# The Final Act

In processing the flow of information about the goings on in the US, it is impossible to get rid of a most unsettling sense of unreality—of a population trapped in a dark cave filled with little glowing screens, all displaying different images yet all broadcasting essentially the same message. That message is that everything is fine, same as ever, and can go on and on. But whatever it is that's going on can't go on forever, and therefore it won't. More specifically, a certain coal mine canary has recently died, and I want to tell you about it.

It's easy to see why that particular message is stuck on replay even as the situation changes irrevocably. As of 2019, 90% of the media in the United States is controlled by four media conglomerates: Comcast (via NBCUniversal), Disney, ViacomCBS (controlled by National Amusements), and AT&T (via WarnerMedia). Together they have formed a corporate media monoculture designed to most effectively maximize shareholder value.

As I wrote in Reinventing Collapse in 2008, "...In a consumer society, anything that puts people off their shopping is dangerously disruptive, and all consumers sense this. Any expression of the truth about our lack of prospects for continued existence as a highly developed, prosperous industrial society is disruptive to the consumerist collective unconscious. There is a herd instinct to reject it, and therefore it fails, not through any overt action, but by failing to turn a profit because it is unpopular."

Two years earlier, in a slideshow optimistically titled "Closing the Collapse Gap" (between the USSR and the USA), I wrote: "...It seems that there is a fair chance that the US economy will collapse sometime within the foreseeable future. It also would seem that we won't be particularly well-prepared for it. As things stand, the US economy is poised to perform something like a disappearing act." And now, 12 years later, I believe I am finally watching what amounts to preparations for that act's final rehearsal; the ballet troupe is doing stretching exercises and the fat lady is singing arpegios to warm up...

Clearly, this final act is yet to be performed. The media replay loop continues to play, keeping the populace convinced that the future will resemble the past (except, perhaps, it will have more wind generators, solar panels and electric cars). The populace continues to be persuaded to go out and shop for (or, more frequently now, order online) things it doesn't need, to be paid for by money it doesn't have.

Of course, there have been changes. The populace in the US has been doing progressively worse. Drug addiction and suicide rates have skyrocketed while rates of childbirth have plummeted. The purchase of a home is now out of reach for the vast majority of young couples. Artificially rosy unemployment statistics hide the 100 million or so people who are considered "not in labor force" (because they lost their jobs some time ago and haven't been able to find another one). Uniquely among developed nations, life expectancy among white males—historically the most economically active and prosperous part of the population—has been dropping. These are all negatives, but neither any one of them nor any combination of them adds up to anything that could cause the US economy to undergo a spontaneous existence failure.

Nevertheless, it is possible to build a convincing case that Rome is, to put it figuratively, burning. To continue with the metaphor, evidence that there is some fiddling going on is particularly compelling. Overall, there is a steady backing away from addressing the substance of any problem and a concerted effort to maintain appearances at all cost.

Take the trade war with China, which has been going on since early 2018. Trump has recently declared a major victory in it, but upon examination signs victory are impossible to discern. In 2017 the US ran a $750 billion trade deficit with China on $3.3 trillion of trade (22.7%). In 2018 it has jumped to $930 billion on $3.8 trillion of trade (24.4%). China has found ways to parry each of Trump's thrusts by imposing countertariffs. After two years of this sort of World War I-style trench warfare, in which the US has been slowly losing ground, it became clear that the US doesn't have any means to put pressure on China.

And so Trump suddenly declares victory; not a full victory (that will have to wait until after Trump is reelected for his second term) but a victory nonetheless, because the Chinese have supposedly agreed to buy an extra $200 billion worth of US exports, $50 billion of them of agricultural exports from states that voted for Trump in 2016. But Trump is lying to his supporters. Over the past two years the Chinese have imported roughly $24 billion of agricultural commodities from the US, and sources close to the trade talks have said that the Chinese have agreed to increase these imports by just $16 billion, putting the total $10 billion short of the $50 billion mark. Even then, the US agricultural sector would have to rapidly scale up production by a factor of 1.6—and this is not at all likely.

The farmers will discover this only after they vote to reelect Trump, but that's not Trump's problem. Nor was it Trump's problem when in 2017 the Chinese promised to buy $120 billion of US liquified natural gas exports and then the US wasn't able to provide anywhere near that volume. And now that Russia's Power of Siberia pipeline is operational and ramping up volumes, while US fracking companies are going bankrupt left and right, the question has become largely moot. The AG promise is just a replay of the LNG promise at a smaller scale. Appearances are all that matter, and appearances are what Trump delivers every time. And if his voters want to believe—who's to stop them? Even though it is clearly heading toward a defeat for the US as a whole, the trade war with China is definitely a huge positive for Trump: all he has to do to win personally is periodically deliver promises that others won't keep—but that's not his problem.

Another net benefit for Trump is the never-ending impeachment saga. It has kept him in the media limelight and has allowed him to pretend that he is prevailing heroically against great odds while making his opposition look ridiculous in the eyes of his supporters. After the "Russian meddling" fable unraveled, an even more preposterous rationale for impeachment has taken its place. An attempt to impeach Trump for refusing to cooperate with a congressional investigation is in the process of failing, since anyone with more intelligence than a bucket of California penis fish should know that it is up to the courts, not up to the legislature, to resolve disputes between the legislature and the executive. All that remains now is an alleged abuse of power by Trump. Apparently, it is a no-no for a US president to ask a foreign leader to investigate a US presidential candidate for a variety of crimes such as corruption, bribery and money-laundering. This may all seem quite ridiculous, but it serves a purpose: it allows Trump to clean up on free publicity and to continue fiddling (tweeting, in his case) as Rome burns.

But what has set fire under Rome is not the decrepitating state of US society, or the permanent and permanently worsening trade imbalance with China, or the never-ending impeachment farce. It is the incipient failure of the US dollar. For those who have been paying careful attention, the surreal nature of the procedings, and the fact that results no longer matter—only appearances do—have become perfectly obvious, but they are a tiny minority. What has allowed the politicians and the media to exploit the general public's innate normalcy bias and to keep the media replay loop going without too many people catching on to what's really happening was (note the past tense!) the ability of the US government (with the assistance of the Federal Reserve, which is a government-linked but essentially private entity) to paper over the gaping chasm in the nation's finances by issuing debt, in the form of US Treasury paper.

The US Treasury has been able to exploit its "exorbitant privilege" to issue internationally recognized and traded debt instruments denominated in its own currency—the US dollar—which has been the world's main reserve currency for many decades. The reserve currency status has conveyed a certain aura of security and reliability (paper money is, after all, pretty much just a confidence game) and has supported the world's largest and most liquid financial market. Anybody anywhere could put up US Treasury paper as collateral for a loan and get a low interest rate because that paper was considered as good as "real money" (whatever that means). And then that scheme suddenly broke.

It is difficult to say what caused the confidence game to fail. It could be just the inexorable and ever-accelerating increase in US government debt. It could be the blatant decoupling between the growth rate of the US economy and the rate of increase of its indebtedness. It could also be the fact that much of the world is making a concerted effort to walk away from the US dollar as a reserve currency and as a means of exchange in international trade (Russia has sold off almost all of its US debt; China's hoard is much larger but it is also gradually selling it off). It is unclear what was the ultimate cause, but what is clear is that in August of 2019 something finally snapped, and USTs went from "good as real money" to "stuff nobody wants to hold."

I first wrote about this in September when it became clear that real trouble was brewing in the market for US debt. Now, three months later, the situation has gone from bad to worse, and it would appear that the market for USTs definitevely broke. I will try to sketch out what that means for the US economy and society later on (spoiler alert: nothing good) but for now I just want to lay out some of what has happened. In the meantime please take your normalcy bias and put it some place safe (in case you need it later, although I have no idea what for).

Previously, when it was clear that an overburden of bad debt could trigger financial collapse at any moment, the Federal Reserve (which is in charge of printing money) engaged in something it euphemistically called "quantitative easing" ("QE"). It printed lots of US dollars in exchange for various bits of USTs, along with other financial garbage, with the goal of later selling the USTs while hiding the garbage, thereby preserving the appearance that USTs are sovereign debt supported by the full faith and credit of the US government rather than just some waste paper clogging up its vaults. But when it declared "quantitative easing" to be over and tried selling the USTs, all hell immediately broke loose and it was forced to go right back to buying them up, in a scheme that has been sarcastically referred to as "not QE." Euphemisms aside, what is happening is properly called "debt monetization": it's when a government "borrows" money not by selling its debt in exchange for money that already exists but simply printing the money using paper and ink, or magic digits inside a very secure computer.

Let's go over some of the relevant details. "Not QE" actually started well before it was announced and proceeded in stealth mode. Over six weeks starting in September 2019, the Fed monetized an average of $20.5 billion per week. This rate is compatible with the extent of its previous efforts at "quantitative easing" at their height. It was forced to do so because the REPO rate on USTs spiked to 10 times the rate set by the Fed. (REPO stands for "repurchase agreement"; it is where one party borrows short-term from another party, using USTs (and other supposedly very safe debt instruments) as collateral, much as a pawn shop will give you money for a watch and then allow you to buy it back.) The huge spike in interest rates signaled that USTs were no longer seen as particularly safe collateral and the Fed had to step in and start throwing freshly minted dollars at the problem. And it never stopped. In fact, the problem grew larger; so large, that now, at the year's end, the Fed has committed $500 billion of printing press output to making sure that nobody runs out of cash.

It is commonly thought that the Fed's action has to do with short-term debt, and is therefore a short-term problem, but that's simply not the case. Since early August (the start of stealth-mode "not QE") the Fed has vacuumed up $179 billion with of USTs, of which USTs with terms longer than a year made up $108 billion, or 60%. Compare these numbers to the total borrowing by the US government over the same period, which amounted to $659 billion, of which $368 billion was short-term debt and $291 billion long-term. Thus, over this period the Fed has monetized 37.1% of new long-term debt and just 19.2% of short-term debt. This should help put your mind at ease if you suspected that this isn't a short-term problem but weren't sure. It's a long-term, structural problem.

Next, let's consider whether the problem is being solved or is getting worse. Rest assured, it is getting worse. Looking at the numbers for October and November, the Fed monetized over half (50.7%) of new US government debt. A straight-line projection is that if it took the Fed to go from 0% to 50% in four months, then it will go from 50% to 100% in another four—by April Fool's 2020. But who's to say that the increase will be linear rather than exponential? Whichever it is, the trend is unmistakable: the market in US government debt—once the deepest and most liquid market in the world—is dead. The only thing propping up the value of USTs is the Fed's printing press. And the only thing propping up the value of the output of the Fed's printing press is… what is it, exactly? Exactly!

Let's add one more salient detail. Over the course of 2020, $4.665 trillion of USTs will mature and will need to be rolled over into new USTs. This is an all-time record, and this is on top of new debt that will have to be issued in order for the US government to be able to stay open. Over the past year the US budget deficit has amounted to $1.022 trillion, which is a 15.8% increase over the previous year. If this trend continues, the new deficit will be around $1.183 trillion. In order to keep the wheels of finance from grinding to a halt, over 2020 the Fed will have to monetize, or print, close to $6 trillion.

It appears likely that at some point over the coming months Fed chairman Jerome Powell will have to announce "not not QE," and then "not not not QE," and then "Milk-milk-lemonade, 'round the corner fudge is made!" and run for the unigender restroom sobbing inconsolably. And then Donald Trump will be forced to channel Boris Yeltsin, who, on August 14, 1998, summoned all the presidential gravitas he could muster and spoke the following sage words:

«Девальвации рубля не будет. Это твердо и четко. Мое утверждение — не просто моя фантазия, и не потому, что я не хотел бы девальвации. Мое утверждение базируется на том, что все просчитано. Работа по отслеживанию положения проводится каждые сутки. Положение полностью контролируется».

“There will be no ruble devaluation. This is my firm and clear position. My assertion is not just a product of my fantasy, and not because I don’t want devaluation to happen. My assertion is based on the fact that everything is taken into account. The work on reassessing the situation is being conducted daily. The situation is entirely under control.” (My translation.)

And then three days later the Russian government declared sovereign default. The ruble dropped by 300% against the US dollar and the Russian economy, which was at that time extremely import-dependent, crashed hard. In a similar scenario, the US economy will crash much harder. Like Russia in 1998, the US is extremely import-dependent. But here the US government is not the only large borrower: most of US corporations are zombified corpses bloated with debt. For many years they have been borrowing at artificially low interest rates in order to buy up their own shares and prop up their value in a ridiculous effort to maximize shareholder value in the face of stalling economic growth. If they become unable to roll over their debt at artificially low interest rates (which will go away once the Fed definitively loses control of the situation) then they will automatically be forced to declare bankruptcy and liquidate.

If you want to maintain an optimistic outlook in spite of all of this, here is a book you might want to read.