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Editor:
James A Ausman, MD, PhD
University of California at Los Angeles, Los Angeles, CA, USA

Editorial

The coming economic world crisis

James I. Ausman

Emeritus Editor-in-Chief and Publisher, SNI Publications, Professor, Neurosurgery, David Geffen School of Medicine at UCLA, Los Angeles, CA and Harbor-UCLA Medical Center, Torrance, CA, USA

E-mail: *James I. Ausman - jamesausman@mac.com
*Corresponding author

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[Editor's note: The article is the first of a series on Socioeconomic–Political issues facing neurosurgeons and people worldwide. I will attempt to explain these subjects as simply as possible. As usual SNI is open to your comments]

THE COMING ECONOMIC WORLD CRISIS

The largest problem facing the world population is one that is not reported in the press, is hidden from the people, but will have devastating consequences in the coming years. It is the Coming Economic World Crisis. We have all just had an experience with such a crisis worldwide.

We are living in a world in which people in each country are spending more than they can afford and many are in debt, usually the poorer people or the middle classes. Their debt is called "private debt," which includes credit card, auto loan, and home mortgage debt, and in addition, corporate debt. In the USA that debt is around $38 trillion.[1] There is the public sector debt with which the government supports healthcare, social security, welfare and educational programs, food stamps, and the military among the major areas of spending. These promises to the people by the politicians is called the "public (government) debt".[1] It is close to $20 trillion in the USA. By adding the private debt and the public debt, the USA has close to $60 trillion in total debt. The total debt of all the countries in the world is $230 trillion (see Egon von Greyerz below).

The gross domestic product (GDP) of a country measures the amount of goods and services produced by that country in a year.[2] The GDP of the USA is the largest of any country in the world with the European Union and China next in succession, respectively.[2] The total GDP of all the countries in the world is $75 trillion. All the goods and services produced by the USA in one-year equals the total public debt of the USA, or $20 trillion. The USA could pay off its public debt by using all the revenue from its goods and services. However, no one would get paid and no money could be spent on education, social security, Medicare, or other government services. So, instead of spending all of the GDP on the debt, the government could spend a small amount of what it gets from taxation on reducing the debt. But that does not happen either as there are always some other items to spend the money on. Really the government should put aside a certain amount of money each year to pay down its debt but that does not happen either. If all the governments in the world are in the same situation, then there is no hope that the $230 trillion world debt will be paid.

We are all left with large private debts and public debts which are not being paid off. Where will all of this lead? At some point, the money that was loaned to people and companies in the private sector or that the government borrowed or printed will need to be repaid.

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How can the government get more money from the people to pay its debts? It can tax them more as happens in many countries; it could abolish all the debts like student loans and leave the lender without payment. It can seize money in your savings accounts as happened in Cyprus, or even print more money, which has no real value, which is happening in countries around the world. Since the paper money is not backed by gold or some collateral of equal value, governments can print as much paper money as they choose to flood the market place with dollars or some currency. The end result is that the value of the dollar and the other currencies will have less value and purchase less. When the dollar is worthless, you must use more dollars to buy any goods or services. So, it takes more dollars or money to buy a car or food than it did years ago. Prices increase as the value of the dollar falls and inflation results. None of these choices to solve the problem of debt are good choices. But sooner or later, the debts will have to be paid.

In fact, if we add-in "the hidden debt" that does not get counted on the financial ledgers, the actual total world debt is $2.5 quadrillion. This debt comes from people or governments that gambled more money on the risk that they would gain all the money back they put at risk plus more. But it turns out that this money that was gambled was not well spent and will never be paid either. That is called leveraged money, which is really the money gambled to make more money.

Below is what an international expert in finance and investment has to say. I have quoted from Egon von Greyerz to provide you more information on this subject.

Egon von Greyerz

[Egon von Greyerz (EvG) is the Founder and Managing Partner of Matterhorn Asset Management AG. EvG started his working life in Geneva as a banker and thereafter spent 17 years as Finance Director and Vice-Chairman of Dixons Group (DSG International Plc) in London, the UK's largest electronic and electrical retailer. Since the 1990s Egon von Greyerz has been actively involved with financial investment activities including Mergers and Acquisitions and Asset allocation consultancy for private family funds. This has led to the creation of Matterhorn Asset Management, an asset management company based on wealth preservation principles. The Gold Switzerland Division was created to facilitate the buying and storage of physical gold for both private investors, companies, trusts and pension funds.] He writes numerous articles on the world economy.-Ed

(Reprinted with permission from Jim Cook's Market Update in Early November, 2107. Jim Cook's Market Update is a private publication.)

"We are now at the point when the world will be punished for 35 years of excesses which is the culmination of the 100 year experiment of fiat money [printed money-Ed] started by the Fed in 1913" [The Federal Reserve bank of the USA was founded in 1913.-Ed]. The $2.5 quadrillion bubble of debt and liabilities [worldwide] (including money used as leverage to gamble to make more money (also called "derivatives" and "unfunded liabilities") is about 33 × greater than the global GDP and can of course never be repaid." [A derivative is an investment made at much less than the actual cost of the asset purchased on the belief that the investment will have a huge return and pay off the risk of loss. The mortgage crisis in 2008–9 was based on people and companies buying derivatives made up of a package of mortgages to poorly qualified buyers. Thus, huge losses occurred for the investors who held these nonpaying mortgages, leading to their bankruptcy. The banks, which granted these mortgages at lower than the going rates to attract people to buy homes, were left with defaulted mortgages and repossessed homes they were unable to sell. Because of this huge investment loss, the banks or those who bought the bundled mortgages as "derivatives" were faced with bankruptcy but were rescued by governments, which printed money to flood the market with money. Obviously, the fundamental debt problem was not solved.-Ed]

"The 2006 -9" [financial] crisis was a serious rehearsal of what is still to come. Governments and central banks managed to deal with the inevitable collapse for a few years by a massive stimulus package." [Governments, or the Central Banks of the governments, like The Fed, printed money to stimulate the failing economies. This printed money is called "fiat" money. It is only paper money with no value-Ed] "It is clear that the next time around the central banks will not succeed in saving the system. Interest rates are now so low and still negative in many countries that there is very little flexibility to stimulate" [the failing economies-Ed] "by lowering interest rates." "The only tool that remains is money printing." [Curiously, the central banks now believe that they can cure this debt problem by taking the printed money off the market. Reducing the money in circulation will harm the economy because people will have less money to buy things. Ed]

"In addition, central banks are planning to increase interest rates as inflation is starting to rise. Anyone who has the slightest knowledge of markets knows that it is the trillions of dollars of credit expansion and money printing that has created the biggest asset bubble in history and especially inflated stock markets. To stop feeding an addicted world with debt will not only kill stock markets but also all other bubble markets." [Automobile loans, housing, mortgage, student debt, etc.-Ed] [Raising interest rates will mean that getting a loan will be more expensive because at higher interest rates more money has to be paid to the lender. So, corporations and individuals and governments will have to pay more to get a loan. As a result, less loans will be requested and people will not be able to buy things that have a higher cost because the higher costs of interest are built into the price or goods. So, the economies of the world will begin to fail as there is less demand for goods and services because the costs are too high.-Ed]

"The effect will be collapsing stock, property, and credit markets leading to panic in the financial system. That will lead to the biggest [abrupt and complete reversal] ever in global monetary history in the next 6–18 months. Central banks will panic and start printing more money than ever before, first in the tens of trillions of dollars leading to hundreds of trillions and eventually quadrillions of dollars as the derivative bubble blows up. The initial printing might have some short-term beneficial effect on the markets. But soon the world will realize that worthless pieces of paper or zeros on a computer can never create wealth or save the world."

"Eventually this [crisis-Ed] will lead to world hyperinflation followed by deflationary implosion. But the course of events will not be straightforward in this process because we will have a combination of hyperinflation and deflation simultaneously. The value of real assets including many commodities like precious metals, food, and agricultural land will increase in value. Money will hyperinflate as it is printed in unlimited quantities whilst stocks, bonds, and property will collapse."

Editorial commentary

Most, who read this predicted turn of events in the world and local economies, will wonder why they have not heard of this coming crisis in their country?

The answer is given by Peter Diekmeyer, business, economics writer, and Editor Sprott Money News in the same publication (Jim Cook Market Update Early November 2017):

> "Government officials are well aware that many of America's [put your country's name here] [growing] liabilities [debt] are being written off the books. However, for the most part, they are keeping their mouths shut. The upshot is a de facto "two-tier" financial reporting system in which politicians and insiders have access to key data buried in footnotes about unfunded liabilities, which indicate that there are huge problems in the economy."

I have personally followed this subject closely for years, and I have found several problems with the predictions of the "experts." The first is that I have read predictions of an imminent economic collapse that would occur in 1 year, 5 years, and 10 years with some definitive timelines already elapsing. So, my conclusion is that no one knows when this crisis will happen, but it is plainly obvious to any individual that you cannot spend more than you earn for long, nor can you be paid for not working. The recent correction on the stock markets worldwide is a clear example. The scenario outlined above will happen. It is just a matter of when.

Secondly, as the quote above indicates, the public is not being informed of the dire circumstances they face economically. The reason is that the people in each country want more from each government, and the politicians who want to get elected are willing to promise whatever they need to be re-elected. No one really wants to know the truth. This problem is especially seen in centrally controlled governments that are authoritarian or socialistic.

The American "free market" system has become so corrupted over the past decades as more money was spent than could be afforded by the politicians. As the government raised taxes to pay for the welfare projects for the people, the governments took control of a large share of the economy which then became a centrally controlled economic system. That is the definition of a Socialized Economic System, or Socialism. Such a system easily becomes corrupted by those in power who now control large amounts of the peoples' money. In a Free Market Economic system money will flow to meet the demands of the people. In a centrally controlled economic system, a government bureaucrat determines where the money should go. Such all centrally controlled systems eventually become corrupted as the bureaucrats favor those with special interests and are likely paid by those special interested parties to violate the free market. The free market economy is distorted and no longer works. Each person then loses his/her the chance to attain his/her goals with innovation and hard work.

Socialized Medicine is a clear example of how centrally controlled medicine has distorted a free market medical system and led to lack of competition, expanded costs, corruption, and rationed care, all opposite of what a free market would produce. The propaganda promoted by those who are benefiting from this corrupt system claim that the "Free Market" will not work in healthcare and that the only solution is a centrally controlled health system. As the government controls more money by taxation, there is less money in the free market system to allow it to work and less money in medicine to spend for the patient's healthcare.

The end result of this distorted economic system is what I explained above; that is, its collapse under huge debts that cannot be repaid. Who will suffer in the end? The people reading this Editorial as they have no collective power to change the system. That is also why government wants to take guns from the people. Because when the people have guns the government fears its loss of control over the people. So, to prevent this threat to their central control, governments take guns from the people.

As citizens and neurosurgeons, this information is important for you to know to be able to prepare for this inevitable crisis. There is no way the world economies can repay quadrillions of dollars of debt.

Disclaimer

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of the Journal or its management.

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