Some Important Articles about the Current Economic Crisis

[This is a letter I sent to friends on April 9, 2008. –S.H.]

Hi everybody,

For those who are attempting to more deeply understand the long-developing U.S. and world economic crisis—which is currently intensifying in a quite alarming way—I would like to recommend the following new articles:

"Numbers Racket: Why the economy is worse than we know", by Kevin Phillips, *Harper's Magazine*, May 2008, pp. 43-47. (Unfortunately this article is not yet available online.) This article talks about how U.S. economic statistics have been systematically distorted for a long time now to make the economy look much better than it actually is. Phillips, who is a former Republican Party strategist turned liberal (!) and social thinker (!!), focuses especially on the gross distortion of the consumer inflation rate, the unemployment rate, and the national production growth rate (GDP). He does not mention, however, another statistical series that is even more grossly distorted than these three—the capacity utilization rate (the percentage of current productive capacity which is actually being utilized). According to the Federal Reserve, in Feb. 2008 the capacity utilization rate in U.S. manufacturing stood at 80.9%, but very likely the real rate is far below 50% and has been for decades.

Phillips demonstrates that the real consumer inflation rate has recently jumped up to 12% (if you include housing, energy, and food—which the government in various ways tries to discount) rather than the official rate around 4%. And he talks about how this grossly distorted rate is used to cheat people out of wage increases, increased Social Security benefits and the like. With regard to unemployment, he demonstrates that the actual rate is not the 5.1% recently announced for March, but something already above 9% (and currently climbing).

A much more general and important article about the current stage of the economic crisis is "The Financialization of Capital and the Crisis", by John Bellamy Foster, *Monthly Review*, April 2008 (and also available online at: http://www.monthlyreview.org). Foster writes (quite correctly in my opinion) that "What we will argue here is that this is not just another massive credit crunch of the kind so familiar in the history of capitalism, but signals a new phase in the development of the contradictions of the system, which we have labeled 'monopoly-finance capital.'"

Foster provides a graph showing that the percentage of U.S. corporate profits which were derived from the financial sphere have mushroomed from around 15% in 1965 to nearly 40% now. But most of this financial edifice is actually a house of cards which has been based on the creation of huge speculative bubbles in the stock market and in housing and other real estate prices.

Foster describes how the financiers created CDOs (Collateralized Debt Obligations) which appeared to somehow repackage sub-prime mortgages in a supposedly "risk-free" form, and how they fooled even themselves in the process of doing this. He explains how we are now in the "panic" stage of this housing bubble collapse. (This panic stage will continue for at least a large part of 2008 in my opinion, if not beyond that.)

But the real strength of Foster's article is his further discussion of how this all amounts to a crisis for a whole stage in the development of the economy, as a general crisis of this financialization period itself. He sees it as a transition into a period of more severe and sustained economic stagnation. And Foster gives Sweezy and Magdoff's somewhat superficial arguments as to why this will happen (p. 11 of the article).

Personally, I would go much further than all this, as Foster himself seems to hint at in the last few pages of the article. I think the situation is that the long world capitalist economic slowdown that began in the early 1970s is now reaching what it is currently fashionable to call a "tipping point" (or what we Marxists have traditionally called a point where a dialectical leap occurs). This is actually a transition period into what will eventually be seen as a major worldwide economic depression comparable to (but probably overall much worse than—and much more prolonged than—that of the 1930s).

For some time I have been arguing that the U.S. is following the path that Japan has taken over the past 15 or 20 years, of going into frequent recessions, with only weak and fairly short recoveries in between them brought about by massive bursts of Keynesian debt financing on the part of the government. But if what Kevin Phillips argues about the actual much weaker growth of GDP than claimed is true, then this phase may actually have also been going on in the U.S. during much of this same period. It was, however, hidden to a large degree by the dot.com bubble of the late 1990s, and the recent (but very short-lived) sub-prime housing bubble. That suggests that this U.S.-following-Japan-for-a-while theory may even be a bit too optimistic! Perhaps the "tipping point" (period of transition) is of much less duration than the decade or so I envisioned. In that case, perhaps we are much nearer the actual advent of the new depression than I had been expecting.

Whether the currently developing recession will get completely out of hand and soon develop into a full-blown depression is still quite uncertain. But I am surer than ever that this will happen with either this recession, or else one of those which will soon follow it.

I should also mention that the April 2008 issue of *Monthly Review* has several other important articles on political economy (unfortunately not available online):

* "China, Peak Oil, & Neoliberalism's Demise", by Minqi Li.
* "Market Mythologies/Capitalist Realities", by Samir Amin.
* "Finance, Imperialism, & Dollar Hegemony", by Ramaa Vasudevan.

Scott