

Heterodox Economics Newsletter

EPIC RECESSION: PRELUDE TO GLOBAL DEPRESSION, by Jack Rasmus, New York, NY: Pluto Press, 2010. 340 pages; ISBN 978-0-7453-2999-7.

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In *Epic Recession*, Jack Rasmus introduces the term “Epic Recession” to analyze various economic crises, including the Great Recession that started in 2007. The author’s analysis is based on a presentation of a debt-deflation-default relationship in Epic Recessions in the context of financial and consumption fragility. Rasmus concludes the book by pointing out the flaws in the stimulus policy that the Obama administration employed, and provides alternative methods to promote economic recovery. The book is organized in three main parts. Part I introduces the analytical framework that Rasmus uses to identify the quantitative and qualitative characteristics of Epic Recessions and their dynamic impact on the economy. Part II is a historical analysis of Epic Recessions in which Rasmus takes a closer look into U.S. Depressions of the 19th century and identifies two types of Epic Recessions: “Type I” (1907-14) and “Type II” (1929-31). In Part III, Rasmus critically assesses the Bush-Obama policies in the wake of the 2007-2010 Epic Recession and provides an alternative route towards economic recovery. Incidentally, the book’s analysis stops in 2010, but its main argument is still valid in 2013.

According to Rasmus, unlike normal recessions, which are usually caused by temporary supply and demand shocks (p. 9), Epic Recessions are “precipitated by financial instability and crisis” (p. 24). Quantitatively, Epic Recessions usually fall in certain ranges of several economic indicators that the book specifically identifies, such as GDP and unemployment. Qualitatively, the formation of Epic Recessions is accompanied by close interaction among three factors: debt, deflation, and default, which create fragilities both in the financial and consumer markets. The author particularly argues that global liquidity explosion and speculative investing are great contributors to financial fragility, and to a certain extent, to consumption fragility as well.

Rasmus then analyzes several major economic crises in U.S. history. He divides Epic Recessions into two types. “Type I” Epic Recessions are financial crises followed by contraction of the real economy and long-term economic stagnation (p. 145). Here, monetary policy plays a large role in stabilizing the economy and preventing future deterioration. The 1907-1914 recession is an example of “Type I” Epic Recession. “Type II” Epic Recessions are more severe. In these recessions, monetary policy can only temporarily stabilize the economy. Debt-deflation and default, together with financial and consumption fragilities, act upon each other, causing the real economy to constantly decline. The Great Depression is an example of “Type II” Epic Recessions. In both types, monetary policy can at most serve to stabilize rather than tackle the fundamental problems of the economy.

The Great Recession that started in 2007 is, according to Rasmus, an Epic Recession in which real assets did not absorb the explosion in global liquidity, which drove excessive speculation. Debt and leverage rose significantly, eventually leading to the financial crisis (p. 219). It is still not clear which type this crisis will become; the result depends on the policies the federal government implements. Furthermore, in Rasmus’ opinion, the Obama administration’s

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policy of injecting liquidity into the market only serves to offset the crisis temporarily, yet does not cure the fundamental problems of the current financial system. As a result, Rasmus offers an alternative program for economic recovery. He proposes governmental programs that promote long-term structural economic change in order to achieve the recovery. These programs address issues such as job creation, income inequality, and regulations of financial institutions.

The book thoroughly explains the causes of the current economic crisis through the theory of the debt-deflation-default relationship. This theory draws heavily on the works of John Maynard Keynes, Irving Fischer, and Hyman Minsky (p. 16). Rasmus argues that his work “fills the gaps” left in the works of these authors, including: (1) a focus on total debt (consumer and public) rather than just business debt; (2) an analysis of deflation based on a three price system: asset, product, *and* wage; and (3) a focus on debt and deflation affect defaults.

The last chapter of the book is a 28-point economic recovery program addressing a wide variety of economic issues including the foreclosure crisis, job creation and retention, taxing offshore profits, and regulating banking and other speculative activities. Taking a Keynesian approach to economic recovery, Rasmus puts a lot of faith in the federal government’s capacity to carry out such programs. The author does not give too much thought to the influence of special interest groups on public policy. Given the close relationship between big financial institutions such as Goldman Sachs and the government, aggressive regulations on financial institutions are unlikely to be implemented.

Overall, the book provides an excellent assessment of the causes of the 2007 economic crisis and provides a solid historical and analytical framework for understanding Epic Recessions. The book is a great resource for undergraduate students and readers with basic economic knowledge. Heterodox economists working in the economic traditions of Keynes, Fisher, and Minsky will find this book engaging and thought-provoking.