Economics Briefs

Is U.S. Debt Bubble Worse Now Than at the 2008 Crash?

It appears that the average American household is less crushed in debt today, than when the huge financial bubbles based on household mortgage debt blew up the world economy in 2007-09. At that time, total household debt in the United States had risen post-Glass-Steagall from $3.5 trillion in 1991 to $13.2 trillion in 2007. Mortgage debt had quadrupled over that 16-year period, and other categories of household debt had tripled. Worst of all, the ratio of household indebtedness to disposable personal income went from 80% in 1991 to 130% in 2007. In the latter year, household debt was 400% of disposable income for the lowest income quintile of the American population; 250% of disposable income for the second-lowest quintile, and 200% for the middle quintile. Banks were loaded with various forms of household debt, debt securities, debt derivatives, off-balance-sheet debt vehicles—all had been prohibited to them by Glass-Steagall enforcement, and all were defaulting.

As of the end of 2020, total American household debt at $14.6 trillion was even higher than in 2007. But American households' total disposable income was considerably higher, at $15.7 trillion; so, the burden of debt to disposable income did not seem to be as crushing as in 2007, when Americans started defaulting in large numbers.

But if we look at those quintiles of the population by income, the tremendous growth in income inequality since 2007—in the current era of Federal Reserve money-printing—changes the picture. The ratio of debt to household disposable income, and therefore the ability of households to pay their debts, is better than in 2007 only for the upper two quintiles; for the other three quintiles, it is worse. For the lowest-earning quintile of households, it is approximately 500% according to Federal Reserve and U.S. Census figures. For the second-lowest quintile of households, that ratio is approximately 300%; and for the middle quintile, 210%.

The household debt bubble is, nonetheless, not the glaringly unpayable debt bubble which will crash with the inevitable slip-up by the Fed. That is corporate debt, which is nearly 150% of GDP, a mark never reached before. The debt of financial companies—most of which are not banks—at $18 trillion, is equal to its peak in 2008; but the debt of non-financial companies, at $12 trillion, has nearly doubled since 2008, when it reached its record for that time of $6.5 trillion. A full 17% or one-sixth of these firms are zombies, i.e., companies which cannot even pay the interest on their debt out of net income, and therefore survive only by continually refinancing that debt—meaning interest rates must steadily, indefinitely fall—and/or selling off their assets to make demanded payments.

Winners in New Global Minimum Corporate Tax: Tech Giants, 'Offshore'

The *Financial Times* on July 3 reported that the City of London financial center had succeeded in winning an "exemption" for its banks and other financial firms—and those of Wall Street and Frankfurt—from the new "global minimum corporate tax" agreement ballyhooed by the U.S. Treasury at the time of the G7 finance ministers and heads-of-state meetings. The minimum tax scheme, considered a U.S. priority, is actually being negotiated and planned under OECD auspices.

A *Zero Hedge* column on July 1 had already observed that "While Washington likes to talk about the new framework as a foregone conclusion, there's plenty of reason to doubt that it will ever be implemented. One reason is that countries like Ireland, Singapore, Indonesia and island tax havens like Bermuda all oppose the new scheme." It could be expected that London would play this card.

In what was portrayed in financial media as hard bargaining between "the United States" on one side and "the U.K. and France" on the other, financial corporations got a "carve out" or safe haven from the minimum tax; and in exchange, the U.K. agreed to eliminate in stages its "digital services tax," which has no American counterpart. France agreed to do this as well, on behalf of continental European countries' tax authorities.

While some nations may be hurt by the agreement—for example, Ireland and Russia, which currently have corporate tax rates below 15%—the Silicon Valley tech monopolists will come out just as sales-tax free worldwide, as they have always been in the United States; and the City and Wall Street banks will be subject to the 15% minimum corporate tax only in their home bases, and not in all the other places they operate in.

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Chinese Are Leading Creators of New Rail Inventions

With its huge high-speed and other rail networks, it is not surprising that China has surpassed Europe in the area of railway inventions. This was revealed in a new report by the European Union Agency for Railways (ERA).

Most of China's patents are only locally filed, while the European Union takes the lead in multinational filings. Over the last ten years, Chinese railway patents have increased and now account for the most filings, while Germany comes in second. As could be expected, the number of Chinese patents dramatically increased after 2013, when China launched its largest high-speed railway projects. While Europe leads in "high-value" inventions, China is second in this class.

As for companies filing such patents, China's CRRC ranks first in terms of all inventions, but fourth for high-value inventions. In terms of high-value inventions, Siemens tops the list, followed by Alstom and then Bombardier. For American inventions, there is no strong growth pattern visible.

U.S. Employment Still in 2020 Pit

As of the Labor Department's employment report on June 2021, total U.S. employment was still 6.55 million jobs short of its highest level, November 2019. Goods-producing employment—defined in these reports as manufacturing, mining/extraction and construction employment—was 780,000 jobs below its peak, which was reached slightly earlier, in August 2019. Crash programs of vital new infrastructure platforms in energy, water, power and space exploration, and cooperation with other nations in building new healthcare platforms in third countries, would help.

U.S. Banks Are Not the Place for Loans Now

The strange and unexpected announcement by Wells Fargo Bank July 7 that it was shutting down all its customers' personal credit lines within 60 days, is the latest sign of the slow shut-down of loan credit by major banks in the United States, which has been underway since the spring of 2020. Wells' announcement closes down credit lines of anywhere from $3,000 to $100,000; many households use them to consolidate their credit card and other higher-interest debts. The closure of these lines of credit will adversely affect the borrowers' FICO credit scores—as Wells Fargo warned them in its announcement—as well as lowering their borrowing power directly by closing out the loans.

Although Wells Fargo is under an asset limit imposed by U.S. government regulatory authorities because of its recent years' record of banking malpractices, it did not cite the asset size cap as a reason for cutting off its customers' loans. And its action follows the pattern of the entire American banking system, dominated by ten huge Wall Street and regional giants. Since May of 2020 the banks of the United States have cut their loans and leases down by $520 billion, or 5%, according to Federal Reserve data, at the same time their deposits and overall assets have surged by nearly 15%. Their holdings of securities have grown by 20% during that same period.

Yet it is "China's credit impulse has turned negative" which gets all the coverage in the U.S. and British financial media.

A Khyber Pass Economic Corridor in Afghanistan?

The Belt and Road Initiative, initially China's land-bridge infrastructure project across Eurasia, but now involving more than 100 countries, offers economic development advantages and prospects to Afghanistan, including to the Taliban, if major nations in the region cooperate on them.

Railway-technology.com, the *Belt and Road News*, and *The Diplomat* have all recently reported on the agreement reached in February 2021 by the foreign ministers of Pakistan, Afghanistan and Uzbekistan for a railway to be built at an estimated cost of $4.8 billion from Tashkent, Uzbekistan's most northerly major city and its capital, through Mazar-e-Sharif and Kabul, Afghanistan, to Peshawar, Pakistan. Uzbekistan—the initiator of the plan, according to *The Diplomat*—proposed to ask the World Bank to make a loan for this fund, and that request has been made.

Moreover, a Peshawar-Kabul-Dushanbe highway project was recently agreed upon between Pakistan and Afghanistan representatives. As a Pakistani planned project, called the Khyber Pass Economic Corridor, as an offshoot of the China-Pakistan Economic Corridor, this plan dates to March 2015, when a feasibility study was begun.

If the rail and road developments are combined, effectively a North-South transportation and economic development corridor begins to be launched running from the main Eurasian Land-Bridge in the north, to the Indian Ocean in the south.