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US Economy – Heading for the Abyss

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US Constantly Higher Needs to Borrow

The US government's debt stands at nearly $34 trillion. Even worse, the deficits of the US governments are only getting bigger and bigger. As the debt and rate of interest go up, so go the total debt payment. As Ukraine, Gaza, and Taiwan heat up, so both parties agree on ever bigger military spending. Furthermore, not even the Republicans want to cut in social spending or in Obama-care, as the Republicans realize that they depend more and more on votes from disadvantaged Americans including the less educated, the low earners, ordinary workers, and the Black and Latino communities.

US government needs to borrow and will therefore go up – a lot.

Bad for the USA that fewer and fewer want to lend money to the US.

Fewer Wanting to Lend to the US

The Chinese stopped buying US debt – they are now selling it. The Japanese stopped buying US debt as well – and will now buy their own debt instead. The rich Saudis and Emirates are also less inclined to buy US debt, as they have their own mega project like the Saudi NEOM city to spend trillions on. See this.

Even worse – to combat inflation, the US Federal Reserve Bank is forced to reverse "Quantitative Easing", where the US Central Bank used to indirectly purchase US government debt. With "quantitative easing", the US Central Bank bought US government debt in a masked way by way of buying private debt owned by US banks in exchange US banks buying fresh issued US government debt. But "quantitative easing" is now being replaced by the reverse, by "quantitative tightening", as the US Central Bank is more inclined to *sell* debt than to buy it, worsening the financial situation of the US government even more.

So, what happens when a bad quality commodity like US government debt becomes more abundant, and fewer and fewer want to buy it? As always, the price goes down – and when US treasury bonds get cheaper, the rate of interest the US government has to pay goes further sharply up. Higher rates of interest and ever higher levels of debt further exacerbates the US government's deficit and its needs to borrow go further up. It's a vicious circle for the US government.

US Being Squeezed

The US is now in a vice – squeezed between higher loan needs and fewer lenders.

The US government is so badly off that it has to pay a real rate of interest (that is, the rate of interest above inflation) of around 2.25% – that is nearly the same high level as Italy.

Break-Down Threatening Stock Markets and Real Estate

Because foreign buyers and the US Federal Reserve Bank are all selling off US debt instead of buying it, the US government from now on depends solely on private US investors to finance its debt.

As there is only a definite amount of private investment capital available inside the USA, the continuation of ever-bigger private purchases of US government bonds has to "crowd out" (that is, replace) more and more investments in private enterprises, which create jobs.

In return, the required market rate of interest in the USA goes up, not only on US bonds, but on US shares and real estate as well.

And as the required market rate of interest goes up on stocks and real estate, the price of these assets goes down, incurring either less profits or even losses in fortunes for private US investors. Moreover, the resulting less private US investments in companies and real estate will incur a loss in US jobs.

US government deficit is now an extreme strong and unstoppable force dragging down on the US economy. Yes, the US economy may continue signs of growing, but like a swimmer wearing a belt of lead, the US economy will get more and more "tired" as it is inexorably dragged towards the bottom. Sooner or later, a drowning may occur – and that realization among private investors may come rather suddenly, creating an unstoppable break-down of the entire US financial system.

A break-down which cannot be stopped like the last couple of times by the US government injecting trillions into the private economy and banking sector to revive it – because this time, precisely such mega US government trillion injections are the cause, not any solution, to this deadly disease threatening the entire US financial system.

The whole world will feel the pain as well when this hits.

No End in Sight – Only the Abyss

The worst thing for the US is that there is no end, no solution, in sight to this situation. Neither party in the US is going to cut spending. The problem can only be solved by raising taxes. And not just raise taxes by a little bit, but enormously, and that will also hit the US economy dramatically. Neither party in the US is going to raise taxes.

This is therefore only going to get worse – and faster and faster.

The financial abyss awaits the USA.

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