Crisis Economics

A Review of Nouriel Roubini & Stephen Mihm's book
Crisis Economics: A Crash Course in the Future of Finance
(New York: Penguin Press, 2010, 343 pp.)

Even before the current financial and economic crisis took its serious turn for the worse in late 2008, there were already appearing a number of books about it. One such book was *The Trillion Dollar Meltdown*, by former banker Charles Morris, that came out in February 2008. It had some useful information in it, but because it appeared so early it could not of course describe all the more serious events that had not yet occurred. (For one thing, the meltdown soon proved to be much worse than a mere $1 trillion dollars!) Moreover, because of his bourgeois ideological perspective, Mr. Morris was not able to really understand and predict just how bad things might become.

I mention this because eventually we will be saying much the same thing about the book under review here, *Crisis Economics*, by Nouriel Roubini and Stephen Mihm. This book is far more thorough about what has transpired so far in this very serious crisis, approaches it in much more of an all-sided manner, and may in fact be the best summation of the *financial* aspects of the crisis so far. But it also is written from a bourgeois perspective, assumes the worst of the crisis is pretty much over, and despite mentioning some hair-raising "possibilities" has no idea just how bad things are destined to get over the next several years.

The lead author, Nouriel Roubini, is more familiarly known by his nickname, "Dr. Doom". He has written a column under that name for a number of years, because he has been pretty consistently much gloomier about the immediate future of the economy than most of his bourgeois peers. Interestingly enough, this book—and not even its jacket—makes no reference whatsoever to that "Dr. Doom" sobriquet. Perhaps he is now trying to transform himself into a more respectable economic guru! Still the book does remind the reader on a number of occasions that Roubini predicted the financial crisis a year or two in advance.

This book, in common with probably *all* bourgeois books on this crisis to date, views it virtually entirely as a *financial* crisis and does not even seriously consider the possibility that it may have arisen because of some inherent fault within the capitalist mode of production itself. That Marxist idea is of course absolutely taboo!

However, early in the book the authors seek to show how broadminded they are by not only talking about John Maynard Keynes, Joseph Schumpeter, Hyman Minsky and Irving Fisher, but by mentioning "even Karl Marx" (p. 37). They even credit Marx as "the first thinker to see capitalism as inherently unstable and prone to crisis" (p. 46). Actually this isn't really true. Marx himself notes that others before him, especially Sismondi, recognized the inevitability of crises under capitalism.

Roubini and Mihm go on to say:

> In his [Marx's] estimation, capitalism is chaos incarnate; it will inevitably plunge into the abyss, taking the economy with it. Marx thus stood apart from an earlier generation of political economists who saw capitalism as a system that would reliably govern itself. Capitalism, he warned, is doomed. So far Marx has not been proved right. But his larger point—that crisis is endemic to capitalism—is a hugely important insight: after Marx, economists had to reckon with the possibility that capitalism contains the seeds of its own demise. Crises aren't a function of something as banal as the opening of new markets or shifts in investor psychology, much less sunspots. Capitalism *is* crisis; it introduced a level of instability and uncertainty that had no precedent in human history.
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> But Marx's vision was not widely shared. Most mainstream economists in the late nineteenth and early twentieth centuries advanced the idea that the economy is a self-regulating, self-correcting entity, one that will, if left to its own devices, generally move toward a state of equilibrium, with stability and full employment as inevitable results. For sure, crises come and go, but they will not stay.
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> This quaint confidence disappeared in the Great Depression. [P. 46; the link to my comments about the "sunspot" theory of crises is added.]

But though the authors say this, they soon retreat to the Keynesian perspective, that while capitalism does in fact have some rather obscure internal problem that leads effective demand to falter *at times*, this can quickly be fixed by running short-term government deficits which will soon lead to everything running just fine again. (This essential aspect of Keynesianism is the theory of "pump priming".) In other words, Roubini & Mihm—like all bourgeois economists (including Keynes)—deny that there is really any *fundamental* long-term problem with capitalism.

Although it is not an important element of this book, I should mention that on page 45 the authors completely distort Marx's theory of economic crises. They give only one skewed version of the "falling rate of profit" theory, which is itself only one of three major crisis theories in *Capital* (and is in my opinion not the correct one). They do not even begin to understand that the real ultimate source of capitalist economic crises lies in the very extraction of surplus value from the workers.

So while the authors credit Marx with being the first to understand the inevitability of crises in capitalism, they do not understand (let alone correctly present) Marx's analysis that led him to that view.

Discussion of the 2008-2009 Financial Crisis

The book does a pretty good job, in my estimation, of explaining many of the intricacies of the financial crisis, the housing bubble and securitization, and what all these sorts of things like Collateralized Debt Obligations (CDOs), Credit Default Swaps (CDSs), Structured Investment Vehicles (SIVs), etc., are all about. If you want to understand these sorts of things better, this is a good place to start.

There actually is a bit of redundancy in the book on this score. For those already familiar with these financial instruments the book might seem a bit tedious at times. But for those who are still trying to get clear on all this jargon, this revisiting of topics from new angles can actually be helpful.

The book is at its strongest in talking about the specifics of the financial crisis, the role of the Fed in promoting it and later trying to resolve it, and so forth.

But the book is considerably less successful in looking at the "big picture", especially the long-developing overproduction crisis which it scarcely even acknowledges. And the authors do not even understand that the financial crisis itself finds its deepest explanation in the basic functioning of the capitalist system of production.

"All Crises End…"

The book has a somewhat schizophrenic attitude toward whether this current crisis is even over or not! On page 9 they say: "All crises end, and this one was no exception." Note the past tense. But the next sentence is: "Unfortunately, the aftershocks will linger on for years if not decades." Jeez, that sounds to me like the damned thing is not over at all! In the last chapter ("Outlook"), they discuss whether the current recession will take the shape of a V, U, W or what (and decide that it will probably be a U, i.e., a very slow "recovery"). But doesn't that also indicate that the crisis is not really *over*? Moreover, in the later parts of the book they discuss many other things that could arise from the crisis and compound it—such as sovereign debt collapses in Europe or elsewhere, serious deflation or inflation, currency collapses, including possibly the dollar, and so forth! Again, if these are even possibilities it sure doesn't look like the crisis is over to me!

So what is going on here, anyway?! It seems to me that this notion that "the crisis is over" results in part from the absurdly short horizons of bourgeois economists. This derives from the capitalists themselves. We constantly hear about the problem wherein corporate management is mostly concerned only with the next quarter's profits. For them two years down the road seems to be an eternity! But it is less commonly noticed that this short perspective affects bourgeois economists almost as much as it does corporate managers. If GDP rises for a quarter or two, a recession is deemed to be "over", and everything is hunky-dory! What a bunch of dopes!

Even for Dr. Doom, the crisis is supposedly over! The *crisis*, as the authors of this book understand it, was apparently concentrated in just the 4^{th} quarter of 2008 and the 1^{st} quarter of 2009 (or perhaps just a bit longer than that). It is true that this 6-month period was the worst episode of *financial crisis* so far, but from the point of view of the whole economy and the life of the masses this is just one short period in the overall crisis. If bourgeois economists would shift their focus from Wall Street financiers for a few minutes they might come to understand this.

Apparently if the there is a renewed slide in the real economy in the second half of 2010 (as seems already to be developing, that will mean that the shape of the recession is either a W ("double-dip"), or else it might get counted as a *new* recession (and maybe not part of what they have been calling the "Great Recession" at all). If there is a new round of financial panic (due to an intensified sovereign debt crisis in Europe perhaps), this will be a "new" crisis, apparently, and not just another episode in the existing crisis. At least this seems to be the way these bourgeois thinkers conceive of things!

We Marxists take a much longer view of the economy of course, and perhaps sometimes such a long view that non-Marxists have a hard time going along with us. Thus I think first of all in terms of the longest distinct periods in the economy, such as the Great Depression, the World War II period, the post-war reconversion period (3 or 4 years), the quarter-century long post-WWII boom which petered out in the early 1970s, the 3-decade long slowdown (in which GDP grew on a world level at only half the rate of the post-WWII boom), and now a new period of intensifying economic crisis.

Within this new period of overall intensifying crisis we have had so far a mild recession (now officially beginning in Dec. 2007), sporadic financial crises erupting into a major financial crisis in the last quarter of 2008 and first quarter of 2009, intensifying recession and unemployment in 2009, then a very weak and limited partial "recovery" in late 2009 and early 2010 (that still didn't pull us out of the recession as far as unemployment and the general condition of the working people go), and now in mid-year 2010 signs of a relapse as the major Keynesian "stimuli" of 2008-2009 fall off.

In other words, for me—and at least since late 2007—this is all one big crisis! And we have by no means seen the end of it yet! Yes, there are ups and downs within this crisis, periods when massive bursts of Keynesian deficit spending ease the recession for a bit, then periods where the crisis intensifies again as the politicians try to move towards "balancing the budget". But overall, it is still one big crisis, and one that is overall continuing to develop. Unemployment, for example, was still getting worse in 2009 at the very time bourgeois economists were saying that "the worst is over".

In fact, in reality, the overall economic situation is continuing to unwind. This period is what might reasonably be called "the Great Unwinding", as the economy continues overall to sink into a new depression (despite small ups and downs along the way). There will be new episodes of financial crisis within this as well, and in fact the biggest episodes of all are still down the road a fair ways—with the collapse of the sovereign debt bubble of the United States, the collapse of the dollar, and the resulting hyperinflation in this country.

Roubini & Mihm's book *Crisis Economics* does briefly talk about some of these "dangers" or "possibilities", but strangely it does not even try to conceive of all of this as a unified overall crisis, let alone as a unified crisis whose origin is within the very functioning of the capitalist system. Apparently that is just too big an idea for not only them but for all bourgeois economists.

Conclusion

The book purports to "offer a road map, not merely of how we got into this mess, but how we can get out—and stay out" (p. 11). But this "road map" is actually little different in its essentials from what most bourgeois economists are now saying, namely that:

- The crisis was essentially one in the financial sphere.
- Credit, debt, and asset bubbles can be avoided.
- The financial crisis, and the popping of these bubbles, did lead to this severe "Great Recession" (in the "real economy"), but the source of those problems was still in the financial sphere.
- The entire reason the crisis broke out was because of the wild speculation of insufficiently regulated financial institutions, including those in the "shadow banking system".
- Such financial/economic crises—even if they do break out—can always be brought under control if the proper methods are used (as was pretty much done in this case).
- We have therefore learned the appropriate lessons from the Great Depression of the 1930s and there need never be another depression.
- While there are still "dangers" in cleaning up this mess, if it is done right there need be no further moments of crisis.
- Appropriate laws and regulations can prevent this sort of crisis from ever happening again.

Every single one of these propositions is false! I feel sure that this will eventually become clear, partly as a result of future events.

There are several points made in this book that are so much truer than the authors can themselves possibly comprehend. One such is on p. 14: "That the recent crisis bears so many eerie similarities to a catastrophe that unfolded decades ago is not a coincidence: the same forces that gave rise to the Great Depression were at work in the years leading up to our very own Great Recession." Despite all these parallels Roubini & Mihm cannot understand the identical true deep cause of both!

Starting on p. 100 there is another ironic example, where the authors talk about the frequent inability of writers on economic crises to understand that what they take to be the *end* of a crisis is actually only the "eye of the storm". I am predicting that this very same fate will befall them within a year or two!

Back on p. 15 there is an even better example: "Crises have even paved the way for wars, much as the Great Depression helped set the stage for World War II. Ignoring them is not an option." Although the authors cannot begin to understand this, it was World War II that ended the Great Depression—*not* because of the massive Keynesian deficit spending by all the major capitalist countries leading up to and during the war, but because of the massive destruction of *capital* that the war itself brought about. The true resolution of this current crisis will require an even more massive destruction of "excess" physical capital. ("Excess" from the standpoint of profitably employing it within the confines of the capitalist system.) It once again appears that only world war might be capable of destroying capital on a sufficient scale. The problem this time is that such a war is likely to wipe out humanity along with the capitalist system and its crises.

The only alternative form of resolution for this long-developing and now qualitatively intensifying world capitalist economic crisis is worldwide social revolution.

—Scott H. (7/26/10)