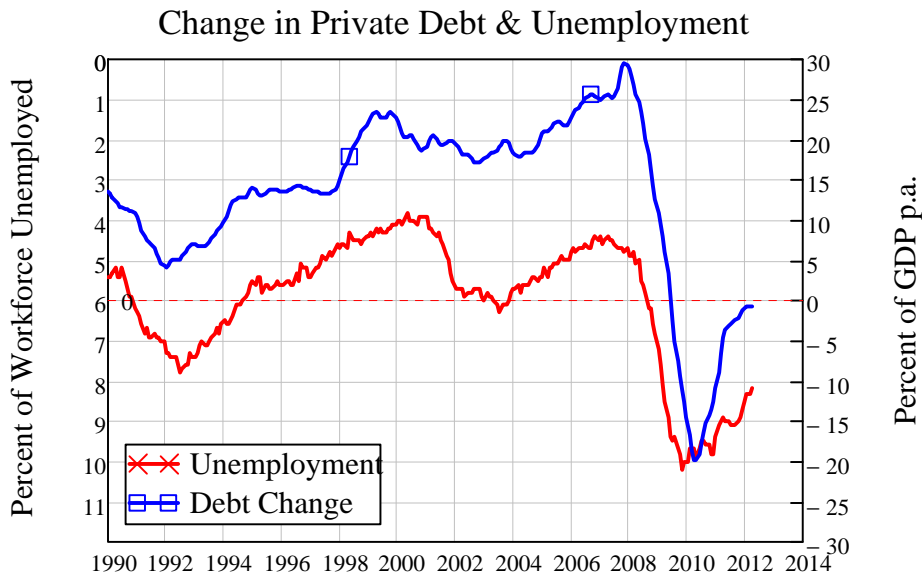


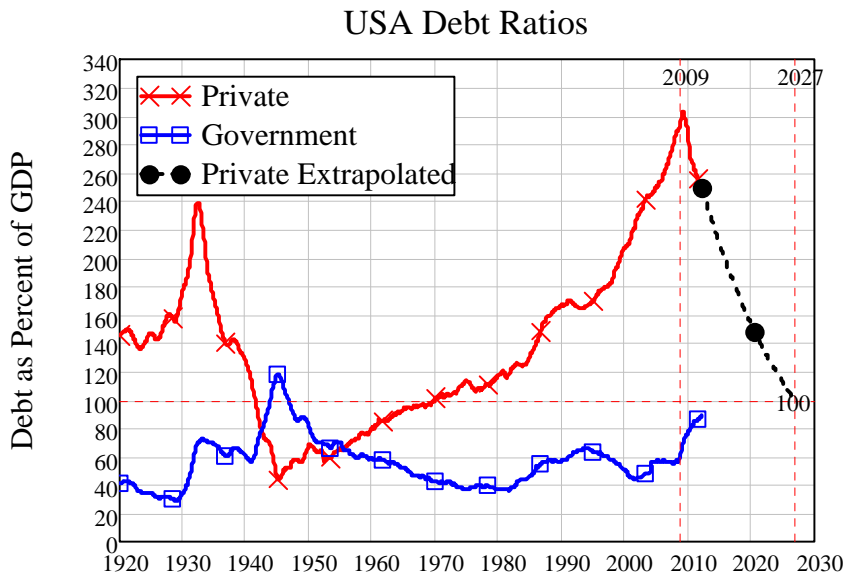
Both the crisis and the apparent boom before it were caused by the change in private debt. Rising aggregate private debt adds to demand, and falling debt subtracts from it. This point is [vehemently denied](#) on [conventional theoretical grounds](#) by economists like Paul Krugman, but it is obvious in the empirical data. The crisis itself began in 2008, precisely when the growth of private debt plunged from its peak of almost 30% of GDP p.a. down to its depth of minus 20% in 2010. The recovery, such as it was, began when the rate of decline of debt slowed. Across recession, boom and bust between 1990 and 2012, the correlation between the annual change in private debt and the unemployment rate was -0.92.



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The causation behind this correlation is that money is created “endogenously” when the banking sector creates loans, and this newly created money adds to aggregate demand—as argued by non-orthodox economists from Schumpeter through to Minsky. When this debt finances genuine investment, it is a necessary part of a growing capitalist economy, it grows but shows no trend relative to GDP, and leads to modest profits by the financial sector. But when it finances speculation on asset prices, it grows faster than GDP, leads obscene profits by the financial sector and generates Ponzi Schemes which are to sustainable economic growth as cancer is to biological growth.

When those Ponzi Schemes unravel, the rate of growth of debt collapses and the boost to demand from rising debt becomes a drag on demand as debt falls. In all other post-WWII downturns, growth resumed when debt began to rise relative to GDP once more. However the bubble we have just been through has pushed debt levels [past anything in recorded history](#), triggering a deleveraging process that is the hallmark of a Depression.



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The last Depression saw debt levels fall from 240% to 45% of GDP over a 13 year period, and the ensuing period of low debt led to the longest boom in America's history. We commenced deleveraging from 303% of GDP. After 3 years it is still 10% higher than the peak reached during the Great Depression. On current trends it will take till 2027 to bring the level back to that which applied in the early 1970s, when America had already exited what Minsky described as the "robust financial society" that underpinned the Golden Age that ended in 1966.

While we delever, investment by American corporations will be timid, and economic growth will be faltering at best. The stimulus imparted by government deficits will attenuate the downturn—and the much larger scale of government spending now than in the 1930s explains why this far greater deleveraging process has not led to as severe a Depression—but deficits alone will not be enough. If America is to avoid two "lost decades", the level of private debt has to be reduced by deliberate cancellation, as well as by the slow processes of deleveraging and bankruptcy.

In ancient times, this was done by a [Jubilee](#), but the securitization of debt since the 1980s has complicated this enormously. Whereas only the moneylenders lost under an ancient Jubilee, debt cancellation today would bankrupt many pension funds, municipalities and the like who purchased securitized debt instruments from banks. I have therefore proposed that a "[Modern Debt Jubilee](#)" should take the form of "Quantitative Easing for the Public": monetary injections by the Federal Reserve not into the reserve accounts of banks, but into the bank accounts of the public—but on condition that its first function must be to pay debts down. This would reduce debt directly, but not advantage debtors over savers, and would reduce the profitability of the financial sector while not affecting its solvency.

Without a policy of this nature, America is destined to spend up to two decades learning the truth of Michael Hudson's simple aphorism that "Debts that can't be repaid, won't be repaid."