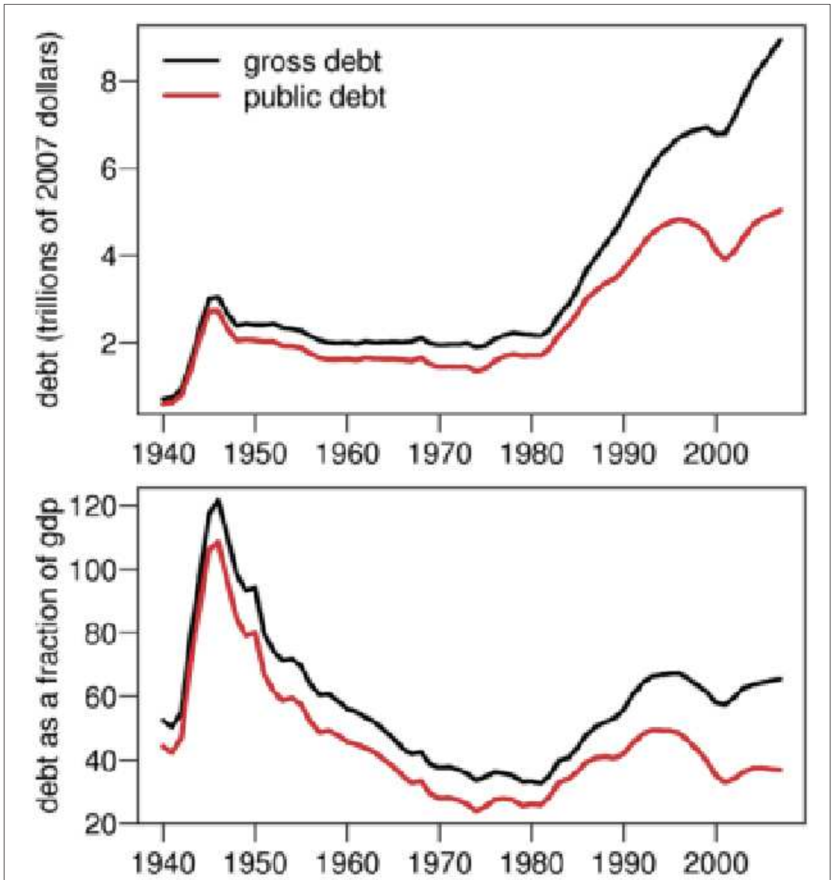
Is this “The Big One” Coming?

On January 12, 2009, Paul Craig Roberts reported in “Counterpunch” that total job losses in the previous year in the US were officially 3.4 million, plus an additional 1.15 million that official methods of figuring fail to account for. He also reported that if the unemployment rate were calculated as it used to be prior to 1980, it would stand at 17.5% today, as opposed to the official figure, which is less than half that amount.

The real unemployment rate of 17.5% raises, again, the question of whether we are witnessing a prelude to a crisis on the scale of the 1930s, during which unemployment reached some 25%.

As for industrial production: From 1929 to 1933, it declined by 48.7% (Preis, “Labor’s Giant Step, p. 6). From November of 2007 to November of 2008, it declined by 5.5% (according to a release from the US Federal Reserve). This is less than half of the early years of the Depression. However, these more recent months only reflect the very beginnings of the decline; there is every reason to expect this to accelerate in the coming months.



(source: Wikipidia)

In recent years, consumer spending has risen to almost three quarters of the US GDP. Therefore, consumer debt is of fundamental importance.
-- In the 1920s, outstanding consumer debt (excluding mortgage debt) was 6.7 percent of household income. In the 1930s, it rose to 9.6 percent. In 2006, consumer debt (again excluding mortgage debt) was 25.1 percent of household income.

The main means of ending the Depression was federal spending – on war production. Therefore, it’s useful to look at the state of the federal government’s ledgers. Look at the figures for the national debt:

	US national Debt	as % of GDP
1930	$16.2 bn	18%
1940	$43 bn.	52%
1946	120 bn.	120%
1950	257.4 bn	94.1%
1980	930.2	33.3%
2008 (est)	10,024.7 bn.	72.5 %(est.)

Clearly, what happened was that federal spending ballooned during WW II, with a great proportion of this spending going into industrial production. At the end of the war (1946), massive federal deficits declined as the post war boom took off. The national debt as a percentage of the total economy continued to shrink during this entire period, right up until 1980, when it started to rise again. (During the Clinton years it decreased a bit, but this was quickly overcome.)

So, at the outset of the Depression, the national debt was about one third of what we are facing today. This will give the federal government a lot less room to maneuver. The perspectives are not very rosy for the immediate future. According to “Money and Markets” (1/12/09), the deficit for the first quarter of 2009 is slated to surge by 353% over the year earlier quarter. This same source estimates that the federal deficit will surge to 10% of GDP and that federal spending will be 25% of GDP – a level not reached since WW II. These figures are based on overly rosy assumptions by the US Congressional Budget Office (CBO), which makes these calculations based on assumptions such as that the financial/banking crisis is essentially over.

This present spending is essentially going down a rat-hole. This is true because the heart of the problem is that production was kept afloat by increased debt of all sorts. The overwhelming bulk of the federal bail-out money is going to directly boost the bottom line of finance capital, vs. in the 1930s and ‘40s, when much of it went to federal projects and later to war-time industrial production.

An all-out economic crisis will not necessarily take the same form as that of the 1930s, though. Despite their destination in finance capital, the massive federal bail-outs are serving to slow down the collapse of production. At present, these bail-outs are financed by selling federal bonds. Investors, both foreign and domestic, are willing to buy these bonds at extremely low interest rates because they have nowhere else to put their money. This cannot continue indefinitely.

At some point, the demand for US bonds and Treasury Notes will diminish. When this happens, the Treasury will have to raise the interest rate it pays. This will further decrease the credit available to private companies. In addition, the federal government will have to repay this debt at some point.

According to one observer (http://www.depression2.tv/d2/node/251), "*About five years back I began scrutinizing US T-bill holdings. Three years ago to my great surprise it appeared that both China and Japan had stopped accumulating US debt. Out of nowhere came a new category of buyers referred to as "Carribean Banks". My understanding is that this is a nice euphemism for FED-owned hedge funds who serve as a shill buyer to keep up the appearance of demand for US debt. This practice represents monetarization of US debt. Simply put, the money gets printed in the absence of a real live bond buyer.*"

Whether this report is true or not, it warns of a general process that seems nearly inevitable – the monetarization of US debt, through which the US Treasury simply prints up money to buy federal bonds. At this point, inflation would start to shoot into the stratosphere.

In this way, a new economic crisis would differ in form from that of the 1930s, but the underlying contradictions that caused the crisis would be the same: Private ownership of the means of production (leading to a tendency towards overproduction and a tendency for the rate of profit to fall) and the existence of the nation states in the era of world production and distribution.

I think it is still too early to say that we are definitely headed towards such a massive crisis in the next year or so. However, the facts make it appear increasingly likely.