Why the Crash of the US is Mathematically Inevitable

Description

by ***Claudiu Secara, published October 24, 2020***

The United States already managed to deceive the world economy in its favor once, at the conference in Bretton Woods in June 1944. IMF Managing Director Kristalina Georgieva has now suggested how to do it again.

It is believed that the United States managed to achieve world hegemony by agreeing with the Saudis to trade oil only for dollars —thus, on the one hand, supporting its currency with one of the key highly liquid assets, on the other, preparing it for the rejection of gold collateral.

The scheme was fully operational by 1974, and just a year later, in 1976, America quietly unleashed onto the world the Dollar system: the dollar was turned into a simple piece of paper that could be issued in any volume.

The annual turnover in real oil trading on the leading exchange platforms alone reached $200 billion, $120 billion of which are in New York (NYMEX). And taking into account futures, the total market volume fluctuates by around $8-10 trillion a year.

The “market” charges the issuer about 1.5–2% of the turnover or about 200 billion dollars for using its currency.

As of August 2019, the total volume of both public and private official world debt reached $246 trillion, which is more than three times the total size of the world’s economy, approximately 78% of which is denominated in the dollar. That is if we don’t even consider the astronomically speculative debt trap of over $1.5 quadrillion in so-called “derivatives” — essentially selling the same “asset”, on paper, to about 50 buyers, simultaneously…

This allowed the US not only to *“earn a little on interest for using [our] money”* (in July 2020, the share of world settlements in USD was 43.58%), but also to literally support their economy.

In 1980, the US GDP was $2.8 trillion while total national debt was $909 billion, or 32.5% of the GDP. In 2000, the ratio reached $5.6 trillion in debt for a $10.25 trillion GDP. In 2008 — $9.98 trillion for a $14.7 trillion GDP.

Then, from November 2008 to November 2010 the Fed issued $1.7 trillion (!) new money. Then, 8 months later, it added another $900 billion, followed by another $2 trillion under the third program of so-called *“quantitative easing”*. Then came March 15, 2020 — the launch date of the fourth *“quantitative easing”* program for $1.5 trillion, which in fact *“involved”* an additional $1.2 trillion.

Thus, when economists talk about the U.S. as the world’s greatest economy with a GDP (for 2019) of $21.3 trillion, it should be understood that this figure contains $23.16 trillion in debt.

In other words, the US Federal debt alone went from $8 trillion in 2008, at the start of the Obama administration, to $18 trillion 8 years later, and then to close to $30 trillion by the end of 2020.

And we still haven't touched upon the use of economic sanctions and blocking of other people's money.

For example, in 2012, the US Treasury Department froze Iranian money in American banks for a little more than $100 billion. Then a U.S. court decided that $2.7 billion of this should be distributed in the form of compensation to the families of U.S. marines who were killed or injured during the American invasion of Lebanon. Later, to pay for insurance costs, legal services and other compensation, Washington pinched another $50 billion.

Then, we had the petrodollar. — But this monkey-business started before the petrodollar, by decision of the participants in the United Nations Monetary and Financial Conference, held in July 1944 at the Mount Washington Hotel in the inconspicuous town of Bretton Woods in the state of New Hampshire. Although the Soviet delegation refused to sign the agreement and left the meeting, most of the other 43 participating countries signed on to the plan.

It was with this step that the U.S. secured 76 years of absolute prosperity, victory in the cold war, and the status of world hegemon. However, all good things come to an end. Its permissiveness with money led it to outright frivolity in spending. In just 10 months of 2020, the Fed urgently drew $6 trillion, and is forecast to bring this amount to $9 trillion by the end of December and then increase it to $12 trillion by the end of the first quarter of 2021. But there is an unsolvable problem.

Even with a monopoly on the printing press, under classic financial rules with a low interest rate, the U.S. still has to spend on debt service. In particular, in 2017, interest payments alone amounted to $263 billion, or 6.6% of all Federal budget expenditures. By 2019 the $21.9 trillion of debt was subject to an interest rate of 1.25% per annum.

Calculations show that U.S. Treasury is able to allocate at most 8% of its budget for the servicing of its loans. That brings the U.S. to the limit: it cannot borrow more than some $26.5–28 trillion. After that, the collapse of the pyramid becomes inevitable and inescapable.

The US budget is certainly large. In 2020 (the budget period ends on September 30th) it amounted to $6.5 trillion. But more than 70% of the money has to be directed to various social programs, for example, to finance free food stamps which cover the food expenses of 6.8 million Americans.

An abandonment of the social programs would bring social revolts. There is nowhere to cut the army's spending, either. There, more than half of the money is spent not on weapons nor on the maintenance of the military itself, but on extensive insurance and bonus payments, without which it would be impossible to lure Americans into the ranks of the armed forces. And the army is the last argument that supports the world's hegemon.

The Fed managed to get out of the current situation by reducing the cost of new loans, gradually lowering the discount rate to 0.25% per annum, which, in fact, made the dollar free for new borrowers. This is how it turned out to get the above-mentioned $6 trillion out of thin air to finance "emergency measures" to combat the consequences of the coronavirus epidemic.

But the victory is a pyrrhic victory, for this is also critically draining the pension system and the local government budgets that existed on the income from investing in T-bills.

It is also important to note that over the past 20 years, the U.S. debt has turned from external to internal. If, at the beginning of this century, three-quarters of the Fed's securities were in the hands of foreign holders, today the picture looks exactly the opposite. Debts are returning to the U.S., to the financial funds and even to large private investors who previously consistently received profits from interest on deposits*.*

Not that the establishment doesn't understand the dynamics of the emerging outlook. There was talk about the necessity, even the inevitability, of transferring the U.S. finances to some new money. The idea of introducing the *"Amero"* was most often discussed.

The idea looks extremely attractive. Declare a default. Completely abandon the dollar as legal tender. Automatically write off debts.

There is only one vulnerability in this *"plan"*. A huge part of the above-mentioned $240 trillion of the total debt of the planet (never mind the quasi entire derivative "market" of $1.5 quadrillion) is loans issued by U.S. financial institutions. Switching to the *"Amero"* would not only reset U.S. debts, but also allow debtors to dump the U.S. itself in the same way. And this is unacceptable.

Should we now be surprised at the appearance of a *"new idea"* which, on October 15, 2020, the Managing Director of the IMF Kristalina Georgieva *"addressed to the world*"?

"Brothers and sisters" (this is exactly what the original text on the IMF website says — "brothers and sisters"), it is necessary to save the world. According to the results of this year alone, the world's economy will *"fall short"* by $11 trillion.

The head of the IMF sees a way out, solving three urgent tasks.

According to this plan, in 2021, developed countries would be granted credits, on average, up to 125% of their GDP. Emerging market countries — up to 65%, others — up to 50%.

The *"second"* section mentions a little about global climate change, which caused $1.3 trillion in losses to the world economy, and talks a lot about the responsibility of politicians to be guided in their decisions, first of all, by the interests of the people and the protection of the poorest segments of the population.

But the most important thing is packed into the third part of the IMF's plan. The IMF solemnly promises to *"give everyone as much credit as they need"*. But under one condition. As in 1944, at Bretton Woods, the countries must agree to create a new system of control over the servicing of loans. The main thing is that the participants must agree to the complete rejection of any bilateral agreements, even if both sides of any bilateral agreement are absolutely ready to reach a mutually acceptable agreement without involving a third party.

Any issues related to debt payments and their terms must be resolved only by the *"whole world",* i.e., although it is not explicitly stated, the U.S., the very country which caused the credit crunch.

To be fair, the last point of the brilliant proposal is very well disguised. The leader of the *“public committee for saving the world”* is not the U.S. The U.S. doesn’t seem to be mentioned at all under the brilliant idea of voluntarily handing over all available money to be managed by the IMF.

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