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China Shifts Course, Is A Global Financial Crisis Brewing?

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The past year the US and global 'real' economies have enjoyed a moderate recovery. Much of that has been due to China stimulating its economy to ensure real growth in anticipation of the Communist Party's convention, which has just ended. China's president Xi and central bank (Peoples Bank of China) chair, Zhou, have announced, post-convention, that China's real growth will slow and have warned a global 'Minsky Moment' (i.e. financial crisis) may be brewing. China will now try, once again, to tame its shadow bankers and speculators who have been feeding China's debt and bubbles, and prepare for the global financial instability that is brewing.

The global financial bubbles–in stocks, bonds, currencies (crypto and real), derivatives, real estate, etc.– have been fueled since 2008 by capitalist central banks–led by the US Federal Reserve and followed even more aggressively by the European Central Bank and Bank of Japan. Central bank 'free' money has boosted stock and other financial asset prices into bubble territory and produced historic capital gains profits for corporations, professional investors, and the wealthiest 1% households in the US and worldwide.

The world's approximately 1500 billionaires' wealth now totals more than $6 trillion–and that is only the officially admitted figure. More is not accounted for in the dozens of tax havens worldwide in which they park their money aware from public and tax collectors' view. US and other governments meanwhile are feverishly trying to pass even more tax cuts for billionaires and multi-millionaires, so they can keep even more $ trillions for themselves. Financial speculation has become the primary means by which the super-rich enrich themselves even more–with the help of central bankers and elected and their paid-for government tax cutters.

Central banks have enabled their wealth acceleration by providing virtually free money for them to invest in financial markets through borrowing (debt) and leverage. Government tax cutters also let them keep more and more of the free money, profits, and their financial capital gains. Financial bubbles are the consequence. More and more financial writers have begun to write articles in the mainstream business press forewarning of the growing bubbles that are the engines of the the super-rich wealth acceleration.

The central banks and their policy of free money have created their own contradictions however. They have enriched the rich as never before, but have enabled and fueled the bubbles that threaten it all. After 8 years of pumping free money into private banks, corporations, and investors, the US central bank has this past year begun a desperate effort to raise interest rates and try to slow the flow of liquidity from the 'free money firehose' since 2008 that have produced a tripling of corporate profits, a quadrupuling of US stock prices, bitcoin and crypto currency bubbles, and $6 trillion of corporate bond debt issuance, passed on to shareholders in dividend and stock buyback payouts. But the massive money and capital income growth has produced financial asset bubbles that are now growing alarmingly as well. So the Fed over the past year has tried to raise interest rates a little to slow down the bubbles. It will be too little, however, as I have argued elsewhere the central bank cannot raise rates much higher without precipitating a financial credit crunch that will generate the next recession. So the Fed talks tough on rates but does very little. The central banks of Europe and Japan do even less. Global banks and investors are addicted to the free money from the central banks and that policy will change little apart from token adjustments and talk.

The Fed's (and all central banks') dilemma is that raising rates and selling off its balance sheet (that will also raise rates) will cause the dollar to rise in global markets, cause in turn currency collapse in emerging markets that will sharply reduce US multinational corporations' profits offshore. The Fed will not jeopardize US multinational corporations' offshore profits therefore by raising rates too much. Higher rates will also shut down the US construction sector, already weak (new residential housing is declining), and reduce US consumption spending that is also barely growing, based on debt and savings reductions instead of real wage growth. So the Fed is engaged in a charade of raising rates. And whomever Trump reappoints to the Fed chair after Janet Yellen won't matter. The same free money policies will continue. The system is addicted to free money and low rates for years to come–and that will continue feeding financial bubbles.

The Fed, like all central banks today, has become an institution whose main task is to continue subsidizing capital and capital incomes. As the Fed raises rates tokenly, other State institutions (Congress, Presidency) are also embarking on massive tax cuts for corporations and investors to offset the moderate hikes in interest rates coming from the Fed. More than $10 trillion in corporate-investor tax cuts occurred under Bush-Obama. More is coming under Trump.

In the 21st century, advanced capitalist economies are increasingly being subsidized by their states–monetarily by their central banks with free money and fiscally by their governments with more and more tax cuts. Both left (central banks) and right (legislatures) the State is increasingly engaged in reducing capital costs and thus subsidizing capital incomes. This is the primary emphasis of 'neoliberal' policy in the 21st century global and US capitalist economy.

The weaker capitalist sectors–Europe and Japan–are engaged in even more aggressive central bank free money provisioning. Europe's central bank has just announced a 'sleight of hand', fake change in monetary policy: reducing its monthly free money injection (which has been benefiting mostly going to Germany and France bankers and corporations), while extending the period over which it will continue its program. It will provide less per month but for longer. Just moving the money around, as they say. Not really reducing anything.

The Bank of Japan has been even more generous to its bankers, investors and businesses. The Bank of Japan has refused to engage in a free money/higher rates charade (US) or language manipulation to fake a reduction in the free money flow (Europe). Japan's central bank has announced it will continue buying and subsidizing corporate bonds, private stocks, and other financial assets, at an historic pace, thus contributing to propping up financial markets with no end in sight. Not suprisingly, Japan stock and financial markets are also on a tear, rising to levels not seen in 20 years. Similarly, financial asset markets have begun to escalate as well in Europe.

As I have indicated in my just released book, ‘Central Bankers at the End of Their Rope'(see book icon on this blog, jackrasmus.com, and the several book reviews), capitalist central banks are the original primary culprits of the free money policies adopted by all advanced capitalist economies–a policy that has been fueling debt and leverage, and stoking financial asset markets now entering bubble territory once again–i.e. creating the ‘Minsky Moment’ of financial instability about which China’s PBOC central bank chair, Zhou, has just forewarned.

Two big decisions will occur in the US in the first week of November: **Trump will announce his new nominee for the chair of the US Federal Reserve Bank** and the right wing-dominated US House of Representatives will define the Trump corporate-investor tax cuts further.

Whomever leads the Fed, there will be no real change in policy set in motion decades ago by Greenspan, continued by his protege, Ben Bernanke, and extended by Janet Yellen. Free money will continue to flow from the Fed (and even freer by the central banks of Europe and Japan). Whether Powell, Taylor, Cohn or whomever are appointed, the policy of free money will continue. Rates will not be allowed to rise much. The private bankers and investors want it that way. And their ‘bought and paid for’ politicians will ensure it continues. Meanwhile, the Trump tax cuts will additionally subsidize corporations and investors at an even greater rate with Trump’s multi-trillion tax cuts. The Trump tax cuts (which follow more than $10 trillion under Obama and Bush) will enable US Corporations to continue paying record dividends and stock buybacks to enrich their shareholders. The $6 trillion in dividends and stock buybacks since 2010 will be exceeded by even trillions more. Income inequality trends in the US will therefore continue to accelerate unabated.

It is true the global economy has ‘enjoyed’ a brief and mild growth spurt in 2017, as noted previously. That growth has been driven by China’s stimulus and by business inventory investing in anticipations of Trump tax and other deregulation (also cost reduction) policy driven changes. But the growth of the summer of 2017 will soon slow significantly. Now China will purposely slow, as policy shifts to rein in its own financial bubbles and in part prepare for a global ‘Minsky Moment’ crisis that is coming.

Meanwhile, the Trump bump in US economic growth will also fade in 2018, driven up until now largely by inventory investing by business that won’t be realized in sales and revenue in 2018. Working-middle class household consumption has been based on debt and savings reduction instead of real wage income recovery this past year. That is not a basis for longer term growth. US autos and housing are already fading. Simultaneously, escalating costs of healthcare insurance premiums will cut deeply into consumer spending in 2018. And government spending will also slow, as Congress cuts social programs in order to offset deficits created by the massive tax cuts for corporations and investors.

In Europe, political instability forces will keep a lid on economic recovery there (a ‘hard’ Brexit, Catalonia independence uncertainty, new breakaway regions in Italy soon also voting for independence, the rise of right wing governments in eastern europe, etc.). In Japan, business interests will continue to ignore prime minister Abe pleas to raise wages, as they have for years, while Japan gives the green light to become the global financial center for crypto-currency speculative investing.

Consequently, odds are rising there will be a recession in the US, and globally, by late 2018 or early 2019. That will likely be accompanied soon, before or after, by a new 'Minsky Moment' of financial instability that will exacerbate the real economic downturn.

In recent weeks, as host of my Alternative Visions radio show on the Progressive Radio Network, I have been focusing discussion on the growing financial bubbles and instability in the US and global economy that has been growing beneath the surface. I've also been dissecting the fundamental weaknesses in the US real economy that have gone unnoticed (or noted) by the mainstream press and economics establishment. The US real economy is thus no where as healthy as the 3% official GDP growth rates maintain. It can slow rapidly even in terms of official GDP numbers once it becomes clear that Trump tax cuts won't create jobs or wage growth, and that tax cut driven deficits will mean no meaningful infrastructure fiscal spending by Congress.

The following, most recent of my Alternative Visions radio show, of October 27, 2017, thus addresses further these various preceding themes (as did my prior radio shows did in October). To listen to the show(s):

Go to

http://prn.fm/alternative-visions-china-shifts-course-global-minsky-moment-grows-10-27-17/

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