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Nouriel ‘Dr. Doom’ Roubini: ‘Karl Marx Was Right’

By Joseph Lazzaro, U.S. Editor

There’s an old axiom that goes, “wise is the person who appreciates candor almost as much as good news.” With that as a guide, place the forthcoming decidedly in the category of candor.

Economist Nouriel “Dr. Doom” Roubini, the New York University professor who four years ago accurately predicted the global financial crisis, said one of economist Karl Marx’s critiques of capitalism is playing itself out in the current global financial crisis.

Marx, among other theories, argued that capitalism had an internal contradiction that would cyclically lead to crises, and that, at minimum, would place pressure on the economic system.

Companies, Roubini said, are motivated to minimize costs, to save and stockpile cash, but this leads to less money in the hands of employees, which means they have less money to spend and flow back to companies.

Now, in the current financial crisis, consumers, in addition to having less money to spend due to the above, are also motivated to minimize costs, to save and stockpile cash, magnifying the effect of less money flowing back to companies.

“Karl Marx had it right,” Roubini said [in an interview with wsj.com](#). “At some point capitalism can self-destroy itself. That’s because you can not keep on shifting income from labor to capital without not having an excess capacity and a lack of aggregate demand. We thought that markets work. They are not working. What’s individually rational ... is a self-destructive process.”

Roubini added absent organic, strong GDP growth -- which can increase wages and consumer spending -- what’s needed is large fiscal stimulus, agreeing with another high-profile economist, [Nobel Prize-winner Paul Krugman](#), that, in the case of the United States, the \$786 billion fiscal stimulus approved by Congress in 2009 was too small to create the aggregate demand necessary to advance the U.S. economic recovery to a self-sustaining expansion.

Absent additional fiscal stimuli, or unexpected strong GDP growth, the only solution is a universal debt restructuring for banks, homes (essentially households/families) and governments, Roubini said. However, no such universal restructuring has occurred, he added.

Without that additional fiscal stimulus, that lack of restructuring has led to “zombie houses, zombie banks and zombie governments,” he said.

No Good Choices Outside of Fiscal Stimulus or Debt Restructuring

The United States, Roubini said, can in theory: a) grow itself out of the current problem (but the economy is currently growing too slowly, hence the need for more fiscal stimulus); or b) save itself out of the problem (but if too many companies and citizens save, the flaw Marx identified is magnified); or c) inflate itself out of the problem (but that has extensive collateral damage, he said).

However, Roubini said he did not think the U.S. or the world are now at the point where capitalism is self destructing.

“We’re not there yet,” Roubini said, but he did add that the current trend, if it continues, “runs the risk of repeating the second leg of the Great Depression” -- the [“Mistake of 1937.”](#)

In 1937, President Franklin D. Roosevelt, despite the fact that the first four years of massive New Deal fiscal stimulus had lowered U.S. unemployment from a staggering 20.6 percent during the Hoover Administration at the

start of the Great Depression to 9.1 percent, felt pressure from Congressional Republicans, and he -- as current President Barack Obama did with the Tea Party-led House GOP in 2011 -- gave in to conservatives and cut government spending in 1937. The result? U.S. unemployment started rising again, and hit 12.5% in 1938.

Cutting government spending prematurely hurt the U.S. economy in 1937 by reducing demand, and Roubini sees the same pattern playing out today, following austerity measures [implemented by the U.S. debt deal act](#).

Economic Analysis: Roubini identifies the core problem of the current U.S. economy in laser-like fashion. It's a riveting, wide-ranging interview that one can watch in full [by clicking here](#).

Roubini also argues that the social uprisings in Egypt and in other Arab world countries, in Greece, and now in the United Kingdom, are economic in origin (primarily unemployment, but also, in the case of Egypt, due to the rising cost of living).

Further, the view from here argues that while no one should expect an "imminent collapse" of capitalism, or even a collapse of the American version, corporate capitalism -- capitalism and free markets are much too nimble and capable of adapting for that -- to say that the current economic order is not experiencing a crisis would not be accurate.