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THE COLLAPSE OF THE AMERICAN SYSTEM OF CAPITALISM: WHAT SHOULD WE EXPECT?

КРАХ АМЕРИКАНСКОЙ СИСТЕМЫ КАПИТАЛИЗМА: ЧТО НАС ОЖИДАЕТ?

Annotation. The article substantiates the statement that even last year we were absolutely sure that the next global crisis would occur in 2020. But it was not clear only what would become his trigger. But it is even more interesting for us now to understand: how to get out of this crisis?

Key words: global and structural crisis, emission, national interests, sanctions, isolationism.

Аннотация. В статье обосновано утверждение, что ещё в прошлом году мы были абсолютно уверены в том, что следующий глобальный кризис произойдёт в 2020 году. Но непонятно было только то, что станет его триггером. Но ещё интереснее нам сейчас понять: как и чем этот кризис будут лечить?

Ключевые слова: глобальный и структурный кризис, эмиссия, национальные интересы, санкции, изоляционизм.

Today, a number of leading experts, including in the United States itself, are already drawing parallels between the current situation and the periods preceding the two world wars. Moreover, in American history there have already been examples of not only trade wars with the use of sanctions, import duties, revision of existing agreements and treaties [1].

And although, as you know, historical processes never repeat themselves with absolute accuracy, nevertheless, many actions of the Trump administration and its ideological rhetoric spoke in favor of the fact that the US foreign policy is again returning to a mixture of isolationism and imperialism, seeking to "restrain" development countries that can create competition for them on world markets and become a "threat to their national interests" [2].

In addition, past experience is especially relevant today, when a number of large economies are facing the coronavirus problem.

But let's see what happened before COVID-19?

Even last year, we were absolutely confident that the next global crisis would occur in 2020. But it was not clear what would become its trigger (probably the idea of a new virus did not still occur to anyone).

But it was even more interesting for us to understand: how to get out of this crisis? Having brought together all the ideas of leading American economists-theorists and practitioners (Carmen Reinhart, Nouriel Roubini, Larry Summers, Joe Stiglitz, Kenneth Rogoff, Howard Marks, Ray Dalio, etc.) we saw with horror that they all boil down to the MMT theory (Modern Monetary Theory).

This "brilliant" theory boils down to the development of the old idea of Milton-Friedman that when a crisis occurs, you "just have to print money without counting and put them in bags and throw them from a helicopter to extinguish the crisis!"

And so it happened. In the absence of other solutions the US Federal Reserve together with the US Treasury used MMT in the most unprecedented "thermonuclear" version, printing and pouring into the US economy first 5, and then another 2.3 trillion dollars [3].

Let's take a look now at the consequences of this crazy experiment:

It took the US government debt between 1776 and 1981 (205 years) to reach the \$ 1 trillion mark. Over the next 15 years (1981-1996), it increased 5 times - to 5 trillion. 1996-2008 (12 years old), it doubled again to 10 trillion. It took just 9 years to double the debt to \$ 20 trillion again in 2017. And today this astronomical figure has already reached 27 trillion. And this still no global crisis was even visible on the horizon.

Where does this money come from? In the fact, a gigantic scam is turned on, unprecedented in the history of mankind: the US Treasury prints promissory notes and bonds, almost all of them are bought by the FRS (Central Bank). The Treasury then injects the printed money into the economy [4]. The Americans did the same in 2008-2009, but then Ben Bernanke, the head of the Fed, publicly promised that the redeemed securities would remain on the Fed's balance sheet and almost fulfilled his promise: from the last crisis, out of 4.5 trillion of redeemed securities, 3,8 still remained on the Fed's balance sheet. Now this balance has swelled to 10 trillion, and the Fed does not promise anything to anyone - it has switched to direct emission of money out of thin air and direct monetization of the US national debt on an astronomical scale.

And only officially, the US quietly throws 600 billion into the world economy annually. This figure, although slightly higher, is comparable to dollar inflation or dollar depreciation. Thus, the American nation prints money and spreads inflation all over the world. They receive pure benefits, and we all together pay for their inflation. And as it is not difficult to guess, the American nation has been constantly and for very long time printing unsecured money, writing down debt to itself and buying real goods and services from other countries with these dollars.

Why can't this be a way out of the situation? The Americans print the only world currency (the euro does not count), the Fed at the end of the year submits its profits (interest on bonds) back to the Treasury - the circle is closed.

But, firstly, the Fed is a private company and it transfers 6% of its profits to American commercial banks-shareholders in the form of dividends.

Secondly, the dollar today is not really backed by anything, except for blind faith in the power of the United States.

Third, until now, on average, 40% of bonds were bought by American private investors (banks, investment funds, insurance and pension funds), and about 40% more - by foreign investors (mainly World Central Banks). Why have they buy USA bonds? Of course, it is done in order for their assets to be profitable in US dollars.

Now the Fed has killed any yield on US government bonds, lowering the benchmark for the discount rate of 0-0.25% per annum. The very meaning of keeping these papers came close to zero. And how much investors will buy them further is an open question. For example, China has bought them to keep in them its earnings from exports to the United States (\$ 440 billion per year). Now China is America's enemy and as result: the trade war, tariff barriers and Chinese exports to the United States have gone down sharply. Saudi Arabia will no longer be able to accumulate petrodollars due to cheap oil. They would have to draw up their own deficit budget. The same applies to all other oil exporting countries. And Russia has reduced the share of the dollar in its gold and foreign exchange reserves to 15% due to sanctions.

And here we come to the main consequence of the experiment called MMT: the cost of servicing (only interest) on the US national debt, even before the beginning of the current crisis, exceeded \$1 trillion, i.e. 25% of the expenditure side of the budget. With the rapid growth in the volume of this debt in 2020-2021 (already today is \$27 trillion) even with scanty, almost zero interest rates, the service will cost more than \$3 trillion per year, i.e. a critical threshold of more than 40% of the expenditure side of the budget, like in Zambia or Zimbabwe, but adjusted for the ability to print world currency. This, in turn, means that it is physically impossible for the Fed to raise the discount rate, since the US government will quickly go bankrupt [5].

Let's summarize. In the next 10 years, the whole world is doomed to live with extremely low discount rates. At the same time, a new paradigm in the United States: the ratio of debt to GDP today is already more than 100% and will continue to grow (the pre-default indicator according to American textbooks of economics), extremely low GDP growth (2% per annum will seem a luxury) and an endless growth of the national debt and, as a result, a long stagnation.

Does it remind you of anything? And it resembles the fast-growing tiger of the 1970s-80s - Japan. American newspapers every day then trumpeted about the "yellow threat", which was about to colonize and buy America. But in 1990, a huge bubble in the real estate market burst in Japan, followed by an instant collapse of the Tokyo Stock Exchange - Japanese companies lost 60 to 90% of their capitalization. The Japanese economic miracle is over. Until now (30 years later) the total capitalization of Japanese companies is 40% below the 1990 level. Government of Japan in 1990-91 included, in essence, the MMT program: huge domestic borrowing, a frenzied increase in the national debt (today the debt to GDP is 221%), the injection of public money into private business to save Japanese corporations, the printing press has not stopped working to this day.

As for the situation today, we see a quite elegant external facade. But behind it are hiding a huge number of companies - zombies (technical bankrupts living on state support), zero GDP growth for the last 30 years, very high cost of living, madly expensive real estate, rapid population decline and aging, consumption restriction - the Japanese do not spend, but save and save money by lending it to the state to save up for old age.

Based on this, there is a high probability that the MMT, which was launched (from the hopelessness of the situation) by the US government and the Fed, will lead, in essence, to the "Japanesization" of the American economy, and we will see (soon enough) comparable results. America will begin in the economic sense of the word to become like Japan, with all the ensuing consequences for the rest of the world. But Japan was saved by special love for their country, Japanese philosophy for life and excessive zeal. And the United States was formed on a completely different batch. Faced with a debt crisis and a protracted recession the United States will be forced to cut its military budget within the framework of overall budgetary savings, and reduce its military presence where it is not critical to its own security. They will have to leave Afghanistan, Syria, Iraq, and cut off their presence in Europe - this will stimulate dialogue with Russia on arms control.

There is, however, a serious danger: Americans think well and understand everything. There is a risk that they will play preemptively and throw out another big surprise, such as abandoning the gold standard and withdrawing from the Bretton Woods agreements signed under the President R. Nixon in 1971 (then, by the way, they did this, devastating the Treasury and almost going broke in the Vietnam War). Why don't they now reshape the world financial system in their favor, for example, by announcing the introduction of a new global settlement cryptocurrency pegged to the dollar, especially since the block chain platform and the prototype itself already exist in the frame of SDR (Special Drawing Rights, or SDR of the IMF), and a special working group within the IMF is engaged by that question in secrecy for last 3 years? Even the name has already been invented: IFM coins, by analogy with Bitcoin.

As you can see, big changes await our World. Let's remember 1913. The main settlement and reserve currency in Europe is the Austro-Hungarian crown. In the world - British pound sterling. In the same year, the United States created the Federal Reserve System and pegged the dollar to the value of an ounce of gold and at that time it was \$ 28.79 an ounce. From that moment, the Fed successfully devalued the dollar 16,000 times, the main currency of Europe disappeared along with the state that issued it, and the British pound turned into a peripheral, regional currency. Confucius was probably right when he said: "God forbid you to live in an era of change."

And now we have a coronavirus at the right time. The coronavirus pandemic has dealt the worst blow to the US economy in recent years. According to the latest IMF forecast, US GDP by the end of 2020 will decrease by 4.3% or more. For the same reason, up to 30 million Americans will be unemployed. And Republicans and Democrats before the elections never came to a common decision about measures to stimulate the economy (the number of infected people per day continues to grow, which only adds uncertainty to the economy) [6].

Unfortunately, and we are sure of this, the current crisis will drag on for a long time [7]. Apparently, it will be accompanied by the protection of their own economies by different countries, protectionism and the formation of zones of their own consumption within their countries. And these things are

already starting to come true. Examples are the duties imposed by President D. Trump, Brexit and the formation of settlements between countries through the mechanisms of national currencies.

Ultimately, within 2-3 years, this will lead to the "regionalization" of the world economic system and to the end of the current cycle of globalization.

In the next few years, people need to learn to live in a new reality, where there will be a high degree of competition and uncertainty. The same goes for business. Even now, when planning your development, you need to proceed not from the fact that in 1-1.5 years everything will be normalized, but from the fact that the world economy over the next 2 years will only go to its minimums. You also need to understand that the United States is preparing a surprise for all of us in the form of uncertainty in the United States itself after the presidential elections on 03.11.2020. And on this score, there are already a number of predictive estimates that these elections will end for the United States itself with an internal civil conflict. And what will happen with the US dollar (the world reserve currency) and the entire world financial system only God knows.

This is why the Euro ranked first in the World in terms of its share in global payments in October 2020. According to Bloomberg, in October, 37.82% of financial messages passed through SWIFT (in monetary value of transactions) corresponded to payments in euros. The dollar lagged slightly behind - 37.64% of global payments. The British pound was in third place by a huge margin - 6.92%. Thus, the use of the dollar decreased by 4.6 percentage points from the end of 2019, and the peak of the American currency in international payments was in April 2015 - 45.3% [8].

And what about this has already begun to say in the IMF (IMF is one of the structures of the FRS)? The IMF believes that for many countries "the risk of the worst outcome prevails." According to their forecasts, the coronavirus could cost the World \$ 28 trillion [9]. And more recently, the IMF announced that the total loss of global GDP for the period 2020-21 from the crisis caused by the pandemic could amount to about \$ 9 trillion - this is more than the economies of Japan and Germany combined [10].

Thus, at the moment, it seems to us, the situation is changing very quickly and therefore it is now extremely difficult to plan your future even for several years ahead and, more importantly, even dangerous. But, as you know, any crisis means new opportunities.

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