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The Financial Collapse of Capitalism

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Abstract

This paper will argue that the current level of international debt is a huge 'bubble' waiting to burst, and that, if and when it does so, the entire financial structure of global capitalism will collapse, taking capitalism, as such, with it. The mechanism of this collapse, if it occurs, will be a collapse of the international banking system, and complete loss of confidence on the exchange markets in any form of reserve currency – either the US dollar or any putative replacement for it.

Keywords: Global Capitalism, Global GDP, Global Debt, Global Debt/GDP Ratio, International Banking System, Exchange Markets, Reserve Currency, US Dollar, Inflation, Financial Collapse.

1. Introduction

In 2022, global GDP amounted to ~$100.22 trillion at current prices, and is expected to be ~$105.59 trillion in 2023, same basis (O'Neill, 2023 [1]). At the same time, global debt, comprising personal, corporate (including financial sector) and government/public debt rose by $10 trillion to $307 trillion, according to the Institute of International Finance (IIF, 2023 [2]). The $10 trillion increase was in the first half of 2023, and global debt rose by $100 trillion over the past decade (Campos, 2023 [3]). The global debt to GDP ratio, assuming no increase in debt for the rest of this year (an unlikely assumption, in fact), is thus 290.747%. Given the mid-year world population of ~8 billion recorded by the US Census Bureau (2023 [4]), every human on the planet is in debt to the tune of $38,375 – even those 719 million of us who were living in extreme poverty in 2020, according to the World Bank (2022, p.3 [p.31, pdf.] [5]).

The national debt of the United States, in September 2023, amounted to over $33.167 trillion (Statista Research Department, 2023 [6]). Household debt in the US in the third quarter of 2023 was $17.29 trillion (Federal Reserve Bank of New York, 2023 [7]); and non- financial business debt (second quarter 2023) was $20.3 trillion (US Federal Reserve, 2023 [8]). Combined, these totals, theoretically at least, $70.757 trillion, or 23.048% of the total global debt. The US national debt alone constitutes about 10.8% of it[2].

The question is, 'Can this level of indebtedness be sustained for very long without severe risk of global economic collapse?' This paper shall answer 'No,' and will argue that immediate action must be taken at international level to reduce the level of global debt by the wealthy nations, acting in concert to do so, or they will jeopardise the basis of their own wealth and power.

2. Debt and Inflation at National Level

If any national Government finds itself severely in debt, and that debt is denominated, for the most part at any rate, in the country's national currency, given that that currency is a fiat currency, and is not directly convertible into some fixed quantity of a precious metal such as gold, and that national Government is able to control its monetary as well as its fiscal policy[3], then all that Government has to do is increase the money supply[4], thus lowering interest rates, because the price of any commodity falls if the supply of it exceeds the demand for it, devaluing the currency on the exchange markets, for the same reason, and hence raising the prices of imported raw materials, capital and consumer goods.

Businesses are as appreciative of low interest rates as governments are, because they reduce *their* borrowing costs, just as they do those of governments, but are reluctant to pass those reduced costs onto their customers, preferring instead to increase their profits.

The prices of domestically produced capital and consumer goods will follow suit, but these price-inflationary effects will be a side-effect of the reduction in interest rates and of the exchange rates of the currency, intended to diminish the monetary cost of the national

debt by reducing the value of capital and interest repayments on the debt to domestic and foreign creditors, paid in the (reduced value) national currency.

This process is termed 'monetisation' of the national debt or 'seigniorage'5, and is advocated by Bardsley (in Varotto and Billio, eds., 2020 [9]) as a means of raising funds to finance a 'green new deal' and tackle the climate emergency. It was used by the UK Government during the COVID-19 pandemic (Elliott, 2020 [10]).

There are both historical and recent examples of governments that have attempted this, and the result has been economically disastrous. Cipolla (1963 [11]) undertakes a review of the causes and circumstances of currency depreciation in medieval Europe ('clipping the coinage'), in which medieval kings and princes would get themselves out of debt – often incurred by numerous wars – by reducing the gold and silver content of the coins in circulation, while retaining their face-value, thus raising prices. He is supported by the more recent study of Sussman (1993 [12]) of coinage debasements, royal revenues and inflation in France during part of the One Hundred Years' War. Sussman points out (op.cit., p.45) that currency depreciation by means of reducing the silver content of the tournois was a hidden form of tax, and taxation without consent – an inflation tax.

These studies, however, only serve to reinforce the classic observations of historians such as Trevelyan (1942, 1944 [13], pp.113, 134-7). Elliott (in Elliott, 1963, p.195 [14]), in questioning Hamilton's (1934 [15]) thesis that the 'price revolution' in the Imperial Spain of the early 16th Century was due solely to the influx of silver from the Spanish colonies of the New World, has this to say:

'It seems clear... that any satisfactory analysis of the causes of the price revolution will have to take into account many points beside the influx of precious metals. Debasement of the coinage, which pushed up prices in the England of Henry VIII and the France of Francis I, did not occur in the Spain of Charles V; but the Emperor's borrowings, which he partially financed by the creation of *juros*, or credit bonds, are likely to have had highly inflationary consequences. Similar results could have been produced by the lavish expenditure of the Spanish aristocracy... part of which may have been financed out of de-hoarded silver. Finally... there was the impact of a suddenly increased demand upon an undeveloped economy.'

Fisher (1935 [16], p.589) supplements this picture by noting that:

'No European country in the sixteenth century was financially strong: but Spain is a conspicuous instance of a country owning a vast surface of the globe... and having immediate access to the richest mineral resources then known to exist, which was nevertheless in perpetual straits for money... The king could raise but little money from Spain itself. Despite their vast wealth, the clergy were immune from taxation. In Castile the nobles... were by long custom exempted from contributing to the regular revenues of the crown. In Aragon the Cortes voted a fixed and wholly insufficient sum. Of the immense wealth of Mexico and Peru, only a small fraction found its way into the royal coffers...'

More recent (20th Century) history, studied by Laidler and Stadler (1995, 1998 [17]), furnishes us with the paradigmatic example of what happens when a national Government tries to monetise its debt, that of Weimar Germany, given the huge burden of reparations imposed on it by the 1919 Versailles Treaty, which J.M. Keynes foresaw would lead to terrible consequences, and the reason for his resignation from the British delegation to the Versailles Peace Conference (Keynes, 1919 [18]; Bottom, 2003 [19]).

Laidler and Stadler (op.cit., p.3) note that, until the end of the First World War, prices in Germany lagged significantly behind the money supply, and that during the war, the velocity of circulation of money declined significantly. It is as well to introduce at this point, for those unfamiliar with it, the Fisher Identity (Fisher and Brown, 1911 [20]), named after the American economist and statistician, Irving Fisher (1867-1947), although he derived it from Mill (in Mill, 1848, 1871 [21]). This states that:

$$MV \equiv PT \equiv Y,$$

where M is the quantity of money, V is its velocity of circulation (i.e., the average number of times each unit of currency is used to purchase goods or services in a given year), P the average price of each transaction (where a good or service is purchased), T the total number of such transactions in that year, and Y, national annual nominal income, including net overseas trade, which adds to national income if there is a positive balance of payments, or subtracts from it if there is a negative one.

Laidler and Stadler (op.cit., pp.3-4) then tell us the situation changed as soon as the war ended. Prices and the money supply began to rise significantly, they say, so that by July 1921, both price and money supply indices (1913 = 1) stood at 14.3. After mid-1921, prices began to rise much more rapidly than the money supply (implying an increased velocity of circulation to transactions ratio), so that by January 1922, the price index stood at 36.7, and the money supply index at 20.5. By the end of 1922, they inform us, the two indices stood at 1,475 and 213.4 respectively, and

'the tendency for prices to surge ahead of the money supply persisted until stabilization was achieved in November 1923. This increase in prices far in excess of the money supply was mirrored by the behaviour of the exchange rate, which also rose (i.e., the currency depreciated) far more than the money supply, and, until 1923, more than domestic prices too. Furthermore, exchange rate movements generally tended to lead movements in domestic price levels' (ibid.).

The naïve (and original) version of the quantity theory of money argues that the V/T ratio is, if not a constant, then at least stable. The experience of Weimar Germany demonstrates this is clearly not the case. De Long (2000 [22]) points us to a rather more

sophisticated understanding of what has come to be known as 'monetarism'.

As De Long points out (op.cit., p.91), the world of 'political monetarism[6], the world where the velocity of circulation is stable, where fiscal stimulus not financed by printing money does nothing to boost nominal demand, where fiscal stimulus alone only tends to increase interest rates, and where everything that goes wrong in the macroeconomy is due to central banks failing to ensure the money supply grows at the appropriate rate, is 'not the world we turned out to live in'. Yet it was this economic ideology, that of Friedman (1972 [23]), and earlier, F.A. von Hayek (1899-1992; for a critical account, see White, 1999 [24]) that underpinned economic policymaking in the UK and US after the mid-1970s, see Clift (2019 [25]).

De Long (op.cit., pp.86-87) cites Tavlas (1998 [26]) in support of the idea that what he calls 'Old Chicago monetarism6', advocated by Chicago University economists of the 1930s such as Viner (1933 [27]), recognised that the velocity of money was not stable and did not believe the control of the money supply was easy, but nevertheless advocated 'massive stimulative monetary expansion and government deficits' (p.86) as a means of curing economic depression or recession. This is, of course, very much the prescription advocated by Keynes (1936 [28]).

More recent history in South America furnishes us with the cases of hyperinflations in Argentina, Bolivia, Brazil, Chile and Peru in the late 20th Century, studied by (inter alia) Sargent, Williams and Zha (2006, 2009 [29]). They account for these hyperinflations in terms of inflationary expectations, and money demand based on them, and money supply-financed government deficits (p.31).

Caputo (2020 [30]) points out that Latin America is 'a region of very high-income inequality and poor social mobility' (p.99), subject, during the 1970s to 2000s, to 'balance of payments crises, financial crises, defaults, major confiscations of assets and bailouts of private sector debts' (ibid.).

In addition, he points out, during the 1970s and until the early 1990s, most of the region's economies were plagued by hyperinflation – with inflation reaching 11,000% p.a. in Argentina at the end of the 1980s, 432% in 1990 in Brazil, 7,482% in Peru (same year), and 13,490% in Nicaragua (same year).

In 1974, he tells us, Chile experienced inflation of 600% (ibid). Examining the case of Chile, Caputo finds that seigniorage (the Chilean Government 'printing money', in effect) was used to finance large fiscal deficits during the period 1971-73, and after 1974, inflation was used to finance fiscal expenditures excluded from the official figures, particularly unofficial defence spending by the then military dictatorship of General Augusto Pinochet Ugarte (1915-2006; see Navia, 2008 [31]), which ruled the country from 1973-1990, so that, in Caputo's words, 'the Chilean economy' (or rather, its Government) 'was addicted to fiscal deficits' (p.100), and destabilising inflationary expectations, evolving independently of seigniorage, were irrelevant in that country (ibid).

Basing their analysis on Ludwig von Mises' account of the German hyperinflation (von Mises, 1932 [32]), Coomer and Gstraunthaler (2011 [33]) examine the causes of the hyperinflation in Zimbabwe following the achievement of black majority rule there under the Government of Robert Mugabe (1924-2019; Prime Minister of Zimbabwe, 1980-87, President, 1987-2017)[7].

They note that a government budget deficit can only be financed in one, or a combination, of four different ways: borrowing abroad, borrowing domestically, running down foreign exchange reserves, or printing money (p.313). As inflation spirals upwards, they tell us, a government in control of both fiscal and monetary policy must stay ahead of inflation, and inflationary expectations, in order to maintain the real value of revenues (ibid.).

As they say, von Mises (op.cit.) noted (as Laidler and Stadler, op.cit., do, we may also note) that, at the beginning of the inflation in Germany, price rises did not reflect the growth in money supply (Coomer and Gstraunthaler, op.cit., p.315). When prices started to rise, the Weimar Government was quick to blame others for the increase, and money holders believed their rhetoric, which blamed rising commodity prices on causes other than the increasing quantity of money.

Once the inflation was associated with the monetary policy, the demand for money fell drastically, and instead, people avoided holding it, preferring instead to hold commodities (gold is a favoured store of value, especially in times of economic uncertainty and instability, although Coomer and Gstraunthaler do not say this, but see O'Connor et al, 2015 [34]). This increased demand for commodities pushed commodity prices still higher, and above the rise in the money supply, forcing the Weimar Republic's Government to print even more money, making things worse (Coomer and Gstraunthaler, ibid.).

The hyperinflation in Zimbabwe reached truly astronomical levels. Coomer and Gstraunthaler (p.317) inform us that in January 2009, the UN recorded an official exchange rate for the (old) Zimbabwean dollar (Z$) against the US one of Z$350 nonillion (a nonillion is 1030; in terms of SI prefixes, this would be 350 Zimbabwean 'quettadollars', or ZQ$) to US$1.

In other words, the country's currency was effectively valueless. It was formally abolished, and foreign currencies, such as the US dollar and the South African rand, replaced it as legal tender in the country. Coomer and Gstraunthaler tell us that inflation reached 164% p.a. by June 2005 (p.328), but by May of the following year, this had reached 1,200% p.a. by official Government estimates (p.329). In August 2006, a new Zimbabwean dollar was introduced to replace the old one, at a ratio of 1000:1, and devalued against the US$. When final money supply growth figures were released by the Reserve Bank of Zimbabwe for December 2006, they showed

an annual rate of increase of 1,416.5% (ibid.).

By March 2007, annual inflation reached 417,823%, they tell us on p.330, which is a truly staggering figure. This was not, however, the peak: by September 2008, it had reached 500 billion percent (p.331)! The highest annual rate of inflation in Weimar Germany was recorded in October 1923, and that was 354,000% (monthly figure: 29,000%); the papiermark to US$ exchange rate in November 1923 was 238 million to one (Toscano, 2011, 2014 [35]). Zimbabwe's peak rate of inflation thus exceeded Weimar Germany's by a factor of over 1.4 million!
Coomer and Gstraunthaler conclude (pp.339-340):
'When the prices for commodities skyrocket, so does the demand for money, which will lead to more money printing... governments with access to non-autonomous central bank financing have a strong incentive to use hyperinflation as a tool... the Zimbabwean hyperinflation is not an isolated economic phenomenon. Rather, it demonstrates nearly all the general characteristics of a classical hyperinflation: a country, gripped by a growing fiscal deficit, is left susceptible to both internal and external fiscal shocks. The shocks occur before the fiscal deficit can be rectified... Without drastic measures being taken, the economy self-stabilizes by converting into an alternate form of currency; and the inflation ends as the public abandons the use of the old currency.'

The pair's study is marred by their ideological commitment to Friedman-ite monetarism and neo-liberal *laissez faire* capitalism (they are quick to condemn what they call 'ideological governments', p.338, taking a different view of the world, not committed to 'free markets' and 'free market forces', p.339), but is, nevertheless, sound in its understanding of what happened vis-à-vis the Zimbabwean hyperinflation.

3. The Money Supply and the Velocity of Circulation in the UK

In the fifteen-year period 31st October 2008-31st October 2023, 'narrow money', bank notes and coins in circulation, also known as M1, increased in the UK from £51.131 billion per month to £94.384 billion per month, an increase of 84.59% (source: Bank of England, 2023 [36]), or annual rate of increase of 5.639%.

During the seven-year period, fiscal years 2017/18-2023/4, nominal UK annual GDP (i.e., nominal annual national income excluding overseas trade) rose from £2.067 trillion to £2.529 trillion, an increase of 22.35%, an annual rate of increase of 3.193% (source: Clark, 2020 [37]). UK Gross National Income (GNI), in current prices, seasonally adjusted, rose from £1.573 trillion in 2008 to £2.64 trillion in 2023 (see: Office for National Statistics [ONS], 2023 [38]). This represented an increase of 67.83% in fifteen years, or nearly 4.52% a year. Yet annual economic growth varied between –4.6% in 2009 and –10.4% in 2020 to 8.7% in 2021 and 4.3% in 2022, averaging only 1.436% p.a. (Clark, 2023a [39])[8].

During the fifteen-year period October 2008-October 2023, the UK Consumer Price Index (CPI) annualised monthly rate of inflation increased from 4.5% to 11.1% in October 2022, before dropping back to 4.6% in October 2023, but during this time, in February, March, June and August 2015, had dropped to 0%, after being –0.1% in April (and again in September and October) of that year, 0.1% in the May, July and November, being just 0.3% in the January and 0.2% in December 2015 (source: Clark, 2023b [40]).

If we annualise the 2023 figure (given above) for UK M1, we obtain £1.1326 trillion. This, then, enables us to calculate a value for M1 transactions velocity of circulation, V, for the UK for 2023 of 2.331. The corresponding 2008 figure was 2.564, given an annualised M1 for that year of £613.572 billion, so between the two years, V fell by 9.087%. We British, as a nation, did not get richer (or not much), but we did have a lot more money, although we did not spend it so fast.

As Clark ([40] op.cit.) notes, the recent inflation in the UK is not an isolated phenomenon. As he says, 'in the wake of the COVID-19 pandemic, global supply chains struggled to meet the renewed demand for goods and services in 2021.' Furthermore,

'Food and energy prices, which were already high, increased further in 2022. Russia's invasion of Ukraine in February 2022 brought an end to the era of cheap gas flowing to European markets from Russia. The war has also disrupted global food markets, with both Russia and Ukraine being major exporters of cereal crops. As a result of these factors, inflation is high across Europe and the rest of the world' (ibid.).

These facts serve to emphasise that the quantity theory of money, on its own, cannot account for all instances of inflation in all countries, even if it is sufficient to explain hyperinflation in some. This did not, however, prevent Greenwood (2023 [41]), writing in the right-wing 'think tank', the Institute of *Economic Affairs*', publication, Economic Affairs, from blaming the monetary policies of the Bank of England for that inflation.

Palma (2017 [42]) provides interesting historical data for money and coin supply and velocity of circulation in the UK from 1270-1870, referring, for example, to Henry VIII's 'Great Debasement' of 1544 onwards (p.381) and pointing out that velocity of circulation is obtained by the equation V = Y/M (if Y is nominal national income, see his p.386). Escribano and Rodríguez (2023 [43]), in their study of both long- and short-term money demand functions in the UK and US, inform us that in 1874, the (broad) money stock of the UK was £593.47 million; by 2020, 146 years later, it had grown to £1.482 billion, and the pound sterling had lost approximately 4.5 times of its purchasing power value compared to the beginning of the 19th Century (p.31). Their empirical data and mathematical work show there is a long-term stable demand relationship for money in both countries, which can be modelled using a non-linear cubic polynomial cointegration equation (Equations 23a and b, p.44; pp.89-90). They say:
'modeling the long-run money demand is centered around the analysis of the cointegrating relationship between inverse

velocity of circulation of money[9] and the opportunity cost of holding money. Once the marginal cost of money has been properly measured, a strong long-run relationship (cointegration) between real money balances, real income, and an opportunity cost measure... has been identified... The introduction of this opportunity cost measure has induced parameter constancy in the historical money demand equations of both countries. Evidence of a non-linear structure is found in the monetary trends of the United States and the United Kingdom.'

4. The 2007-08 Global Financial Crisis

The global financial crisis of 2007-08 was the most severe financial and economic crisis to afflict the world after the Great Depression of the 1930s, and resulted in the loss of $2 trillion from the global economy, and even larger losses to the US economy, with the collapse of once mighty US firms such as Lehman Brothers and Bear Stearns (Merle, 2018 [44]).

The crisis began in the US housing market, and with what were termed 'sub-prime' mortgages, as Sanders (2008 [45]) explains. Fratianni and Marchionne (2009 [46]), however, point out that, whilst the crisis may have started there, the main problem was the general, overly high level of debt in the US economy, or to put it another way, the excessive and unrestrained level of lending by the US banks and other financial institutions.

It used to be the case that no-one lent money to anyone unless they knew in advance that the person to whom they were lending the money could pay that money back, plus the interest on the capital. This elementary (and common-sense) principle was abandoned, because all debt was supposedly insured, so there were no longer any 'bad debts'.

Unfortunately, when the claims on the 'bad debt insurance' grew to such an extent that those who provided it were no longer willing, or indeed able, to pay, the whole system collapsed. As Fratianni and Marchionne say, 'low-quality mortgages acted as an accelerant to the fire that spread through the entire financial system' (p.1, pdf.). They point out that, in the period 2001-06, the US had net foreign borrowings of $3.455 trillion, driven by 'a large and consistent excess of domestic... consumption, gross investment and government spending' over domestic production (pp.5-6, pdf.). They also point to the impact of financial deregulation (ibid.). This was crucial.

Pol (2012 [47]), in his analysis of what he prefers to call the banking (as opposed to financial) crisis[10] of 2007-08, notes that the first official report, the Financial Crisis Inquiry Report (FCIR), of the US Congress's Financial Crisis Inquiry Commission (FCIC), issued in January 2011, could not reach a unanimous conclusion on the cause or causes of the crisis, but the majority of the Commission identified eight factors, seven of which were '[w]idespread failures in financial regulation and supervision'; '[d]ramatic failures of corporate governance and risk management at many systemically important financial institutions'; 'systemic breakdown in accountability and ethics'; 'Government ill-prepared and inconsistent'; 'lack of transparency'; 'failures of the credit ratings agencies'; and 'combination of excessive borrowing and risky investments' (p.4, pdf.).

With the notable exception of Lehman Brothers, the US and other governments heeded the pleas of the banks and the financial community (Wall Street and the City of London) that 'the banks were too big to fail', and if they were allowed to do so, the result would be economic disaster.

The case of the Northern Rock Bank (originally a Building Society until it demutualised in 1997) in the UK is instructive. It applied for, and received, liquidity support from the Bank of England, the Treasury and the Financial Services Authority (FSA) on 14th September 2007 (Bank of England, 2007 [48]). It was nationalised by the Labour Government in 2008, before being sold by the Conservative-Liberal Democrat Coalition to the Virgin Group in 2012, with the exception of the higher risk mortgages, which remained in public ownership as Northern Rock (Asset Management), later NRAM plc, until that, too, was sold to Cerberus Capital Management in 2015 (Shin, 2009 [49]; Ndong and Scialom, 2012 [50]; National Audit Office [NAO], 2016 [51]).

The policy of 'bailing out', and – in some cases – nationalising banks and other financial institutions entailed transferring what was private sector debt to the public sector, although in the UK this added burden was excluded from the official public sector borrowing figures, yet it amounted to some 25% of UK GDP (Grossman and Woll, 2013 [52] p.581). In the Summer of 2009, they tell us, bailout costs reached US$1 trillion in the US and $718 billion in the UK. In the Irish Republic, they reached $614 billion at the same time, which was 230% of Irish GDP (op.cit., p.579). They note (p.594):

'In the British case, the government tried to rely on private takeovers in the initial period, but was eventually obliged to nationalize several banks, which imposed considerable costs due to large write-offs.'

5. The Current Global Finances: A Crisis Waiting to Happen?

The phenomenon of banks lending far too much money, and then finding themselves in difficulties because of it, is not, alas, a new one. Kuczynski noted the problem as long ago as 1982 (Kuczynski, 1982 [53]), informing us that Latin American and Caribbean countries owed international commercial banks at least $200 billion in medium-term loans and short-term borrowing in order to finance trade and maintain their foreign exchange reserves, and the annual interest on this amount was $30 billion. Furthermore, some $95 billion was owed to governments, international financial institutions and others, yet these countries only earned US$110 billion in exports in 1982 (p.345).

What happened if and when any of these countries defaulted on their debt? As Golub (1991 [54]) notes, it was the view of Walter Wriston that 'sovereign lending is safe because nations do not go bankrupt' (Golub, op.cit., p.177). Wriston, it was, who also argued that banks such as the one of which he was President (Citibank) were 'too big to fail' (Grant, 1996 [55]). The first of these two propositions was clearly disproved by the Latin American experience, when Mexico defaulted on its national debt in 1982 (see Alvarez, 2018 [56]).

Mitchener and Trebesch (2021, 2022 [57]), in their paper on sovereign debt, with reference to the Eurozone debt crisis of 2010-12, which followed hard on from the global financial crisis (they date this from 2007-09, as opposed to 2007-08)[11], and the 'PIIGS' countries – Portugal, Ireland, Italy, Greece and Spain – pointing out that 'sovereign debt problems... happen in high-income or "advanced economies" as well as in lower or middle-income economies' (p.3, pdf.).

This ought to be a statement of the obvious, and came near to being demonstrated only too clearly, recently, when the United States itself came perilously close to a sovereign debt default because of the political brinkmanship of the Republican Party in the House of Representatives over the raising of the National Debt ceiling (Fitch Ratings, 2023 [58]; Sotomayor et al, 2023 [59]). Thankfully, however, a last-minute compromise Bill was passed by the Senate, as well as the House, shortly before the US Treasury would have run out of sufficient funds to pay the country's creditors, and thus plunge the country into a sovereign default (Luhby, 2023 [60]).

The US dollar is the reserve currency of international trade (Siddiqui, 2020 [61]). Commodities of major importance in the world economy, such as oil and gold, are traded internationally using it (Arfaoui and Rejeb, 2017 [62]).

US gross external debt reached a cumulative total of $24.952 trillion in June 2023 (CEIC, 2023 [63]). In 2022, of the $24.252 trillion of federal public debt held by the public, $7.251 trillion were in foreign hands, or 24.9% (source: The White House, 2023 [64], Table 20-7, p.250). This was, incidentally, nearly 8.27 times the sum the US spent on its military that year ($877 billion, 3.5% of US GDP; Tian et al, 2023 [65])[12]. The princes of the 15th-16th Centuries funded their wars by borrowing from the Medicis and the Fuggers, and they ended up bankrupting them, but their indebtedness was modest indeed compared to that of modern US Presidents (see Fratianni, 2007 [66]).

Michie (2022 [67]) argues that the failure to reverse the deregulation of the banks following the 2007-08 financial crisis, and re-constitute the divide between 'casino banking' and 'regular high- street banking' (p.291), will lead to a re-occurrence of such a crisis. He also points out (p.292), that no effort has been made to strengthen trade union rights, and that wages have stagnated since the global financial crisis, with workers being increasingly reliant on credit and increasing levels of debt. Furthermore, global levels of inequality in income and wealth, he says, which were one of the chief causes of the crisis, have been getting steadily worse since (ibid.; p.299).

We may ask, then, given the enormous size of the global debt now, how much worse will that future financial crisis be than the one of 2007-08? Michie does not say, but imagines the taxpayer will once again bail out the speculators (p.299).

This, however, is very unlikely, as the governments that would be called on to do the bailing out are themselves so heavily in debt, and the US Government, which does not control its monetary policy – that is left to the Federal Reserve (US Federal Reserve, 2023 [68]) – is limited in its capacity to borrow (by Congress, as well as by the Federal Reserve, as we saw recently), as are other developed country governments, and all governments, for that matter.

The idea that governments in financial difficulty can simply print money to get themselves out of it was disproved definitively by the case of Zimbabwe, and the other idea that no country can ever become bankrupt was disproved by that of Mexico. If the US Government defaults on its debt, the days of the dollar as an international reserve currency will be over, but it is hard to imagine that any of the possible alternatives – the euro, the Japanese yen, the Chinese yuan (renminbi) – will succeed in replacing it (Priewe, 2022 [69]; Canuto, 2023 [70]). In the absence of such an alternative, international trade, as well as the foreign exchanges and stock markets, will collapse, and that will spell the end of global capitalism.

6. Conclusion

To sum up: the world's governments, businesses and individuals have borrowed far more money than they can afford to pay back, and the world's banks and other financial institutions have lent more money than they can afford to lend and stay afloat. Attempts by debtor countries to deflate their debt by, in effect, debasing their currencies, only harm their populations by creating runaway inflation. Yet capitalism has an intrinsic and ineluctable imperative, namely that of economic growth and its concomitants, population growth and growth in the amount of pollution and waste (see Blaber, 2023 [71]). These would seem to imply an ever-increasing demand for, and supply of, credit and money. The result is the huge $307 trillion 'soap-bubble' of debt in 2023 we now see, and which cannot go on expanding, relative to real global GDP, for very much longer without bursting spectacularly.

The Temple of Capitalism, unlike the Temple of Dagon, does not need a Samson to pull it down from within (Judges 16:26-30), because it is very badly constructed, and will fall down of its own accord.

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Footnotes

1. Contact email address: richardblaber1956@gmail.com; ORCID ID: 0000-0003-0326-4469.
2. The calculation of the US national debt is less than straightforward, unfortunately, because the US authorities insist on including in it such things as inter-departmental or inter-agency loans within the US Government itself. Thus, at the end of 2022, $7 trillion, or 22% of the US national debt, was such intragovernmental debt. See: https://www.pgpf.org/blog/2023/05/the-federal-government-has-borrowed-trillions-but-who-owns-all-that-debt.
3. As the UK Government was, prior to the coming into force of the Bank of England Act, 1998 (46 Eliz. II, c.11): https://www.legislation.gov.uk/ukpga/1998/11/pdfs/ukpga_19980011_en.pdf.
4. On the question of the definitions of 'money' and 'money supply', see below.
5. Literally, the difference between the face-value of money and the cost of producing and distributing it, but metaphorically, the practice of a government borrowing money from the central bank instead of selling bonds to investors on the bond market, i.e., borrowing money from them.
6. This, of course, makes the political monetarism advocated by the late Milton Friedman and his colleagues of Chicago University's Economics Department 'New Chicago monetarism'.
7. See: https://www.britannica.com/biography/Robert-Mugabe.
8. These data are merely factual, and do not imply that economic growth is a good, as almost all politicians and the public, likewise, assume it is without question. The present author has stated his reasons for believing the contrary elsewhere; see ref. [71].
9. I.e., 1/V, or k, otherwise known as the 'income velocity of circulation of money', which appears in the so-called 'Cambridge' version of the Fisher Identity, M = kPQ, where Q is real economic output.
10. He argues that all banking crises are financial crises, but not vice versa.
11. The negative growth in the UK that year will not have helped the fortunes of the Brown Government in the General Election of 2010. The even sharper negative growth of 2022, and declining growth this year, may well spell doom for Rishi Sunak's Government in 2024, or in January 2025.
12. China's and Russia's more modest military spending totals for 2022 of $292 billion and $86.4 billion, respectively (1.6% and 4.1% of their national GDPs, estimates; Tian et al, op.cit.), were probably more sustainable, in spite of Russia being engaged in the invasion of Ukraine from that year onwards.