

# Analysis on Bubble Economy Phenomenon Aggravated in Capitalist countries

*Ri Yong Nam*

In recent years, economic chaos and crisis are revealed in more and more various and complicated form in capitalist countries. The vulnerability of the market economy system has been aggravated into a complication incurable no longer, which is proved by the deepening of bubble economy phenomenon.

The great leader Comrade **Kim Il Sung** said as follows.

**“So long as the capitalist system remains intact, the economic crisis can never be checked nor can its disastrous consequences be warded off.”** (“**KIM IL SUNG WORKS**” Vol. 30 P. 229)

Capitalist societies are characterized by spontaneous market relations and all the economic activities there are subject to money. Therefore, it is unavoidable that bubble is formed in the market economy system.

Bubble economy is referred to as an instable economic situation with no content but puffy appearance. It is an economic phenomenon where an economy seems to be vitalized temporarily by high demand of securities or assets over their supply which causes abnormal raise of their prices and in turn, leads to concentration of speculative investments in them.

Bubble economy phenomenon, mainly represented by the raise in the prices of assets like stocks, bonds and immovable properties, is not an economic growth resulting from the real movement of functional capitals such as productive or commodity capital. It is nothing but “an economic growth” in money denomination, made by the high inflation of assets.

In a bubble economy, considering its appearance, assets prices increase, and together with it, gross national product, investment, income from state budget and total turnover, especially the volume of business in securities or immovable properties increase.

In a bubble economy, the economy is apparently exaggerated and seems to be prosperous, but production and distribution decrease in size rather than increase.

The generation of a bubble economy is shown in different aspects.

It is shown, first, by abnormal raise in the value of fictitious capital.

In principle, it is normal that the value of fictitious capital is directly determined by the value of actual capital and estimated income, and indirectly affected by interest rates formed in markets.

In the modern capitalism where there exist various financial products and financial securitization has extensively been made, the prices of securities are more represented by the market interests affecting on the prices of fictitious capital which is therefore decided by the interests of financial assets more directly related to corresponding assets. Shares are long-term assets, whose price decision is influenced by estimated income and the interests of long-term government securities. Factors acting on the decision of shares and other fictitious capitals are referred to as basic conditions for price fixing.

The price of securities including shares rises as the income obtained by holding assets such as dividend income increases or market interests become low because of favorable market situation, or

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drops as the estimated income decreases or market interests become high.

In case the value in fictitious capital fluctuates according to market situations, its raise is not a manifestation of bubble formation. But in case the market situation is slack and estimated income and in particular, dividend income from the holding of shares does not increase or decrease, the raise of share prices represents the deviation from the normal fluctuation of stock prices and at the same time, one of manifestations of an economy's becoming a bubble economy.

The generation of surplus capital due to market contraction, the increase in short-term, liquid money by the difference between interest rates or exchange rates, the cutback in production, the increase in financial transactions due to low interest rates and other different factors raise the value of fictitious capital to the extent that its basic conditions can not explain the reason. This is not a rare phenomenon in the modern capitalism, which is precisely a direct manifestation of a bubble economy formation.

Second, the generation of a bubble economy is shown in a rapid expansion of a particular market, mainly financial market.

A financial market is referred to as a market where different financial products are traded, and its situation is shown by the market volume of business, the price of financial goods, interest rates, etc. When a bubble economy is formed, the prices of shares and other financial products go up, causing them to be traded on a tremendous scale and interest rates to go up at random impertinent to market situation.

If the prices of financial products are deviated from their usual manner, banks and other financial institutions tend to obtain profits from the different prices in financial transactions rather than actual reproductive fields, thus being involved in the purchase and sale of those goods. In addition, non-financial institutions may enter the same market, which as a result, accelerate the raise in the prices and rapidly expand financial transactions.

Today the inconsistency between monetary movement and movement of actual things and the separation of financial economy from substantial economy which are severe in America, Japan and other major capitalist countries are the result from the process of an economy's becoming a bubble economy, which has accelerated in capitalist countries.

Third, the generation of a bubble economy is shown by the great increase in various kinds of speculations and the disorder of capitalist markets.

When a economy has become a bubble economy, false demand beyond actual demand is made in economic activities and during this process, the existing pattern of production, distribution and wealth redistribution changes. This will give the opportunity to make unexpected profit to speculators and financial brokers.

Availing themselves of this opportunity, not only financial brokers and speculators but also ordinary enterprises and individuals are involved in speculations in shares, real estate and other various fixed capital, thus increasing speculative activities in geometric progression and changing the whole society into a gambling house.

Money is used not as an intermediary means of goods and service but as a means to increase profits only. The main activity to increase wealth is not production and distribution but the issue and

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transaction of shares, bonds, securities and so on.

The prevalence of such speculations will inevitably reveal the vulnerability of securities markets and other capitalist market relations, and upset the whole capitalist economy.

As the unavoidable consequence of the capitalist market economy system whose nature is spontaneity and anarchy, the formation of a bubble economy has been constantly stepped up with the appearance and development of capitalism.

The bubble economy phenomena have been seen since the early stage of the appearance and development of capitalism, starting with “Tulip Bubble” of Netherlands in the 17<sup>th</sup> century, “South Sea Bubble” of Great Britain in the 18<sup>th</sup> century and “Louisiana Bubble” of France and the like. Among these, “South Sea Bubble” is a prototype of bubble economy phenomena happening in the modern capitalism.

Since then, the bubble economy phenomenon has been continuously happened in capitalist societies.

The bubble economy phenomenon which came up to the surface with the 1929-1933 economic panic as a start is a typical example in the history of the capitalist economic development..

The modern capitalist economy witnesses the more frequent and larger-scale appearance of a bubble economy. The bubble economy phenomena were not strikingly revealed between the post-World War II and the end of the 1960s to the beginning of the 1970s in the shadow of the relatively lasting “high growth” and the international economic cooperation system. But up to now since the 1970s, the capitalist economy has ceaselessly suffered different kinds of crises and economic bubble phenomena, but failed to find clear remedies.

A bubble economy has been constantly appearing and collapsing in the modern capitalism owing to the excessive expansion of business condition and fictitious credit inflation often revealed in reproduction cycle and at the same time, owing to governments’ financial and exchange rate policy, random flow of hot money, financial liberalization, people’s subjective psychological impact, domestic and international political situations, etc. Furthermore, the bubble economy phenomena formed in a country or in an industrial sector are soon proliferating to other countries and the whole sectors, and today it is an economic phenomenon which is frequently happening not only in major capitalist countries but also in their dependent backward capitalist countries and developing countries.

In particular, the breakdown of the Japanese bubble economy in the early 1990s clearly shows the parasitic character of the modern capitalist economy and the seriousness of financial and monetary confusion and crisis and its undesirable aftereffects.

The same case is found even in this new century. In 2007, the house bubble burst in America, which led to the outbreak of a financial crisis called the crisis of the sub-prime mortgage market. This jeopardized the whole world with the destructive and diffusive power unusual in the history.

The house bubble was formed in America because more money flowed into financial markets, real estate market in particular due to the easy-money policy pursued from the second half of the 20<sup>th</sup> century and this resulted in the raise in house prices.

In general, if the price of a product goes up continuously for a certain period of time, it encourages a lot of speculations. This is the same case in America. At that time, many financial

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institutions and householders including mortgagees thrust themselves into house speculation to gain excessive profits. Speculations were widely prevalent as days went by, attracting a colossal amount of 1 400 billion dollars up to 2006.

In the early 2007, owing to the decline in dollars, the price hike due to the raise in oil prices, the raise in interest rate, the decrease in the demand for house, etc., the house bubble burst at a time and house prices began to decline heavily.

As house prices dropped, firms and individuals actively involved in house speculation went bankrupt in a heap of debts and financial institutions which made a loan to them at random were also ruined in succession. At that time, 30% of the total assets possessed by domestic commercial banks was invested in mortgage markets. Therefore, the sudden drop in house prices was like a knockdown blow in the American economy. The drop in house prices caused a successive drop in the prices of different kinds of securities and financial derivatives concerned. This crisis instantly swept the whole financial world including commercial banks, investment banks, insurance companies, credit rating institutions, etc. and continued to spread over America and the whole world of capitalism. Because huge American banks circulated different kinds of “financial derivatives” in domestic financial markets on the basis of the securitization of the debts concerned with house loan and big investors of different countries including Europe put a lot of money in the same market, America and many other countries of the world were drawn into this crisis.

The bubble which was excessively swollen by speculative economic activities arbitrarily conducted in keeping with “the unlimited free market principle” prevailing in the American-style capitalism burst at once due to the change in market condition, which then spread over the capitalist world in the current toward “economic globalization”.

Under the modern capitalism, the phenomenon of a bubble economy is an incurable disease constantly threatening the capitalist system and a companion in economic development which arbitrarily appears without reference to economic situation. In the past, a bubble economy was considered as a concept of temporary and specific market conditions. Today, however, it is one kind of crises which commonly happens due to the characteristics of the economic relations of the modern capitalism.

With a clear understanding of the corruption of capitalist economic system, we should firmly defend the socialist system of our style centering on the popular masses and constantly improve and complete our economic management method in accordance with the developing situation, thus actively hastening the struggle for the building of the socialist powerful and prosperous state.