

# Global Economic Crisis Gets Deeper and Deeper

by Alan Singer

The joke about left-wing economists is that they have successfully predicted ten of the last three recessions. They don't like capitalism, so they are all gloom and doom. I am not an economist but I am a left-wing historian. In my professional opinion as a historian, the global economy is in deep trouble and I fear it is going to get worse, unfortunately a lot worse, not better.

I wish this were not the case. I would like my children and grandchildren to have a good life. I would like to finish out mine with health insurance and without being impoverished. But I am very skeptical and I am battenning down the storm doors.

Who would have thought that we need to worry about the financial solvency of Dubai, an artificial country on an artificial island. It sounds like someone's avatar. Dubai is the most populous state of the [United Arab Emirates](#) (UAE). It is located on the [Arabian Peninsula](#) along the southern coast of the [Arabian Gulf](#). In the summer the average daily temperature is well over 100 degrees Fahrenheit.

This fictitious country is really a corporation governed by a board of directors with its monarch as CEO. Its population is 1.4 million people but only 300,000 are women. These are not citizens but guest workers that have been building a capitalist theme park for the superrich. Corporate Dubai accumulated \$59 billion in debt borrowing to build extravagant construction projects like a giant island shaped like a palm tree. But no one needs it and now with the economic downturn Dubai is on the verge of bankruptcy. Foreign banks have \$130 billion in capital tied up in the United Arab Emirates; British banks have

the largest exposure, \$51 billion. If the Dubai Ponzi scheme collapses, it could bring down many western banks with it.

According to a Bank of America report, "One cannot rule out . . . a case where this would escalate into a major sovereign default problem, which would then resonate across global emerging markets." I would say this is a conservative reaction.

According to *The New York Times*, "just as [Bear Stearns](#) was a harbinger of a string of failures of overly leveraged investment banks, the concern is that Dubai could be the canary in the [coal](#) mine for heavily indebted countries," the worst are Greece and Russia, but they include Japan and the United States. In other words, if Dubai or an other small but deeply indebted country goes, it could set off a series of escalating financial collapses by banks, corporations, and countries around the world and no one will be immune. And you were worried about swine flu.

If you are not depressed enough, the U.S. economy is being kept afloat by record-breaking borrowing. In 1960, the ratio of debt-to-personal-disposable income was 55%. In 2007 it was over 130%. Total debt, surged from 143% of the Gross Domestic Product in 1951, which was right after World War II, to 350% of G.D.P. in 2008. In 2007, the federal deficit was 1.2% of G.D.P. In 2009, only two years later, it was 13%.

The country produces nothing and purchases goods from China on credit. In September 2009, U.S. federal, state, and local governments and corporations owed China about \$2 trillion. Meanwhile China is vastly overproducing and facing its own

economic crisis. More and more of its companies are stockpiling goods and are at the risk of failing. Approximately 100 million Chinese migrated from the countryside to the city to work in these factories. What happens to all of these people when the Chinese economic bubble bursts? What if a bankrupt or recession ridden China stops lending the US money? What if it starts calling for repayment of what is already owed?

This is not just leftwing towel wringing. James S. Chanos, who built one of the largest fortunes on Wall Street by anticipating the collapse of Enron and other highflying companies whose stories were “too-good-to-be-true” is now betting against China. He believes the China miracle blinded investors to the risks in that economy. He warns that China’s hyper-stimulated economy is headed for a crash, rather than the sustained boom that most economists predict. According to Chanos, China’s surging real estate sector, buoyed by a flood of speculative capital, looks like “Dubai times 1,000 — or worse.” he frets. He also suspects that Beijing is cooking its books, faking, among other things, its eye-popping growth rates of more than 8 percent.

You thought your student loans were a problem. This country is mortgaged up the wazoo. Where is all of that money going to come from? You and me? We can’t pay taxes if we don’t have jobs.

### **The Capitalist System**

The problem is made worse become under the capitalist system, at least according to the Keynesians, borrowing is the only way for a country to spend itself out of a recession. If government cuts back its borrowing and spending or raises taxes to cover costs, the system collapses in on itself like it did from 1929 to 1932 during the Great Depression.

Now there is a tried and true method for getting

out of capitalist economic depressions. Borrow and spend without limit to build up your own industrial base while reducing the productive capacity of your competitors. This worked very well from 1939 to 1945 when the US built up its military machine and bombed the hell out of its enemies. But that was World War II and 60 million people died to produce that economic miracle.

I don’t think tinkering with the economic indicators, smarter management, or tightening our belts is going to solve the world’s economic problems. The economy is fundamentally irrational and needs a major overhaul. Production is for profit, not to meet human needs. Companies loot the environment and abscond with surplus value. They then gamble it away on worthless ventures.

### **Fair Trade, Not Foul Trade**

I do have a plan that might be able to rein in capitalism, provide work for the unemployed, and help the environment, all at the same time. Unfortunately I was not invited to either President Obama’s jobs summit or any of his local forums. Maybe you can write your elected officials and demand they give Alan’s plan a hearing.

My major proposal is that fair trade must trump free trade because nothing is every really free. There must be no more child and bonded labor, no more lead paint in children’s toys, toxic sheetrock, or contaminated foods and medicines. We must demand that all imported goods meet U.S. and international labor, product safety, environmental, and human rights standards with inspection and certification paid for on site by producers. This will eliminate the incentive for corporations to ship jobs overseas. When goods are imported, the government must inspect all shipping containers with the cost of the inspections borne by the importers.

My second proposal, if the government is really serious about employment and the environment, is government created, subsidized, owned, and operated experimental green factories. With these experimental factories the United States can start producing goods again and American will be put to work doing useful, productive, jobs. I do not trust subsidies to corporations to promote jobs and the environment. The most recent bailout shows that capitalists, in order to maximize their profits, will find loopholes in the law to twist it in ways it was never intended.

To people who worry this is socialism, my reply is "so what?" It is a practical solution that actually addresses many of our nation's economic problems. If the government wants to sell the green companies to the private sector once they are up and running, as a democracy we can always discuss that possibility later.

It is estimated that some 800 million people in the world suffer from hunger and malnutrition and that in

the U.S. one out of every eight children under the age of twelve goes to bed hungry every night. We may be approaching a new "Dark Age." If the global economy collapses in the way I anticipate, the only positive thing I see for the future is we won't have to worry about global warming.

Despite what I have said so far, I am not a determinist and I do not believe the future is written in stone. The global economy may implode, or it may gradually unwind. If it unwinds there is more time to stabilize things and there are more options.

What sustains me through times of trouble is the belief that people can understand the nature of the crisis. They can act collectively to create a more socially responsible economic system and a just world that values human needs above short-term corporate profit. We can plan for the future instead of relying on a mysterious market place invisible hand or an as yet to be discovered technology to bail us out.

**Recommended DVD – Capitalism Hits the Fan: Richard Wolff on the Economic Meltdown**

“With breathtaking clarity, renowned University of Massachusetts Economics Professor Richard Wolff breaks down the root causes of today's economic crisis, showing how it was decades in the making and in fact reflects seismic failures within the structures of American-style capitalism itself. Wolff traces the source of the economic crisis to the 1970s, when wages began to stagnate and American workers were forced into a dysfunctional spiral of borrowing and debt that ultimately exploded in the mortgage meltdown. By placing the crisis within this larger historical frame, Wolff argues convincingly that both the government ‘bailouts’; and calls for increased market regulation will not be enough to address the real causes of the crisis – in the end suggesting that more fundamental change will be necessary to avoid future catastrophes.” - Amazon.com