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“A perfect storm is coming”

An interview with Fred Moseley (Mount Holyoke College, USA)

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RR: At the last interview we have done in December 2006, you predicted we were facing a “perfect storm”. What stage of this storm are we in today?

FM: I would say that we are fairly early in the storm. The worst is yet to come, and there is not much the government can do about it. More on this below.

RR: What were the keys of your analysis that have allowed you to predict the crisis?

FM: The main key of my analysis was the high level of debt in the US economy, especially household debt and also the foreign debt. The ratio of household debt to disposable income passed 100% in 1999 (for the first time in US history) and continued to increase sharply to 130% by 2006 (it was 40% in 1950 and 60% in 1980). It seemed likely this unprecedented level of debt could not be sustained for much longer, and would eventually lead to defaults and bankruptcies, which are happening now.



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And this unprecedented level of household debt was made possible to a large extent by the record inflow of foreign capital in the US in the 1990s and early 2000s, which reached a peak of \$1trillion in 2007. This was outrageous, the richest country in the world receiving three-quarters of the total international capital flows! And again, it did seem likely that such an unprecedented inflow of foreign capital could not be sustained for much longer, and would eventually lead to declining inflows, a falling dollar, and higher inflation, which are all happening now.

RR: What kind of crisis are we living?

FM: This crisis began as a home mortgage crisis and a financial crisis. But it is now spreading to a broader crisis for the rest of the economy due to a “credit crunch”, i.e. banks are cutting their lending to industrial and commercial and household borrowers, because of the banks’s own losses. This reduction of lending will be a severe blow for the rest of the economy, and will lead to a recession.

The roots of this crisis go back to a very significant decline in the rate of profit in the 1960s and 1970s, and attempts by capitalists since then to restore the rate of profit. The main way to restore the rate of profit has been keeping wages down, which in turn is an important reason why household debt has risen to such extraordinary levels in recent decades. I will discuss more about this background of the current crisis at the congress.

RR: What must happen before US economy can start a recovery?

FM: The main precondition for recovery is the elimination of a large portion of the existing debt, which requires foreclosures and losses and bankruptcies, which will make things worse in the short run.



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RR: What is the effect of the Fed and other policies? Are they going to help to a recovery of US economy?

FM: The best the Fed can do is stop the immediate bankruptcy of a bank or banks by acting as “lender of last resort”. But the Fed cannot solve the fundamental problems of falling housing prices and foreclosures of mortgages. So the Fed can postpone the worst, but it cannot promote a recovery. Indeed, by postponing the worst, it is also postponing recovery.

Congress passed a law to deal with the foreclosure crisis, which allows for the replacement of existing mortgages which are in default with new mortgages that would have a value of approximately 70% of the original mortgage, and these refinanced mortgages would be guaranteed by the Federal Housing Administration. However, this refinancing must be initiated by the lenders, and it remains to be seen how many lenders will initiate these writedowns of the debt, unless the mortgages are very bad.

RR: Some economists, such as Roubini, claim that is the worst crisis since the 30s. What do you think about this affirmation?

FM: I think Roubini is clearly right about this. But he thinks the crisis will only last another year or so, and I think it will last longer than that.

RR: What are the main effects of this crisis in the US for the working class?

FM: The main effect on the working class so far is the loss of homes for several million homeowners and tenants (whose landlords have been foreclosed on). Many of these



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workers have little or no savings as a cushion, and so are undergoing real hardships looking for new housing, etc. Another important effect is declining real wages for almost all workers, as prices are increasing faster than money wages. It appears likely real wages will continue to fall in the next few years, and thus living standards will continue to decline. And a third important effect, which is likely to get worse in the months ahead, is rising unemployment. According to government statistics, the number of jobs in the US economy has declined by about half a million over the last year, and this is an underestimate. Probably two million more workers will lose their jobs in the next year or two, as the recession worsens.

RR: The idea of a “decoupling” was strong at the beginning of the crisis, now Spain and other countries are facing problems, can we talk about a “world crisis”?

FM: Yes, I definitely think that this will be a world economic crisis. The world economy is somewhat less dependent on US growth than it was a few years ago, but the US economy is still the most important “engine of growth”, and a recession in the US will have serious negative effects on the rest of the world, including Latin America.

RR: Prices of commodities as petroleum or grains crops are very high; do you think this respond to the formation of a new bubble or is a structural change in demand by the entry of China? How long these high prices can last?

I think the high prices of oil and commodities are due to a combination of both a speculative bubble and an increase of demand from China and India and other emerging countries. But I think the world-wide recession will soon cause these prices to fall, as is already happening with oil.



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RR: What is the perspective for countries specialized in commodities exports such as Argentina ?

FM: I would say that the prospects are not very good. As the world economy falls into recession, the demand for commodities will fall, which will hurt the exports of commodity-exporting countries like Argentina. It seems to me that the “commodity export led growth” of recent years in Latin America is coming to an end.

RR: Finally, what do you expect of your soon coming and participation at the 1st International Congress of Research and Political Debate?

FM: I have never been to Argentina, and I look forward very much to the Congress, and to learning more about Argentina, and to meeting comrades there.