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WHAT IS UNIQUENESS AND CAUSES OF THE CRISIS, WHICH WE HAVE ALREADY ENTERED?

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Annotation. The article substantiates the assertion that we have all entered a global crisis, the nature of which is very different from the crises that we have already experienced in our lifetime; it is emphasized that the current crisis is associated with a drop in demand and consumption, and therefore we will get out of it for a very long time.

Keywords: structural crisis, emission, national interests, stimulation of demand, credit money.

It is already clear to everyone that we have entered a global crisis. Not local crisis, but global and structural. And the latest news from all markets only confirms this. However, there are several opinions regarding its scope, duration and economic impact.

Let's figure it out together.

Everyone knows that when a crisis occurs, people stop spending money. Aggregate demand is falling. The population needs fewer goods and services, and as a result, companies are forced to reduce production volumes, cut staff, which in turn increases unemployment and leads to a decrease in demand. The government begins to take stimulating measures in the form of subsidies, tax breaks, injecting money into the economy, etc., as a result of which the economy is recovering. People start buying again, business starts producing more and everything returns to its place.

But this is the classic cyclical crisis that most people see when they talk about a crisis. Such crises occur every 5-8-12 years and last no more than 1-1.5 years.

What is the uniqueness of the current crisis?

In order to understand how long and how we will get out of the current situation, we need to assess how similar or dissimilar the current crisis is to its predecessors.

The nature of the forthcoming or, to be more precise, the current crisis is different from the nature of its predecessors: Black Monday in the USA in 1989, the dot-com crisis in the 2000s, and the mortgage crisis in the USA in 2008, when the economy recovered relatively quickly. These crises were “financial” bubbles, the deflation of which led to a sharp slowdown in the economy. But the exit from them was relatively quick, in totally for 1-1.5 years.

Contrary to popular belief, the coronavirus pandemic is not the fundamental cause of today's crisis. Half a year of life with the coronavirus has already passed, but the song still does not subside - oh, this coronavirus, because of it there is a crisis now...! Citizens, come to your senses. The crisis has nothing to do with COVID-19. This crisis has been approaching for years, inexorably and unhurriedly [1]. The pandemic only spurred it on, made it more obvious. But nothing is more.

We have been talking about the crisis for a long time and the approach of the crisis was visible with the naked eye [2]. And now the global hysteria around the coronavirus is the perfect disguise for the disruption of the world economy into a global depression. As a result, the very fact with which it is absolutely pointless to argue today: the Great Depression № 2 will soon be comparable to the Great Depression of the 30s of the XX century, and this is not far off.

Why are we so sure that we are waiting for the Great depression № 2? It's all about the unemployment rate. In the 30s, it was she who made the depression great. Recall that in 1933 in the United States, it reached 25% (17 million people). Most likely, and this is evident from the frightening and often contradictory reports from the "fronts" - we will probably face a similar indicator in the future [3].

For example, Nobel Prize laureate Nouriel Roubini notes: “Neither during the Great Depression nor during the Second World War nor during the global financial collapse of 2008 did it happen that a significant part of the economy in the United States, Europe and China just stopped. Any previous crisis pales in comparison to the COVID-19 strike. All elements of global demand: consumption, investment and export are in free fall”[4].

But still, these events are the triggers that launched the global crisis. They detonated the "financial" bomb, which was planted by the US elites back in the 1970s and 1980s.

After World War II, the American economy grew steadily. This was largely facilitated by the geographical location of the United States: remoteness from the main theater of military operations, export-oriented economy of the 1940s-50s. Post-war growth was strong and confident: the Dow Jones rose from 92.92 points in 1942 to 980 points in 1965-1969. The dollar was gradually becoming the world's main reserve currency.

But in the 70s of the XX century there was an economic crisis of overproduction in the United States. The main reasons were:

1. The overproduction of durable goods by the American economy. The demand from the population fell. American manufacturers were forced to cut production volumes, and as a result, cut their staff, which caused the unemployment increase and an even greater drop in consumer demand.

2. The rest of the developed countries (Japan, Great Britain, etc.) have already managed to recover from the consequences of the Second World War and were able to compete on equal terms with the United States on world markets, which created additional competition for American goods. World demand for them began to fall, intensifying the crisis within the United States.

After that, it took the United States more than 10 years to get out of this crisis and restart the economy. In the United States in 1970-80 in order to overcome the crisis, the American political leadership has implemented a number of economic measures. Two of them were the most important because they enabled the United States to become a thriving economy again, but they also largely determined the causes of today's emerging crisis.

A set of measures number 1: US President R. Nixon in 1971 carried out a series of reforms that went down in history as the "Nixon Shock". As part of these reforms, a key element was the US unilateral refusal to peg the dollar to gold.

A set of measures number 2: In 1981, US President R. Reagan launched Reaganomics, an economic policy aimed at lowering barriers for business in order to increase production, stimulate job growth to reduce unemployment, and stimulate consumption by ordinary people.

As a result, the Dow Jones Index rose from 577 points in 1975 to a historic high of 28,004 points on November 16, 2019 (more than 48 times in 44 years).

How have these two decisions affected the current crisis?

The US 1970s crisis was an overproduction crisis. It was necessary to re-launch consumption by the end customers. But how could this done if they cannot spend more than their income? How to make a person spend $ 120 if his income is only $ 100? It should have been offered him to spend his future income, but today. That is mean to give him a loan.

But for the bank to give a loan, it needs to take money somewhere. The population and companies don't have them because of the crisis. This money was printed by the US Federal Reserve System (analogue of the central bank).

The Fed prints money, transfers it to banks, and they, in turn, lend to the economy:

– lend to the producers who pay off debts and increase production,

– lend to the population that buys produced durable goods on debt.

Prior to R. Nixon's decision, the US dollar had a "fixed peg" to gold: 1 troy ounce of gold was equal to 35 US dollars. All other world currencies were "pegged" to gold through the dollar. Anyone who had dollars on hand could freely exchange them for gold until 1971. This, incidentally, was taken advantage of by Charles de Gaulle, a French general and president of the Fifth Republic, who in 1965 sent a ship with dollars to the United States to exchange them for physical gold.

But everyone knows that the physical stock of US gold is limited to the amount held at the New York Fed bank and at Fort Knox. Therefore, it was impossible to "print" as many US dollars as one wanted. So, R. Nixon, in fact, removed this restriction. The Fed was then able to print unlimited dollars.

Thus, all the prerequisites were created for "pumping" the economy with "credit" money. The political elite of the United States at that time had all the opportunities to realize the "American dream" of an ordinary citizen. Everyone could buy real estate, cars, expensive goods here and now, however, at the expense of credit money. And naturally, the political elite actively took advantage of this, solving all its economic problems through these credit instruments and gaining the necessary points in the eyes of voters.

After that, American society again began to actively produce a large number of goods: from jeans to personal computers. A new technological revolution - “digital” - was launched: microprocessors and personal computers, the instruments of the world wide webs and the Internet. At the same time, finance elite (globalists) always remembered that all this must be bought by someone, otherwise the risk of an overproduction crisis appeared again. And for this, people were constantly given loans. The concept of a "consumer society" came into full force with the Reaganomics launched by Reagan in the 1980s. Stimulation of consumption by the population was actively moving through the issuance of loans.

Loans became more affordable and cheaper due to the constantly decreasing Fed rate. In 1981, the Fed's rate was at 21%, and today it hovers at 0-0.25%. That is, by systematically reducing the rate, the FRS has ensured that money, which is getting cheaper every year, poured into the economy, accelerating the production of goods and their consumption.

A side effect of the Fed's rate cut is a significant increase in the money supply. In the 80s of the XX century money supply (aggregator M2) was at the level of 1.8 trillion US dollars, and at the beginning of 2020 - about 16 trillion US dollars.

But, if your currency is tied to gold, you cannot quickly and significantly increase the money supply without increasing the gold reserve. R. Nixon's decision made it possible to easily bypass this problem, creating all the conditions for R. Reagan to launch "Reaganomics". The symbiosis of these decisions defined American global dominance for the next 40 years.

The flow of money also went to financial markets, inflating bubbles that burst from time to time: Black Monday 1989, the dot-com bubble in the early 2000s, the subprime mortgage bubble in 2008 The bursting bubble triggered another “ordinary” crisis in the economy, which was quickly “extinguished” due to the fact that the Fed cut the rate, issued loans to banks, which in turn lent to the population and manufacturers. The population and producers took out new loans at lower rates, refinanced the existing loans (for which the rates were higher, since they had taken them earlier) and began to produce and buy again. The economy is started up again.

What have we come to today?

At the end of 2019, a new bubble was inflated: the Dow Jones reached a historic high of more than 28,000 points. And this bubble started to burst in February 2020. And why doesn't the Fed manage this crisis as usual? But there is a small complication.

The potential for a Fed rate cut has run out. The Fed's rate hovers around zero. The last significant decline was from 4% to 0-0. 5% in 2009, by the way, immediately after the crisis of 2008 and this allowed the US economy to get out of it due to the fact that credit money was poured into the economy and consumer demand was stimulated with this money.

And now 10 years have passed, the rate is about zero, a new crisis is on the threshold and how to get out of it? You won't be able to lower the bid (of course, there are other tools there, but they don't work either). It is simply nowhere to put it down.

This means that the Fed can no longer stimulate consumer demand through this mechanism. However, this cannot be done in any other way, since all future demand has already been “selected” by the population of the United States and other developed countries with the help of cheap loans. Today everything and everyone is simply credited [5]. This means that there will be no demand in the future. And if there is no demand, then again there is a crisis of overproduction, the economy slows down and enters a recession. And where and how to get the demand now is not clear. And if the world economy does not answer this question, then we will have to wait for a recovery in demand, as it was in the 1930s in the United States.

The US economy took a long time to recover from the "great" depression of the 1930s. The fall itself took about 3 years: the Dow Jones index in 1929 was 381 points, in 1932 - 41 points. The pre-crisis value was reached 25 years later - in 1955.

This is the fundamental difference between this crisis and previous crises that took place in the United States and the world in 1989, 2000, 2008. These crises were associated with the "deflation of financial" bubbles. And the current crisis is associated with a drop in demand and consumption.

Unfortunately, the current crisis will drag on for a long time. 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 D. Trump, Britain's withdrawal from the "Euro zone" 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 the end of the current cycle of globalization.

Over 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 (world reserve currency) and the entire world financial system - only God knows.

And what does the IMF say about this (the IMF is one of the FRS structures)? The experts say that for many countries "the risk of the worst outcome prevails". The IMF has calculated that the coronavirus could cost the world $ 28 trillion. [6]. And more recently, the IMF said 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 that is more than the economies of Japan and Germany combined [7].

But, as you know, any crisis means new opportunities.

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