Will the USA go bust?

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There is speculation everywhere, including in the Financial Times, that the USA might go bust within ten years, and that the day of the dollar is over.

That framing is wrong. America cannot go bust, because its debt is denominated in its own currency and it can always create the dollars required to settle it.

But that does not mean we are safe. What *can* fail is the financial market itself, and that is the crisis nobody is preparing for.

The warning signs are everywhere. Share prices sit near all-time highs. Investment funds hold more of their money in shares than they almost ever have, with almost no cash left in reserve. The FT has concluded that US financial markets are "nuts" and have lost touch with reality. And bubbles always burst, and this one will. The promise that "this time is different" is always made, and it is always wrong.

This video explains what actually happens when confidence collapses, why our "animal spirits", as Keynes called them, can crash along with the markets, and why only governments can save us from the folly of finance yet again.

The biggest crisis we face is not that a crash is coming. It is that we have no plan to manage it. Think of this as the summer of 1939: a crisis about to emerge, with no one ready.

https://www.youtube.com/watch?v=OjnZ2dtZpu4?si=h8kle68ts5Sp0v4s

This is the audio version:

https://www.podbean.com/player-v2/?i=6hddb-1b3cb3e-pb&from=pb6admin&amp

;share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

Can the USA go bust? There is speculation, including in the FT, that it might go bust within 10 years.

Some think that Donald Trump will bankrupt the country. Others think it was unsustainable before he arrived.

Either way, the speculation is that the day of the dollar is over.

The fear is that the US economy might collapse with its currency, but the idea that the USA can go bust is absurd, because it cannot.

Every single cent of US government debt is denominated in US dollars. The USA can always make settlement because it can always create the dollars required. That is the straightforward answer to the supposed US government debt crisis. Modern monetary theory here provides an obvious answer to this obvious question. Neoliberal economics does not, but the simple fact is, the USA cannot go bust.

But the fact is the state of the US economy is crazy at present.

Share prices are around all-time highs.

Investment funds have more invested in shares than they almost ever have as a proportion of their total holdings.

They have almost no cash left in their bank accounts.

Their liquidity is low, and government bonds are being sold to fuel the increase in share prices.

The US financial markets are in a mess, and the pressure on the US economy is mounting.

The US government is losing a war.

Food prices are rising.

The cost of government debt is increasing.

Oil prices, gas prices, and what the US calls gas prices are all rising.

There is no resolution to any of those problems in sight, and there are real signs of stress already emerging in US financial markets.

A US hedge fund lost $15 billion in July. That was an all-time record loss for an institution of this sort in a month. So far, the markets appear to have taken this news well. There is no sign of serious difficulty at present, but that means the trigger point for a crisis has just not yet been reached. But the chance that such a trigger point exists is very real.

What will trigger the loss of confidence that will give rise to the crisis?

It could be something Trump does.

It could be something Israel does. Let’s not discount that.

It could be the collapse of a major financial institution.

It could be a collapse in share prices, or a major accounting scandal perhaps involving one of the big tech companies.

The crisis, when it comes, will ultimately always come from a small event that gives rise to a massive loss of confidence. That’s the way these things always work.

A trigger point will be reached because they always are. Bubbles always burst. This one will. The promise that this time things are different is always made, but that promise is always wrong. The only uncertainty that we have left is what will trigger this crash.

And the FT has concluded that the financial markets in the USA are, to use its language, ‘nuts’. They have lost touch with reality.

That does not mean that the USA can go bust. It cannot.

But US financial markets can, and that is pretty serious too.

The consequences of a financial market crash will spread rapidly.

Banks that lent money to buy shares will lose the security for their loans.

Banks lending to hedge funds, and many are, could suffer major losses. Stock markets might tumble.

Pension valuations will fall, and savers will suffer.

And most of all, the real economy will be hit.

That will be because real economies are always dragged down by financial crises. Why is that? That's because our 'animal spirits,' as Lord Keynes called them, can crash along with financial markets. Our willingness to spend disappears as financial markets fall. We feel less well off. We feel the impact of that loss of sentiment, which has driven down the price of shares. Our spending then creates a crisis in the real economy.

Companies could go bust as a result of the financial crisis.

Banks could go bust because of that crisis. They will require government bailouts.

But people spending less will have as big a consequence again.

Everything will reinforce itself unless governments intervene. We are facing the risk of recession. We are even facing the risk of depression, which is very much worse, and without government action, that depression could become real.

In 2008, governments around the world saved their economies from crisis. They bailed out banks, companies, and the people dependent upon them.

Neoliberalism has, however, become very much worse since 2008. The belief is now rampant that governments cannot afford to do this again. And if governments do not act as a result, we could face a 1930-style depression.

We could talk ourselves into that crisis. And the biggest crisis we have is, in fact, not that we will see a crash, but that we have no plan to manage a crash.

Saying that the financial world is 'nuts' is one thing. Doing something about it is something else.

Everyone is assuring themselves that this time it's different, but it isn't.

Only governments can save us from the folly of finance, yet again, and at this moment, the need for a bailout is going to be very high, and very soon.

But, at the moment, governments appear completely unprepared for that. There is no discussion. There is no indication of concern. There is no indication of preparedness. There is still talk that everything is going on as normal.

So the US cannot go bust, and nor can the UK, because our debt is also denominated in our own currency. But US banks can go bust, and UK banks could go bust as well. The financial system can fail even when governments cannot.

The consequences could be grim. You could lose your job, your income, your savings, or your pension.

You need to worry about what is going to happen. You need to think that this is like the summer of 1939, with a crisis about to emerge.

You need to worry, and if you don't, I will for you, and that's why you need to watch this channel, because I talk about what we can do to survive this crisis, and survive it we will, because people always do get through such things, but the cost will be heavy. And the cost of inaction will be enormous.

So we need to have an economics that understands that and talks about how this time it will be different, because this time we will make the existential changes to the way in which our economy works so that there won't be a next time.

That's what I think. What do you think? There's a poll down below. Please let us have your comments. Please do like and share this video, and subscribe to our channel, and hit that bell button so you get notifications when we make more videos like this. And if you'd like to buy Tom and me a coffee, because that's the least we need to keep these things going, that would be great.

Poll

[poll id="497"]