper oversight by regulators, buyers of these loans thought they were good investments.

Then, when housing prices started falling, everything came apart. Some big financial firms failed. Others were saved by billions of dollars of support from the government—i.e., from the public. The financial firms stopped making loans, and other firms, without financing from the banks, got in trouble. Layoffs and lack of new investment followed. The crisis took hold, and in the summer of 2012 we still have not recovered.

So the parallel to the situation of the late 1920s in terms of income inequality has a good deal of significance. As the great inequality then led into the Great Depression, the inequality of recent years led us into the Great Recession.

Moving in a Better Direction. Because a nexus of inequality, elite power, and leave-it-to-the-market ideology formed a vicious circle that lies behind the financial and economic crisis, effective reform depends on breaking that nexus. The last section of our book addresses the possibilities and limits of reform. We look closely at three foundations for reforms: expanding universal social programs, redeveloping the labor movement, and changes in the global economy. Each of these reforms can contribute to transforming the inequality-power-ideology nexus into a virtuous circle of progressive change.

Health care provides an example of how universal social programs could change the inequality-power-ideology nexus. Universal health care ("Medicare for all") would be a good thing in itself. Also, providing everyone with healthcare in a public program would have a profound impact on the distribution of income, directly assuring people of this real benefit and indirectly protecting people from the huge income losses that can accompany serious illness. Such a universal program would also redistribute power in society because it would provide people with options—for example, the option of switching jobs without risking the loss of healthcare. And it would shift ideology from an each-on-their-own outlook toward mutual responsibility for one another.

We also assess the ways that "re-creating" the labor movement offers substantial possibilities for improvement. Finally we explore the interdependence of national reform and global reform, the need to redefine globalization, and the continuing constraint of global inequality.

We hope that readers of our book are convinced that the inequality-power-ideology nexus we describe is indeed at the center for the economic crisis, and that changes in income and wealth distribution, in who has power in our society, and in the ideology of how we view the operation of the economy are at the center of a lasting solution to the problems of our economic lives.

The U.S. Economic Crisis: Profitability Crisis and Household Debt Crisis Combined
Fred Moseley

The fundamental causes of the current economic crisis in the US go back to the early postwar period, when the rate of profit in the US economy declined by approximately 50% from the 1950s to the 1970s. This very significant decline in the rate of profit was part of a global trend in almost all major countries.

Capitalists in the US and around the world responded to this profitability crisis by attempting to restore their rate of profit back up to early postwar levels by any and all means possible, including: wages and benefit cuts, inflation, "speed-up" on the job, globalization, NAFTA, etc. All these familiar phenomena of recent decades are the results of capitalist attempts to restore the rate of profit. US workers are working harder today than they did 40 years ago, but their real wages have not increased and their benefits have been cut.

In spite of all this pain and suffering by workers, the rate of profit has been only partially restored; only about half of the previous decline has been recovered. So business investment has remained at a low rate and growth has remained slow in recent decades.

In depressions of the past, the rate of profit was restored primarily by widespread bankruptcies, which devalued capital for the surviving firms. Wages were also cut and the intensity of labor increased, which also contributed to the restoration of the rate of profit, but most of the restoration in these earlier depressions was due to the devaluation of capital. In the postwar period, the US government (and other governments) is doing all it can to avoid bankruptcies and a deeper depression, and have been at least somewhat successful in postponing a worse depression (so far) But this limited success in avoiding bankruptcies also has meant that there has been very little devaluation of capital and thus very little restoration of the rate of profit by this usual means. Instead, the recovery of the rate of profit (such as it has been) has come almost entirely by increasing the intensity of exploitation of workers.

An important consequence of this decades-long stagnation of wages is that workers became more and more in debt in order to buy a house or a car or or send your kids to college or even basic necessities. The ratio of household debt to disposable income almost tripled from 50% in 1980 to 130% in 2007, reaching unprecedented levels (this household debt ratio was 30% in 1929). US capitalism was being kept afloat by ever-increasing levels of debt for both households and firms. Eventually, the household debt bubble burst, and the crisis of US capitalism entered a new more serious phase. As Marx emphasized, increasing debt can prolong an expansion, but it also makes the eventual depression worse.

So what started out as a profitability crisis has evolved – due to wage suppression – into a potential underconsumption crisis, which was postponed for a while by ever-increasing household debt. But household debt can't go on increasing forever. So eventually the household debt bubble burst (starting with subprime mortgages and moving progressively into prime mortgages) and the general crisis ensued. The profitability crisis remains and has been only partially resolved, and now we have a serious household debt crisis on top of that. As Marx said many times, attempts to solve one contradiction in capitalism lead to other contradictions.

In addition to the above dynamics, structural changes in the financial sector of the economy has greatly increased the instability of that sector and thus of the economy as a whole. Changes such as: deregulation (especially repeal of Glass-Steagal in 1999), increasing concentration (leading to "too big to fail"), increasing debt as source of funds (especially the largest banks), an unregulated "shadow banking system" (hedge funds, etc.), "innovative" securities (such as mortgage-based securities, derivatives, etc.). All these recent changes in the financial sector have greatly increased the instability of the US economy.

The "financialization" of the economy is itself a result of the prior decline of the rate of profit in the early postwar period. Because of the lower profitability, industrial capitalists were less willing to invest in expanding productive capacity and instead invested in financial assets. According to Marxian theory, this diversion of a greater share of the total capital in the economy to the financial sector means that less total profit is produced, because profit for the economy as a whole is produced only in the productive sector (the income of the financial sector comes from the total profit produced in the productive sector). Therefore, the increasing share of capital going to the financial sector has exacerbated the profitability problem for the economy as a whole.

The best way to at least partially solve the economic crisis in a "worker-friendly" way is to reduce household mortgage debt to the current market value of the house. This would result in an average of about a 20% reduction in the amount owed. Household debt levels would still be high, but they would be less high and more manageable. But of course the banks and other mortgage investors have strongly opposed such mandatory "write-down" policies, because it would mean that they have to recognize their losses. And both the Bush and the Obama administrations have given in to the banks, and both administrations' mortgage modification programs have been *voluntary* on the part of the banks, and so far very few banks have "volunteered", and both programs have been failures.

Under current conditions and government policies, the best we can hope for in the years ahead is many years of slow growth and depression-level unemployment. Eventually it appears likely that there will be more mortgage defaults and another serious banking crisis, which will threaten to turn into deeper depression.

If another banking crisis does occur, then the government should *definitely not* bail out the failing banks ("never again"), but should instead *nationalize* any large bank that is failing, and operate these banks as public banks (i.e. a "public option" for banking to serve the public interests).

However, even the nationalization of failing banks might not be enough to reduce the current very high debt/GDP ratios to sustainable levels, and the economy could still eventually fall into a deeper depression. In that case, the only way to avoid a deep and prolonged depression would be a fundamental change in the economic system, from a profit-making capitalist economy, to a democratic socialist economy, whose main goal would be to produce what people need, rather than produce profit for a minority elite. I hope there will be a broad social movement to accomplish that fundamental change in the US economy, and I hope we will all participate in building that movement.

From Financial Crisis to Stagnation: The Destruction of Shared Prosperity and the Role of Economics
Thomas I. Palley

Many countries are now debating the causes of the global economic crisis and what should be done. That debate is critical for how we explain the crisis will influence what we do.

Broadly speaking, there exist three different perspectives. Perspective # 1 is the hardcore neoliberal position, which can be labeled the "*government failure hypothesis*". In the U.S. it is identified with the Republican Party and Chicago school economics. Perspective # 2 is the softcore neoliberal position, which can be labeled the "*market failure hypothesis*". It is identified with the Obama administration and MIT economics. Perspective # 3 is the progressive position which can be labeled the "*destruction of shared prosperity hypothesis*". It is identified with the New Deal wing of the Democratic Party and labor movement, but it has no standing within major economics departments owing to their suppression of alternatives to orthodox theory.

The government failure argument holds the crisis is rooted in the U.S. housing bubble and bust which was due to failure of monetary policy and government intervention in the housing market. With regard to monetary policy, the Federal Reserve pushed interest rates too low for too long in the prior recession. With regard to the housing market, government intervention drove up house prices by encouraging homeownership beyond peoples' means. The hardcore perspective therefore characterizes the crisis as essentially a U.S. phenomenon.

The softcore neoliberal market failure argument holds the crisis is due to inadequate financial regulation. First, regulators allowed excessive risk-taking by banks. Second, regulators allowed perverse incentive pay structures within banks that encouraged management to engage in "loan pushing" rather than "good lending." Third, regulators pushed both deregulation and self-regulation too far. Together, these failures contributed to financial misallocation, including misallocation of foreign saving provided through the trade deficit. The softcore perspective is therefore more global but it views the crisis as essentially a financial phenomenon.

The progressive "destruction of shared prosperity" argument holds the crisis is rooted in the neoliberal economic paradigm that has guided economic policy for the past thirty years. Though the U.S. is the epicenter of the crisis, all countries are implicated as they all adopted the paradigm. That paradigm infected finance via inadequate regulation and via faulty incentive pay arrangements, but financial market regulatory failure was just one element.

The neoliberal economic paradigm was adopted in the late 1970s and early 1980s. From 1945 - 1975 the U.S. economy was characterized by a "virtuous circle" Keynesian model built on full employment and wage growth tied to productivity growth. Productivity growth drove wage growth, which fuelled demand growth and full employment. That provided an incentive for investment, which drove further productivity growth and higher wages. This model held in the U.S. and, subject to local modifications, it also held throughout the global economy - in Western Europe, Canada, Japan, Mexico, Brazil and Argentina.

After 1980 the virtuous circle Keynesian model was replaced by a neoliberal growth model that severed the link between wages and productivity growth and created a new economic dynamic. Before 1980, wages were the engine of U.S. demand growth. After 1980, debt and asset price inflation became the engine.

The new model was rooted in neoliberal economics and can be described as a neoliberal policy box that pressures workers from all sides. Corporate globalization put workers in international competition via global production networks supported by free trade agreements and capital mobility. The "small" government agenda attacked the legitimacy of government and pushed deregulation regardless of dangers. The labor market flexibility agenda attacked unions and labor market supports and protections such as the minimum wage. Finally, the abandonment of full employment created employment insecurity and weakened worker bargaining power.

This model was implemented globally, in North and South, which multiplied its impact. That explains the significance of the Washington Consensus which was enforced in developing economies by the International Monetary Fund and World Bank by making financial assistance conditional on adopting neoliberal policies.

The new model created a growing "demand gap" by gradually undermining the income and demand generation process. The role of finance was to fill that gap. Within the U.S., deregulation, financial innovation, and speculation enabled finance to fill the gap by lending to consumers and spurring asset inflation. U.S. consumers in turn filled the global demand gap.

These three different perspectives make clear what is at stake as each recommends its own different policy response. For hardcore neoliberal government failure proponents the recommended policy response is to double-down on neoliberal policies by further deregulating financial and labor markets; deepening central bank independence and the commitment to low inflation; and further limiting government via fiscal austerity.

For softcore neoliberal market failure proponents the response is tighten financial regulation but continue with the rest of the existing neoliberal policy paradigm. That means continued support for corporate globalization, labor market flexibility, low inflation targeting, and fiscal austerity.

For proponents of the destruction of shared prosperity hypothesis the challenge is to replace the neoliberal paradigm with a "structural Keynesian" paradigm that repacks the policy box and restores the link between wage and productivity growth. The goal is to take workers out of the box and put corporations and financial markets in so that they serve the broader public interest. That requires replacing corporate globalization with managed globalization; restoring commitment to full employment; replacing the anti-government agenda with a social democratic government agenda; and replacing labor market flexibility with solidarity based labor markets.

The critical insight is each perspective carries its own policy prescriptions. Consequently, the explanation which prevails will strongly impact the course of policy. That places economics at the center of the political struggle as it influences which explanation prevails, and it explains why powerful elites and orthodox economists have an interest in blocking other perspectives.

A Different Approach to Analysis of the U.S. and Global Economic Crisis
Jack Rasmus

Both major wings of contemporary mainstream economists—'Retro Classicalists' and 'Hybrid Keynesians'—fail in fundamental ways to understand the qualitative characteristics of the economic crisis that continues to impact the U.S. and global economy. Neither wing has been successful predicting the deep and rapid contraction that began in 2007; explaining why massive, multi-trillion dollar liquidity injections into the banking system since 2007 have failed to generate a sustained economic recovery; or understanding why the current US and global economies are today, in 2012, steadily slipping toward another global banking crisis and consequent general economic contraction.

There are various reasons for this mainstream failure. But a short list would include the inability to understand the nature of investment in the 21^{st} century, in particular the relationship between speculative forms of investment vs. real asset investment; the changing relationship between central bank money supply and internal bank forms of credit creation; and the critical causal interdependencies between forms of debt and income, which this writer has summarized elsewhere by creating a new conceptual analysis based on terms such as 'systemic fragility'.

Fragility as a concept of analysis is derived from the Minskyan notion of financial fragility, where fragility is a function of levels of debt, terms of debt repayment, and cash flow. This notion is developed further, expanded, and extended to include household consumption fragility and public balance sheet fragility. A quantitative relationship exists between the three forms of fragility that together constitute 'systemic fragility'. Causal interdependencies between the three forms of fragility shift over the course of the business cycle. At the cycle peak, at which a financial bust occurs in one or more asset price markets, systemic fragility also peaks. As the asset price bubble(s) crack, systemic fragility in turn undergoes a further rapid deterioration and corresponding 'fracturing'. The further rapid deterioration of fragility results in a significantly worse contraction of business spending and household consumption that otherwise would have occurred in a 'normal' recession precipitated by external shocks. However, financial crash precipitated contractions are not normal and are not due to external shocks. They are 'epic recessions, characterized by deteriorating systemic fragility, asset price bubbles and crashes, and more severe real economic contractions than occur in 'normal' recessions. Epic recessions are endogenous contractions, precipitated by financial instability events. Epic recessions are also differentiated from so-called 'Great Recessions', a popular term employed by mainstream economists which has no analysis but simply suggests the recession is 'worse than' a typical (normal) recession but 'not as bad as' a bona fide depression. This kind of analysis by adverb is rejected.

In epic recession analysis, 'systemic fragility' is the condition that explains how and why financial instability (asset price bubbles) events result in contractions of the real economy that are deeper, more rapid, more intractable and consequently more resistant to traditional central bank monetary policy actions and government fiscal policy responses. System fragility explains why these traditional responses are increasingly inelastic in terms of generating a sustained economic recovery from the 'epic' contraction, and simultaneously increasingly elastic in terms of provoking a relapse and even double dip re-recession when contractionary policies are reintroduced in the recovery phase.

Monetary policy responses, if of sufficient magnitude, may result in a temporary stabilization of the banking system but cannot generate a sustained economic recovery of the rest of the economy. They also have the negative consequence of generating a further deterioration of systemic fragility over the longer term if continued. Similarly, traditional fiscal policy responses fail to address the fundamental problems of household consumption fragility. Both traditional (i.e. mainstream economics) monetary and fiscal policy result in a worsening of public balance sheet fragility, which ultimately feeds back on financial and consumption fragility over time.

The mechanisms by which system fragility transmits to the rest of the economy are located in the relationship between debt, deflation, and default in various forms. Debt is defined as debt levels, rate of change of debt, plus terms of debt repayment. Deflation is considered within a three-dimension price system: asset prices, product prices, and factor prices. Asset price deflation in the post-bubble contraction phase drives product price deflation, which in turn drives wage deflation. The three forms of deflation feed back upon each other in turn, and also upon real debt as a consequence. Deflation results in default, which in turn also feeds back on both debt and deflation. Together this debt-deflation-default mechanism transmits 'systemic fragility' conditions to the various economic indicators, by which NBER economists define recession conditions.

Contrary to mainstream economics, therefore, there is no such thing as a single price system responding predictably to supply and demand to enable a return to equilibrium conditions. There are three separate price systems—asset, product, and wage—with asset prices serving as an originating destabilizing force and not an element that restores instability to equilibrium.

Among the fundamental driving forces in the global economy is the explosion of global liquidity, driven not only by the decades long uninterrupted creation of money by central banks' international reserve currencies, but by the growing separation of credit creation by the banking (and shadow banking) system from the central banks in order to feed the increasing 'speculative investing shift' underway since the 1960s. New global financial institutions are created to accommodate the liquidity, new liquid markets are created to permit its reproduction, and new financial instruments are introduced to enable its circuit. Together they constitute the 'global money parade'. Money and credit capital consequently shift into the more profitable financial forms of investing, causing an increasing divergence and imbalance between speculative financial investing and real asset investing over the course of the business cycle. Debt expansion based increasingly on non-money credit is a key characteristic of the speculative shift, which results in a growing adverse relationship between debt and income (fragility) within the system in all forms, as described above.

The Rate of Profit is the Key
Michael Roberts

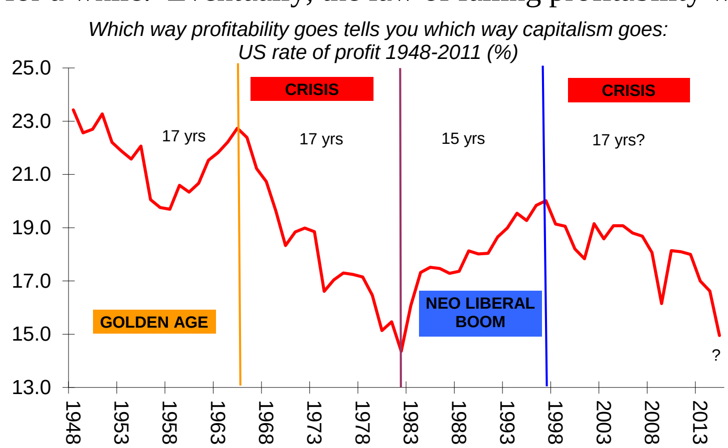
The modern world economy is dominated by the capitalist mode of production. Under capitalism, money is used to make more money. Profit drives production, not social need. And capitalist production does not proceed in a straight line upwards. It is subject to recurrent crises of 'booms and slumps' that destroy and waste much of the value previously created by society (workers). The 1880s and 1890s saw a massive destruction of US production and wealth; the Great Depression of the 1930s also. Now we have suffered the first Great Recession and are still in the Long Depression of the 21st century.

The capitalist mode of production has recurrent crises because it has two major fault-lines. First, in a monetary economy, of which capitalism is the epitome, there is always the possibility of crisis. Holders of money may not always spend it or invest it, but hoard it. If they do so for whatever reason, it can cause a dislocation of the exchange process and create a crisis in buying and selling.

Second, the capitalist system of production for profit will falter if not enough profit is created to satisfy the owners of the means of production. And there is an inherent tendency for the rate of profit to fall. This is the underlying cause of all slumps.

Individual capitalist businesses do not cooperate to produce the things and services that society needs. On the contrary, they compete with each other to sustain and increase their profit. To do so, they make workers worker longer or harder, but they also increasingly use new technology to boost the productivity of labour to get more value. But this is capitalism's Achilles heel. The accumulated cost of investing in new plant, equipment etc inexorably rises compared to the size and cost of the labour force. As only labour can create new value (machines on their own cannot do it), the profitability of each new unit of investment begins to fall. If profitability falls consistently, eventually it will cause a fall in the mass of profit. Then capitalists stop investing and 'go on strike'. A crisis of production ensues.

Capitalists try to avoid this crisis in various ways: by trying to exploit workers more; by looking for cheaper forms of new technology; and by speculating in unproductive areas of the economy i.e. the stock market, banking and finance, where they gamble for gain. But these things can only work for a while. Eventually, the law of falling profitability will operate.



The rate of profit in the US is well below where it was in 1948. But it has not moved in a straight line. After the war, it was high in the so-called Golden Age from 1948-65. This was also the fastest period of economic growth in American history.

Then profitability fell consistently from 1965 to 1982. GDP growth was much slower and American capitalism (like elsewhere) suffered severe slumps in 1974-5 and 1980-2.

Then in the era of what is called 'neoliberalism', from1982 to 1997, profitability rose. Capitalism managed to get counteracting factors to falling profitability into play i.e. greater exploitation of the American workforce (falling wage share); wider exploitation of the labour force elsewhere (globalisation) and 'speculation' in unproductive sectors (real estate and the rise of finance capital). This 'neoliberal period' had less severe slumps, although economic growth was still slower than in the Golden Age because much of the profit was diverted away from real investment.

Profitability peaked in 1997 and began to decline. This laid the basis for the Great Recession of 2008-9. That slump and the ensuing Long Depression that we are still in was more severe than anything seen since the 1930s, because of the huge build-up of debt and financial assets in the previous two decades that did not create real value. Instead, there were credit-fuelled bubbles first in hi-tech stocks (crash in 2000) and then in housing (crash 2007). The unproductive financial sector contributed 40% of all capitalist profit. Finally, this credit bubble burst, bringing down the banking sector and the economy.

The high level of private sector debt was compounded by the state having to bail out the banks. Until this overhang of debt is cleared (deleveraged), profitability cannot be restored sufficiently to get investment and economic growth going again. Indeed, it is likely that another huge slump will be necessary to 'cleanse' the system of this 'dead (toxic) capital'. The Long Depression will continue until then.

Ending the Long Depression will not be possible by more government spending through increased borrowing and/or taxes, as this eats into the profitability of the capitalist sector. While that sector remains dominant, lower profitability means that new investment will not take place to restore lost jobs and incomes. The New Deal in the 1930s did not succeed in ending the Great Depression, even though it was much more radical than any measures now proposed by Obama. It was watered down by capitalist opposition. But also it did not work because it could not restore profitability - on the contrary. In the end, only a World War that put the labour force onto a military footing (while killing millions globally) did the trick.

Under capitalism, terrible slumps will reoccur and inequality will remain. The end of poverty and prosperity for the majority can only come through replacing private production for profit with democratically-planned production for social need.

Causes and Consequences of the Current Global Economic Crisis
Anwar Shaikh

"The engine which drives Enterprise is … **Profit**" (Keyes)

Causes

The global capitalist economy is experiencing its worst crisis since 1929 Great Depression. Crises of this magnitude are regular events in the history of capitalism. They are reflections of systemic tendencies which periodically express themselves as events we have come to all Depressions, such as those of the 1840s, 1870s, and 1930s. I have argued that the period of the 1970s, the so-called Great Stagflation, was one such event, and that we are now experiencing yet another episode of this recurrent phenomenon. I consider the present crisis to be the first Great Depression of the twenty-first century. Crises of this sort are generally resolved by a new set of (global) institutions, a new balance of power between the contending forces within and across nations, and most of all, by a recovery in profitability for the surviving businesses as they acquire the assets of their failed competitors at bargain prices. The balance between real wages and productivity also typically shifts in favour of businesses in the face of the unemployment induced by a crisis, although the institutional balance may subsequently shift in the opposite direction in the aftermath.

The profit motive that drives capitalism has its own dynamics. In this regard, what is crucial is the excess of the profit rate over the interest rate, since it is this *net* rate which motivates active investment (as opposed to the passive holding of interest bearing assets). On the side of the profit rate, the long term trend arises from structural factors such as a rising capital intensity of production driven by the relentless competition to increase productivity and reduce costs. This tends to produce a downward trend in the general rate of profit. At the same time, it spurs renewed efforts to reverse this trend. In the latter domain falls the search for cheaper raw materials and most of all, for cheaper labor. Hence the great push for globalisation, accompanied by the mantra that free trade is good for all. But cheaper labor is not just found abroad. It can be imported, and most crucially, it can be created at home by undermining labor strength and institutions that support working people. Reagan and Thatcher ushered in a new era at the beginning of the 1980s with their successful attacks on labor. As I show in Figure 3 of my paper called "The First Great Depression of the 21st Century" (*Socialist Register* 2011), the resulting stagnation of real wages and acceleration of productivity converted a steadily falling rate of profit into a merely stagnant one.

But a stagnant rate of profit does not provide much fuel for a boom. What really supercharged the great boom that began in the 1980s in the US was a dramatic fall in the (T-bill, 3 month) interest rate, which went from 14% in 1981 to a little above 1 % in 2003 (Figure 4 of this same paper). This greatly increased the *net* profit rate, which in turn accelerated growth in the two decades after 1982. But falling interest rate also spurred a corresponding rise in debt-financing expenditures by businesses and consumers. As a result, the growth boom in the production went hand-in-hand with bubbles in real estate and in financial markets. Interest rates also fell in other parts of the world, sometimes even faster, and this fuelled a similar international boom in accumulation and an international bubble in finance.

The sub-prime mortgage crisis in the US was the trigger, not the cause, of the present crisis. The gradual reversal of regulations which had previously restrained financial institutions made it all the worse when it hit. Deregulation has been the mantra of the worldwide neoliberal agenda for more than two decades, enforced by the power of the WTO, the World Bank, and the IMF, of course by the prescriptions of orthodox economists, bankers, and world leaders. We are reaping the fruit that they have sown.

Consequences

I believe that the crisis will last a long time, a decade or more. The structural changes which it will bring about are still being negotiated, and the struggle over the future is only beginning. In Europe this process could take even longer, which is a good thing because its social and political structures (such as the family in Spain and Italy, and the welfare state in most European countries) act as important shock absorbers while the new social agenda is being established.

This crisis is primarily due to the inner workings of the market system and to conjunctural factors such as the world wide reduction in interest rates which fueled the bubble which has yet to subside. The Keynesian Left tends to look to the State as the solution. But capitalists themselves have always known that the state is essential for "proper" workings of the market. The real debate is, “proper” for whom? Large businesses have lined up for bailouts, handouts and bonuses without any hint of shame or chagrin. Worse yet, they are abandoning the very economists who so faithfully served their cause in the past. Even former cheerleaders of neoliberalism like the *Financial Times* and *The Economist* have (quite rightly) unleashed sharp criticisms of orthodox economic doctrines. In the immortal words of Tom Lehrer, this has left orthodox economists “terminally bewildered”.

The crisis is "paid for" by the hundreds of millions of working people who suffer its consequences through no fault of their own, as well numbers of business people who do not possess "golden parachutes". The wisdom of Keynes is that in times such s this, the State can ameliorate the worst effects of the crisis. The wisdom of Marx is that this does not abolish future crises, since these are rooted in the profit motive. Regulations put in place in one era to protect the system from capitalist excesses become obstacles to profits when the recovery is underway. Then comes a chorus decrying regulations, from capital, from academics, and from some quarters of the State itself. And to a greater or lesser degree, the regulations are undermined. As long as profit rules, crises will recur. But even within the confines of the capitalist system, the institutional conditions are not given in advance. If State spending is to be the focus, then let it be on direct employment, direct provision of health, education and welfare, direct reduction of poverty and hunger, so that there is a stronger social base from which to resist. And lest we forget, let there be a reckoning of the culpability of the economics orthodoxy for its market worship and endless incantations about perfect markets, perfect knowledge and perfect foresight – the holy trinity of perfect nonsense.

After 5 Years: Report Card on Crisis Capitalism
Richard Wolff

After 5 years of crisis - with no end in sight - it's time to evaluate what happened, why, and what needs to be done. One key cause of this crisis, missed by most mainstream analyses, is the class structure of capitalist enterprises. By that I mean enterprises' internal organization pitting workers against corporate boards of directors and major shareholders. Those boards seek first to maximize corporate profits and growth. That means ***maximizing the difference*** between the value added by workers' labor and the value paid to workers in wages. Those boards also decide how to use that difference ("surplus value") to secure the corporation's reproduction and growth. The major shareholders and the directors they select make all basic corporate decisions: what, how, and where to produce and how to spend the surplus value (on executive pay hikes and bonuses, outsourcing production, buying politicians, etc.) Workers (the majority) live with the results of decisions made by a tiny minority (shareholders and directors). Workers are excluded from participating in those decisions: a lesson in capitalist democracy.

US capitalism changed in the 1970s. The prior century of labor shortages had required real wage increases every decade (to bring immigrant workers). In the 1970s, capitalists installed labor-saving computers and/or relocated production to lower-wage countries. Demand for laborers fell. Simultaneously, women moved massively into wage work as did new immigrants from Latin America. The supply of laborers rose. Capitalists no longer needed to raise real wages. Since the 1970s, they paid workers the same while computers raised labor productivity: what workers produced for capitalists to sell kept increasing. Surplus value (and profits) soared (stock market boom, rising financial sector, etc.) while the wage share of national product/income fell.

By making these changes, US capitalism confronted a classic contradiction. It paid insufficient wages to enable workers to purchase growing output. The solution, led by the fast-growing financial sector, was two-fold. First, it cycled rising corporate profits and individual executives' wealth partly into major new consumer lending (mortgages, car loans, credit cards, and later student loans). That sustained growing mass consumption despite stagnant wages and so *postponed* an otherwise certain economic downturn. Second, financiers promoted profitable new investments for corporations and the rich (securities based on consumer debts and credit default swaps that insured such securities). Financial corporations displaced non-financial corporations as dominant in the US economy. Financial transactions based on consumer debts were in turn built on stagnant wages (the ultimate means to service that debt). By 2007 these capitalist decisions yielded a cyclical downturn coupled to long-run decline in workers' purchasing power.

As the crisis deepened, capitalism's apologists insisted that it was "only a financial problem" – credit froze because banks no longer trusted nor lent to one another. The freeze would be "easily managed" by federal bailouts of major financial and other corporations (e.g. GM) deemed "too big to fail." Dutiful politicians funded those bailouts with massive federal borrowing from (rather than taxing) the large cash hoards accumulating in those corporations and among the rich. They hoarded because lending to or investing in the economy they had crashed was "too risky." So instead they lent their hoards to the government that was bailing them out: a lesson in capitalist efficiency.

As government debts soared, financial capitalists began to worry about over-indebted governments. Especially where traditions of anti-capitalist criticism were strong, as in Greece – citizens might balk at servicing government debts that resulted from capitalism's failures, not theirs. Financial capitalists thus demanded ever-higher interest for loans to such governments. They also demanded ***austerity*** programs. Public employment and services were to be slashed. The money thereby saved would instead guarantee those governments' debts. Major leaders pretended that the alternative - raising significant taxes on corporations and the rich – did not exist.

The costs of economic crisis and bailouts were thus shifted onto national populations via unemployment, home foreclosures, and austerity: a lesson in capitalist justice.

To summarize: (1) capitalists decided in the 1970s to computerize and increasingly relocate production overseas, (2) that enabled them to impose wage stagnation and greatly increase surpluses and profits, (3) financial capitalists lent to consumers and built a speculative bubble based on consumer debt, (4) when rising consumer debts exceeded what stagnant wages could afford, the system crashed, (5) capitalists got trillion dollar bailouts while lending government the money for those bailouts, and (6) now capitalists get government austerity programs to socialize the costs of the crisis and bailouts. Capitalism not only fails to "deliver the goods," it dumps ever-more-outrageous bads.

Nor are solutions available in New Deal-type regulations and Keynesian deficit spending a la Krugman and Reich. While the New Deal constrained capitalists and eased mass suffering (neither happens now), it never overcame the 1930s depression (World War 2 did). Capitalism's costly cycles were never stopped (*eleven* downturns occurred *after 1941* and *before the 2007* crash). Moreover, the New Deal's regulations and taxes on corporations and the rich were undone after 1945 as capitalists funded the politicians, parties, lobbyists and think tanks that shaped legislation and public opinion. Another New Deal now (green or not) would have poorer and shorter-lived economic results. Capitalists have greater financial resources and decades of experience in blocking and undoing.

Any real solution must change the class structure of capitalist enterprises and thereby their directors' decisions: twin obstacles to ending capitalism's repeated crises and their immense social costs. The change must reorganize the production of goods and services. Instead of undemocratic, hierarchical capitalist corporations, workers collectively would become their own board of directors and make all the key decisions. Had such workers' self-directed enterprises (WSDEs) prevailed in the 1970s, real wages would have kept rising, jobs would have stayed in the US, no consumer credit explosion would not have happened, and so on. WSDE's would have their problems too. However, America can do better than capitalism. We can dare to think so, say so, make the needed changes, and move forward.

Why We're Screwed
L. Randall Wray

As the Global Financial Crisis rumbles along in its fifth year, we read the latest revelations of bankster fraud, the LIBOR scandal. In times like these, I always recall Robert Sherrill's 1990 statement about the S&L crisis: "thievery is what unregulated capitalism is all about." Over the next decade, we then deregulated the financial system, and we are shocked, SHOCKED!, that thieves took over. They screwed workers out of their jobs, homeowners out of their houses, retirees out of their pensions, and municipalities out of their revenues.

And since they've bought the politicians, the policy-makers, and the courts, no one will stop the fraud. Few will even discuss it, since most university administrations have similarly been bought off—universities are even headed by corporate "leaders"--and their professors are on Wall Street's payrolls.

We're screwed.

This crisis is like Shrek's Onion, with fraud in every layer, which cannot be reduced much less eliminated. First, there are no regulators to stop it, and no prosecutors to punish it. But, more importantly, fraud *is* the business model. Even if a bank bucked the trend it would fail. As my colleague Bill Black says, fraud is always the most profitable game in town. So Gresham's Law dynamics ensure that fraud is the *only* game in town.

Veblen analyzed religion as the quintessential capitalist undertaking. It sells an inherently ephemeral product whose value exists only in the minds of purchasers, and mostly cannot be realized until death. A defective product cannot be returned to the sellers—there is no explicit money back guarantee and in any event, most of the dissatisfied have already been undertaken. The value of the undertaker's institution is similarly ephemeral "goodwill"--aside from a fancy building, very little in the way of productive facilities is actually required.

Today, modern finance replaces religion as the supreme capitalistic undertaking. Again, it has no need for production facilities—a fancy building, a few Bloomberg screens, greasy snake-oil salesmen, and rapacious traders is all that is required to separate widows and orphans from their lifesavings and homes. There is rarely any recourse for dissatisfied customers--few understand what they are buying from Wall Street's undertakers, a product more complicated than the Theory of the Trinity advanced by Theophilus of Antioch, let alone the Temple Garments (called Magic Underwear by nonbelievers). That facilitates screwing customers and hiding fraud.

A handful of Wall Street thieves can run up $2 trillion in ephemeral assets whose worth is mostly determined by whatever value the thieves assign to them. They also place tens of trillions of dollars of derivative bets so the thieves get paid when something goes wrong—the death of a homeowner, worker, firm, or country triggers payments on Death Settlements, Peasant Insurance, or Credit Default Swaps. And the value of the Wall Street undertaker's firm is almost wholly determined by "goodwill"—as if there is any good will in betting on death.

With these undertakers running the show, it is no wonder that we are buried under mountains of crushing debt—underwater mortgages, home equity loans, credit card debt, student loans, healthcare debts, and auto-related finance. Everything is financialized as Wall Street has its hand in every pot. Food? Financialized. Energy? Financialized. Healthcare? Financialized. Homes? Financialized. Government? Financialized. Death? Financialized. There no longer is a separation of FIRE (finance, insurance, and real estate) from the other sectors of the economy. It's all FIRE.

In the old days municipalities would sell twenty year fixed rate bonds to finance sewage systems. Now they hire Goldman to create complex interest rate swaps in which they issue variable rate bonds and promise to pay a fixed rate while receiving a floating rate linked to LIBOR—which is rigged by the Squids to ensure the municipality gets screwed. And the municipality pays upfront fees for the privilege. The top four US Banks hold $171 Trillion worth of derivative deals like this--bets by Wall Street that we will fail.

Finally, US real estate—the RE of the FIRE--underlies the whole mess. That is the real story behind the GFC: given President Clinton's budget surpluses and the simultaneous explosion of private finance, there wasn't enough safe federal government debt. Top financial institutions are dens of thieves who know better than to trust one another. So lending to fellow thieves has to be collateralized by safe assets--the traditional role played by Treasuries. There were not enough to go around so Wall Street securitized and sliced and diced home mortgages to get tranches supposedly as safe as Uncle Sam's bonds.

To suck more profit out of mortgages, Wall Street created "affordability" products—mortgages designed to go bad with high fees and exploding interest rates—and then created derivatives of the securities (collateralized debt obligations—CDOs) and derivatives squared and cubed. We were off and running straight toward the GFC.

Suddenly there was no collateral behind the loans Wall Street's thieves had made to one another. Each looked in the mirror and realized everything he was holding was crap, since all of his own debt was crap. Hello Uncle Sam, Uncle Timmy, and Uncle Ben, we've got a problem. Can you spare $29 Trillion to bail us out?

And that is why we are screwed.

I see two scenarios playing out. In the first, we allow Wall Street to carry on its merry way, as the foreclosure crisis continues and Wall Street steals all homes, packaging them into bundles to be sold for pennies on the dollar to hedge funds. All wealth will be redistributed to the top 1% who will become modern day feudal lords with the other 99% living at their pleasure on huge feudal estates. You can imagine for yourselves just what you're going to have to do to pleasure the lords. That is the default scenario—the outcome that will emerge in the absence of action.

In the second, the 99% occupy, shut down, and obliterate Wall Street.