

# Senator Warren warns of US economic “crash”

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Democratic Senator and presidential candidate Elizabeth Warren has warned of a crash of the US economy on the scale of the 2008 financial meltdown or even worse. In a commentary published Monday on *Medium* titled “The Coming Economic Crash and How to Stop It” she says there are “serious warning signs in the economy.”

She calls on Congress to “act before another crisis costs America’s families their homes, jobs, and savings.”

Warren’s intervention is no doubt pitched towards the debate among Democratic presidential aspirants in Detroit, Michigan next week. That state, along with other “rust belt” states devastated by deindustrialisation, narrowly voted for Trump in 2016, costing Hillary Clinton the presidential election.

Notwithstanding the political motivations and manoeuvring behind her warnings, the data she cites in her article points to the threat of another crisis in the US economy, notwithstanding the record stock market boom and the fall in official unemployment to its lowest level in 50 years.

Warren writes that there is a lot to “worry about” in the economy. “I see a manufacturing sector in recession. I see a precarious economy that is built on debt—both household debt and corporate debt—and that is vulnerable to shocks. And I see a number of serious shocks on the horizon that could cause our economy’s shaky foundation to crumble.”

She cites a number of statistics on debt both at the household and corporate level. Rising costs for basic items such as housing and education, coupled with stagnant wages, have lifted household debt to record levels. Student debt has more than doubled and auto loan debt is at its highest levels since data was first collected two decades ago.

Some 71 million American adults, more than 30 percent of all adults in the country, have had debts placed in collection, meaning they are more than 180 days late on their payments, according to a survey conducted by the Urban Institute a year ago.

Corporate debt is also on the rise. Leveraged lending—that is, lending to companies that are already significantly in debt—has risen by 40 percent since the start of 2017. According to Warren, these high-risk loans now make up a quarter of all American business loans, and “they look a lot like the pre-2008 subprime mortgages.”

The former chair of the US Federal Reserve, Janet Yellen, has also pointed to the dangers posed by these loans, which, like the sub-prime mortgages, have minimal protections and are packaged and sold off to investors. Last October, in an interview with the *Financial Times*, Yellen said there had been a “huge deterioration in standards; covenants have been loosened in leveraged lending.” She said she was “worried about the systemic risks associated with these loans.”

Warren also cites recent data from the Federal Reserve showing that, contrary to the claims by Trump of a renaissance in manufacturing, this sector of the US economy is now in recession. Production was down by 1.2 percent in the June quarter after a 1.9 percent decline for the first three months of the year.

The financial markets are also pointing to a recession, with the Treasury yield curve having inverted in March for the first time since 2007. The inversion refers to a situation where the yield on long-term bonds falls below the short-term rate—a phenomenon that has been a reliable predictor of recessions in the past.

Warren also takes aim at Trump’s trade and foreign policies, saying the trade war with China threatens

American manufacturing, and the president is goading Britain to a no-deal Brexit that would have “immediate and significant spillover effects” on the US economy.

But Warren is not opposed to the trade war, which recalls nothing so much as the disastrous economic warfare of the 1930s. She is concerned only that it be carried out on the basis of a “coherent strategy—working with our allies—to respond to China’s tactics.”

The political significance of Warren’s critique, as *World Socialist Web Site* writer Patrick Martin noted in his profile on her presidential candidacy, is that it seeks to “counter the growing popularity of socialism among youth and working people” by sowing the illusion that “capitalism can be reformed—through the election of herself and similar political figures—and made to work in the interests of working people.”

The bogus character of the agenda advanced by Warren, who has described herself as “capitalist to the bone,” is underscored by the measures she advances to meet the clear signs of a deepening crisis. She writes that there is “good news,” because “we have a chance to head off a crisis... if we take bold action now to address the underlying problems.”

But this “bold action” in the face of a crisis which, as 2008 revealed, threatens a total meltdown of the financial system, consists of nothing more than a few paltry reforms. These include raising the minimum wage to \$15 per hour, empowering workers to elect at least 40 percent of the boards of corporations and cancelling student debt up to \$50,000.

As for the runaway escalation of corporate debt in the pursuit of profits through financial speculation, Warren proposes that the Financial Stability Oversight Council created by Congress after 2008 should “monitor risks that cut across different markets” and “meet specifically to discuss those risks and announce a plan for addressing them.”

As with all would-be reformers of capitalism, Warren never explains why such regulations, supposedly put in place to prevent rampant speculation, not to speak of outright criminal activities, have proved to be completely ineffective.

The reason lies in her political orientation and the class interests she represents. To deal honestly with the bankruptcy of token restrictions on the banks and hedge funds would expose the fact that the entire financial

system operates as an institutionalised mechanism for the accumulation of wealth in the hands of the financial elites. It would establish the necessity for a genuine socialist program aimed at bringing the “commanding heights” of the economy under public ownership and democratic control. For a “capitalist-to-the-bone” political figure, that is to be prevented at all costs.



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