WHY IS DEBT PERMANENTLY INCREASING?

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Abstract
The study analyzes the reasons for the growth of public debt in highly developed countries. This phenomenon is aggravated by the fact that over the past ten years in the United States and other developed countries, sovereign debt has increased dramatically, which threaten not only these countries, but also global economic stability and security.
The article examines the close connection of the ever-growing problem of public debt with the macroeconomic equilibrium, in particular the impossibility of equality of aggregate supply and demand, the connections of which in developed countries use monetary and fiscal demand stimulation. At the same time, monetary policy faces the problem of a liquidity trap, which is exacerbated by the current global financial and economic crisis, which is a crisis of excess production of reserve currency, especially US dollars. The symbiosis of the crisis of overproduction and excessive emission of the US dollar and other reserve currencies has provoked the appearance of negative interest rates of banks on both passive and active operations.
Finally, it can be said that the monetary management system has exhausted itself and the goal of stimulating state-owned demand has been assumed by the governments of the countries, which can be considered as the main reason for the continuous growth of public debt.

Keywords: *public debt, aggregate demand, aggregate supply, recession, macroeconomic balance, fiscal regulation.*

JEL Classification: *H60, H63, H68*

I. INTRODUCTION

Data on public debt is constantly covered by the media. One of the most authoritative sources of information on world debt is the International Financial Institute. According to this institute, the total amount of world debt as of April 1, 2018 was 247 trillion. The relative indicator of world debt is impressive: at the end of the first quarter of last year it was 317% of the world's GDP. The comparative value of the debt of the countries of the "golden billions" is much higher than the average global debt. In the US, the share of debt relative to GDP is 329.7%, in the eurozone countries - 386.8%, in the UK - 456.2%, and in Japan - 526.5%. In China, the estimate is not given, but it is known that the relative level of its debt is comparable to the indicators of Western countries. In 2018, global debt was 2.5 times more than 15 years ago. It is higher by 69 trillion. dollars compared with the level that existed at the beginning of the 2008 global financial crisis. In the first quarter of 2018 alone, world debt grew by an impressive amount of 8 trillion $. The prerequisites for the next global financial crisis have ripened and even matured. Serious and authoritative analysts, as well as leading international institutions, such as the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the World Bank (WB), the Organization for Economic Cooperation and Development (OECD), the largest private banks, warn about this (Chikobava M., 2018).

Based on the above, Based on the foregoing, the following question sounds logical: what is the reason for such an increase in debt worldwide? In our opinion, the permanent growth of debt is associated with the internal imbalance of the modern economic system, i.e., with the "virus" of continuous overproduction of this system. To better understand this, consider the essence of macroeconomic equilibrium.

II. GENERAL ANALYSIS

Macroeconomic equilibrium is a key issue of modern economic theory and policy, regarding which economic schools have completely different views. Nevertheless, there is still a generally accepted, basic point of view, so-called "Mainstream", which can be summarized as follows:

As is known, the economic actors involved in the production process, receive income in return for their own factors of production. For example, hired workers receive the price of labor — wages; Property owners receive cash income in the form of rent; The owners of finance capital receive interest on the money supply; Shareholders - dividends, entrepreneurs - individual incomes; corporations - income consisting of income tax, dividends and retained earnings (the latter is used by these corporations for reinvestment); The state as an independent economic entity receives income in the form of taxes, both directly and indirectly, in particular, income taxes, property taxes, value added taxes, excise taxes, customs duties and other fees from state-paid services; Finally, there is a special form of income, such as the cost of consumed fixed capital (Chikobava M. 2011).

Because of the foregoing, the fact is that all types of income will not be received at the same time. For example, an employer must pay a salary to an employee, as a rule, at the end of each month, regardless of whether the goods are sold or not. Some income, for example, profit is obtained after the sale of the manufactured product, that is, after the public recognition of the product in the market of consumer or investment goods. Thus, the income of this type in time does not coincide with the receipt of income, as wages. Dividend income is also obtained when the corporation finishes the reporting period profitably. Regarding interests and rents, they are issued regardless of whether the business is profitable or not: The renter is obliged to pay the rent in any case, whether the business is profitable or not, the same applies to interest payments. In a word, factor incomes in an economy cannot be paid at the same time, which makes it impossible for the total cash flow of expenses and income to be equal at the same time.

To better understand the essence of this problem, let us once again analyze Keynes' theory. Let us recall the historical conditions in which the theory of Keynes originated. His main work, “The General Theory of Employment, Interest and Money,” was published in 1936. By this time, the economies of Western countries had experienced the greatest economic crisis in history. This gave rise to the practical need to search for instruments that could provide dynamic social reproduction without deep fluctuations.

Keynes introduced the concept of “effective demand”, which consists of two components: consumption (that is, personal consumption) and investment (that is, production consumption).

Such a choice of factors affecting the dynamics of economic development was not accidental. In the mid 30s of the 20th century, Western economies sought to avoid the worst crisis. As you know, the economic crisis under capitalism is a crisis of overproduction of goods, capital and labor force, i.e., the excess of aggregate supply over aggregate demand.

Criticizing the concept of the classical school, according to which the proposal automatically generates demand (Say's Law), Keynes absolutely logically suggested that to ensure the generation of income it is necessary to stimulate demand, influence the factors determining the effective formation of demand and increase of national income. Why did Western economic theory, which affirmed the ability of self-regulation of the capitalist economy before Keynes, suddenly recognized the need for state regulation of the market?

To answer this question, consider a simple model of the circulation of money capital. To better understand the problem, we must abstract away from the public sector, government order, budget, taxes, and foreign trade. Consider a simplified model of a closed economic system. Then the model of capital circulation will have the following form (see Fig. 1):

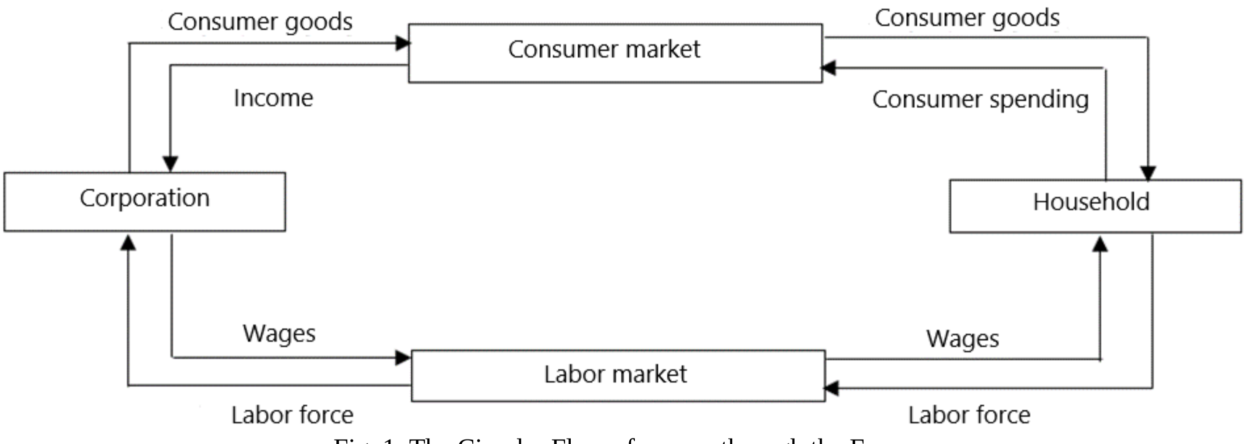

Fig. 1. The Circular Flow of money through the Economy

Outwardly, everything looks great. But in this circuit there is a problem of occurrence of quantitative disproportion. Firms produce final products and bring them to the consumer market. They realize the sale of these goods and receive revenue in the form of cash income. Households provide firms with labor in exchange for wages. Households at the expense of the received wages acquire consumer goods. In fact, in this circuit there is a problem of permanent discrepancy between cash income and expenditure flows. Why?

Suppose that all the capital of the country (means of production), natural resources, are combined into one big firm - a corporation. This corporation produces goods for the end user from the initial stage of the production process chain. It produces the means of production, raw materials, energy, materials, components, services and the final products. Then the price of the final products issued by the corporation will be equal to wages plus profits.

In fact, the corporation does not buy any means of production or other goods and services. It buys only labor. All the rest is produced by its structural division. This super corporation has no rents or interests. Everything is covered inside this corporation. Suppose a corporation buys labor by paying a salary of $ 1,000 a year and hopes to make 10% profit. The corporation sells goods and services for $ 1,100 in the consumer market. This is an aggregate supply.

But consumers are households. They can generate a maximum aggregate demand of only $ 1,000. This is the amount of disposable income that they received as wages. Thus, the final goods of $ 100 are doomed to failure in sales. There is a kind of “traffic jam” in the circulation of capital - oversupply. The problem is compounded by the fact that households do not spend the entire salary for current consumption, and some of it goes to savings. The problem is aggravated by the fact that households do not spend their entire wages on current consumption, some of which they save in the form of savings. Let them set aside 20% of their income. Then the size of the "traffic jam" is increasing and already in our numerical example is $ 300. So, out of the total aggregate supply of $ 1100, $ 300 remains unrealized - supply exceeds demand by 27%. The corporation is forced to reduce output, reduce jobs by 27%. But this reduces the amount of wages paid, which means that the aggregate demand that has already been achieved is reduced again. And the recession process begins to spin in a spiral. To overcome this imbalance, there is a method found by Keynes that consists of the following: Potential monetary gains will have to be given to workers. But why give just like that? It can be exchanged. For what? At work. On what kind of work, if the products already produced, lie in unrealized warehouses, and a quarter of them have no chance of being bought? Only for labor that works in investments. Labor that during this period does not participate in the current production of the final product. And where to get money for investments? There is money - it is 200 dollars, concentrated in the form of savings. Little, but there is. In addition, the worker always advances capital with his labor. So, the corporation should borrow from the workers a savings of $ 200. Their money to pay them again under the guise of wages for labor in investments.

Labor in investments is labor that turns the monetary form of potential profit into tangible capital: buildings, structures, equipment, natural growth of raw materials, materials, and energy. For a corporation, labor in investments does not participate in the current production of profits, of which there is already an excess in the form of excess supply over demand. Labor in investments does not give a profit to a specific investor, a particular firm. After all, the company only invests money, hoping to make a profit in the future.

But this does not mean that labor in investments does not create surplus value. The transformation of surplus value into profit is postponed for some time, until the newly created material capital begins to participate in the production of the final product. And this discrepancy in time and produces the appearance of the fact that capital is able to produce profit itself.

The discrepancy in the time of production of surplus value in investments with the moment of its transformation into profit, the lag in the time of transformation of surplus value into profit creates the mathematical possibility of resolving the “traffic jam” in the circulation of capital. The essence of the primary investment process is that the CSB takes household savings in the form of a loan, gets the right to manage their money and turns it into a physical form of capital.

In our numerical model, a corporation borrows $ 200 from households. Directs them to the primary investment and pays the newly hired workers a salary of $ 200. Households received an increase in their income by $ 200: $ 40 they again send in savings; $ 160 sent for consumption.

Aggregate demand grew by $ 160 and reduced total supply by $ 160. The corporation received a potential profit, pledged in consumer goods in the amount of $ 160 billion. This process of stimulating aggregate demand has a multiplier effect. The multiplier effect is that primary investments cause a chain reaction of the growth in the output of consumer goods and the growth of secondary investments in the total capital cycle. The ratio of changes in the output of the final product to the primary change in the volume of investment is called the multiplier. So, the primary investment not only resolves the “traffic jam” in the capital turnover, but also leads to a multiplicative natural increase in output (Белов В.).

Having discovered the multiplier effect, Keynes invented his own recipes for eliminating the surplus supply, on the basis of which state regulation of the economy is carried out to this day in industrialized countries.

Even if the initial investment was unsuccessful and would further lead to losses and even ruin and bankruptcy of the investing company, the output of the final product in other firms will increase multiplicatively, and a natural increase in turnover will be ensured. Therefore: Invest continuously!

How to manage it? After all, the decision on the investment takes a particular private firm. This firm is concerned with the effectiveness of its investments, and not with the problems of the country's total capital. And she is not going to risk and go bankrupt due to sales problems of other firms. How to be? Reduce interest rates.

This recommendation of Keynes is directly followed by macroeconomists who manage the US economy. After leaving World War II, the level of inflation steadily kept around the figure of 3% for a quarter of a century, except for the period of “oil shocks”, and since 1992 it returned to the same level of 3%. The US Federal

Reserve System discount rate, as a rule, keeps 0.5% higher than the current inflation rate. Thus, the total private capital in the United States loans at a very low price (Белов В.).

But if the specific situation on the market for final goods is such that private investors do not want to risk, and the actual demand for investments is less than what the actual volume of excess supply requires? If there is a demand for investments, but financial firms (banks, other deposit organizations) do not want to risk their money resources? How to be? In this situation, the state should take the risk of investing! How? By fiscal fiscal policy, part of household income taxes to the budget, and from there through the state order to invest. To guarantee a private company sales of its products. Guarantee her profit. Stimulate her to invest. Moreover, advance these investments from the budget. Keynes recommended Roosevelt's New Deal to fund public works from the budget. In a fit of enthusiasm, he even offered to build the pyramids of Cheops. Fiscal fiscal policy - a double-edged sword. Taxes are the compulsory withdrawal of a portion of income from households. The real decrease in effective demand in the consumer goods market which is already systematically lacking in the circuit. What to do? Borrow! If a private investor is unable or unwilling to get into debt, then the state must do it! That is why, over time, the sovereign debt of most countries is constantly growing!

III. CONCLUSION

What is the situation in this modern world?

At the beginning of work, we noted that the sovereign debt of most countries is growing very rapidly. As the figures show, sovereign debt has grown rapidly over the past 10 years, thanks to which countries have so far managed to stimulate economic growth. However, it is obvious that the continuous growth of debt is not possible, since sooner or later it will be impossible to repay it. If the current trend of debt growth continues in the coming years (and there is no doubt about this, since the US federal budget deficit at the end of 2018 was approximately $ 900 billion), sooner or later it will provoke a global debt crisis.

But suddenly the IMF recently published a report containing a fair amount of optimism about the financial and economic situation in the world. The report refers to the total global debt in 2017 - 182 trillion. This is noticeably lower than the estimates given by the Institute of International Finance. Probably used a different method of calculation. However, this is not important. The authors of the report emphasize that it is necessary to compare global debt not only with GDP, but also with the national wealth indicator, which, it turns out, is growing significantly faster than debt. Consequently, concerns about the coming global crisis are unfounded: growing debt is secured by rapidly growing wealth.

Known estimates of wealth for individual countries and the world as a whole, which are made by the Swiss bank Credit Suisse and published annually in the Global Wealth Report. This indicator (national net wealth) is considered the same as the indicator “net assets” of any company: the total value of assets less liabilities (debts). So, the total (in the world) indicator of wealth in 2017 amounted to 280.3 trillion. dollars The IMF report provides figures for the total wealth of the world over the previous years (trillion dollars): 2000 - 117.0; 2005 - 172.3; 2010 - 219.8; 2015 - 219.8. For the period 2000-2017 net world wealth increased by 2.4 times; over the same time, the population on the planet increased from 6.1 to 7.5 billion people, that is, 1.23 times. It turns out that the average per capita welfare in the world has increased markedly.

But the distribution of world wealth across countries is as follows: The United States is the absolute and so far unreachable leader - 93.6 trillion. dollars, or 1/3 of the world's wealth. The following countries (trillion. Dollars): China - 29.0; Japan - 23.7; Great Britain - 14.1; Germany - 13.7; France - 13.0; Italy - 10.9. Russia ranks 19th with a net national wealth of 1.9 trillion. The use of this indicator in a completely different way ranks countries than when using the GDP indicator: in terms of GDP, the US share in the world total is much more modest - ¼. In terms of GDP, calculated on the basis of purchasing power parity (PPP), China in 2017 already exceeded the United States by 1.2 times. But China’s net national wealth was lower than the United States 3.2 times.

Our opinion is this: if the GDP indicator turns out to be a “crooked mirror” of the economy, then the national net wealth indicator in general does not in the least reflect the state of the real economy. For the simple reason that the assets on the basis of which the indicator is calculated, in large part represent foam - these are financial assets that have almost completely lost touch with the real economy. This is a set of "financial instruments" serving the casinos, and not industry, agriculture, construction, etc., that is, the industries that form the basis of the present economy.

The capitalization of the US stock market at the beginning of 2018 exceeded 30 trillion dollars. Another inflated asset is the so-called intellectual property of several trillion dollars. Plus, the “overheated” (overvalued) real estate markets, etc. It is not surprising that the United States, despite their gigantic total debt, the net national wealth indicator is record high. In the USA, as nowhere else in the world, financial markets are developed, creating the optical effect of gigantic wealth. This is not wealth, but bubbles. They will begin to burst (as in 2008), and in the eyes of everyone, billions, trillions of dollars will “evaporate”. Thus, during the “hot” autumn of 2008, only for the period from September 19 to October 7, shares of American companies fell by 3.4 trillion dollars.

Here we are dealing not with the economy, but with a scam mechanism that transforms loans and borrowings (respectively, the debts generated by them) into bubbles. For every dollar of debt, a (conditional example) of real assets is created for 5 cents, and for various market bubbles for 2 or 3 dollars. There is the illusion of an "efficient economy." However, as soon as the bubbles burst, the moment of truth comes: there is nothing to cover the debts. Economy - the word Greek, literally meaning "housebuilding." We are dealing with a phenomenon that is more correctly called cheating. First, the inflation of bubbles in different markets. Secondly, the cheating of a gullible public who puts their money in bubbles.

The compilers of the "optimistic" report of the IMF are well aware of these truism, but they are involved in the cheating of markets and the public.

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